

RENEWABLE ENERGY RESOURCES PROCUREMENT PLAN

This Renewable Energy Resources Procurement Plan (“RPS Procurement Plan” or “Plan”) shall apply to the City of Cerritos (the “City”), operating through its municipal electric utility (“Cerritos Electric Utility” or “CEU”).

Section 1: Background

The California Renewables Portfolio Standard (“RPS”) program was established by Senate Bill (“SB”) 1078, and has been subsequently modified by SB 107, SB 1036 and most recently by SB 2 in the 2011-2012 First Extraordinary Session (“SB 2-1X”). The RPS program is codified in Public Utilities Code (“PUC”) sections 399.11-399.31. SB 2-1X requires California’s electric utilities and other retail sellers to procure eligible renewable energy resources so that the amount of electricity generated from eligible renewable resources equals or exceeds a specified percentage of the total electricity sold to retail customers in California (“California Renewable Portfolio Standard” or “RPS Program”). SB 2-1X directed the California Energy Commission (“CEC”) to adopt regulations specifying RPS enforcement procedures for local publicly owned electric utilities (“POUs”); certify and verify eligible renewable energy resources procured by POUs; and refer any compliance failures of POUs to the California Air Resources Board (“CARB”), which may impose penalties. On June 12, 2013, the CEC adopted the “Enforcement Procedures for the Renewables Portfolio Standard for Local Publicly Owned Electric Utilities,” (“CEC Regulations”), which became effective as of October 1, 2013, following Law subsequently approval by the Office of Administrative Law.

Section 2: Definitions

The definitions set forth in Public Resources Code (“PRC”) § 25741 and PUC § 399.12 are incorporated herein. Capitalized terms in this RPS Procurement Plan, shall have the meaning given to such term in the body of this RPS Procurement Plan or in the PRC and PUC.

Section 3: Previous Adoption of the RPS Enforcement Program

On February 9, 2012 (Resolution No. 2012-09), the Cerritos City Council (“City Council”) adopted the Renewable Energy Resources Enforcement Program (“RPS Enforcement Program”). Through the RPS Enforcement Program, the City Council established three compliance periods consistent with SB 2-1X, adopted RPS-eligible procurement goals for each of the three compliance periods and described the framework for how CEU would implement the requirements and measures in SB 2-1X with respect to the RPS Program. Section 10 of the RPS Enforcement Program directed the City Manager to develop and present a Resource Energy Resources Procurement Plan to the City Council.

Section 4: Purpose

This document comprises CEU’s RPS Procurement Plan. As required by its RPS Enforcement Program, this Plan describes how CEU will achieve its RPS procurement requirements consistent with optional compliance measures specified in SB 2-1X and applicable to the CEU’s status as a small POU.

Section 5: Eligible Renewable Energy Resources

Biodiesel	Fuel cells using renewable fuels	Ocean wave, ocean thermal, and tidal current
Biogas	Geothermal	Photovoltaic
Biomass	Hydroelectric incremental generation from efficiency improvements	Small hydroelectric (30 megawatts or less)
Conduit hydroelectric	Landfill gas	Solar thermal electric
Digester gas	Municipal solid waste	Wind

Section 6: RPS Requirements

The CEC Regulations imposes three initial compliance periods:

Compliance Period	RPS Procurement Obligation
January 1, 2011 – December 31, 2013	Average of 20%
January 1, 2014 – December 31, 2016	25% by December 31, 2016
January 1, 2017 – December 31, 2020	33% by December 31, 2020

The CEC Regulations allows optional compliance measures, including banking (accumulating excess procurement in one compliance period to be applied in a subsequent compliance period); delayed compliance (inadequate transmission, insufficient eligible renewable resources, delays in permitting or interconnections or unanticipated curtailment for reliability needs) and cost limitations (cost limitations on expenditures for renewable energy resources).

The CEC Regulations identify three distinct Portfolio Content Categories (“PCCs” or “Buckets”) that may be used to satisfy the procurement obligations (“RPS Procurement Obligation”).

- A. PCC 1 refers to bundled procurement from qualified renewable energy generators located within the State or from out-of-State generators that can meet strict scheduling requirements to ensure uninterrupted deliverability to California. The CEC Regulations set minimum procurement amounts for PCC 1, but imposes no limitation on the amount of RPS procurement that can come from PCC 1.
- B. PCC 2 refers to “firmed and shaped” transactions where the bundled procurement from a renewable resource that is “matched” with an equivalent

amount of incremental, non-renewable energy, which is scheduled into a California Balancing Authority (“BA”). For purposes of PCC 1 and PCC 2, “bundled” procurement refers to a purchase of both the energy and the renewable energy attributes, or Renewable Energy Credits (“RECs”), produced by the eligible renewable generator.

- C. PPC 3 procurement relates to purchases of “unbundled” RECs with no physical delivery of associated or related energy.

The CEC Regulations describes the following specific requirements for each PCC:

Portfolio Content Category (PCC or Bucket)	Description	Usage Limits (% of Renewable Energy)
PCC 1	First point of interconnection inside of a California BA; Scheduled into a California BA without substituting electricity from another source; or dynamically transferred into a California BA.	Minimum of 50% through 2013; 65% through 2016, 75% beginning in 2017
PCC 2	Firmed and shaped	Limited to anything left over after meeting PCC 1 and PCC 3 limits.
PCC 3	Unbundled renewable energy certificates	Maximum of 25% through 2013, 15% through 2016, 10% beginning in 2017

Section 7: Specified RPS Procurement Targets

In the RPS Enforcement Program, the City Council adopted general RPS procurement targets for each of the three compliance periods. As further specified in the RPS Program and CEC Regulations, CEU is not required to procure a specific quantity of RPS-eligible resources in any individual year during this compliance period. Pursuant to PUC §399.30(b) and (c), the City Council adopts and further specifies the RPS procurement targets, as follows:

- A. Compliance Period 1 (January 1, 2011 – December 31, 2013)

Subject to the Initial Cost Limitation described in Section 11.A.4 of this Plan, the following table provides a forecast of CEU’s Compliance Period 1 procurement targets with regard to the total RPS Procurement Obligation and each of the PCC products that have been described in the RPS Program and CEC Regulations.

Compliance Period 1
January 1, 2011 – December 31, 2013

	2011	2012	2013	Total
Actual/Forecasted Retail Sales (MWh)	43,615	43,065	50,288	136,968
RPS Procurement Obligation (% of Total)	20%	20%	20%	20%
RPS Procurement Obligation (MWh)	8,723	8,613	10,058	27,394
Minimum Procurement of Portfolio Content Category 1 (MWh)	4,362	4,306	5,029	13,697
Maximum Procurement of Portfolio Content Category 3 (RECs)	2,180	2,154	2,515	6,849
Residual Procurement from Portfolio Content Category 2 (MWh)	2,181	2,153	2,514	6,848

- Notes: (1) The retail sales figures listed above exclude energy consumption by the City for its own uses, including electricity used by the City for water pumping.
(2) The annual procurement targets are for planning purposes only.

B. Compliance Period 2 (January 1, 2014 – December 31, 2016)

Subject to the Cost Limitation Guideline described in Section 11.A.5.i of this Plan, the following table provides a forecast of CEU’s Compliance Period 2 procurement targets with regard to the total RPS Procurement Obligation and each of the PCC products that have been described in the RPS Program and CEC Regulations.

Compliance Period 2
January 1, 2014 – December 31, 2016

	2014	2015	2016	Total
Forecasted Retail Sales (MWh)	56,000	62,000	68,000	186,000
RPS Procurement Obligation (% of Total)	20%	20%	25%	
RPS Procurement Obligation (MWh)	11,200	12,400	17,000	40,600
Minimum Procurement of Portfolio Content Category 1 (MWh)	7,280	8,060	11,050	26,390
Maximum Procurement of Portfolio Content Category 3 (RECs)	1,680	1,860	2,550	6,090
Residual Procurement from Portfolio Content Category 2 (MWh)	2,240	2,480	3,400	8,120

- Notes: (1) The retail sales figures listed above exclude energy consumption by the City for its own uses, including electricity used by the City for water pumping.
(2) The annual procurement targets are for planning purposes only.

C. Compliance Period 3 (January 1, 2017 – December 31, 2020)

Subject to the Cost Limitation Guideline described in Section 11.A.5.i of this Plan, the following table provides a forecast of the CEU’s Compliance Period 3 procurement targets with regard to the total RPS Procurement Obligation and each of the PCC products that have been described in the RPS Program and CEC Regulations.

Compliance Period 3
January 1, 2017 – December 31, 2020

	2017	2018	2019	2020	Total
Forecasted Retail Sales (MWh)	74,000	80,000	86,000	92,000	332,000
RPS Procurement Obligation (% of Total)	27%	29%	31%	33%	
RPS Procurement Obligation (MWh)	19,980	23,200	26,660	30,360	100,200
Minimum Procurement of Portfolio Content Category 1 (MWh)	14,985	17,400	19,995	22,770	75,150
Maximum Procurement of Portfolio Content Category 3 (RECs)	1,998	2,320	2,666	3,036	10,020
Residual Procurement from Portfolio Content Category 2 (MWh)	2,997	3,480	3,999	4,554	15,030

Notes: (1) The retail sales figures listed above exclude energy consumption by the City for its own uses, including electricity used by the City for water pumping.
(2) The annual procurement targets are for planning purposes only.

D. Subsequent Annual Compliance Periods

For each subsequent annual compliance period, subject to modifications to the Cost Limitation Guideline described in Section 11.A.5.i – ii of this Plan, CEU will act in good faith to procure sufficient Eligible Renewable Energy Resources to equal an average of 33 percent of retail sales.

Section 8: CEU’s Resource Portfolio

The City has a take-or-pay obligation for 4.2% of the Magnolia Power Plant (MPP) power output. The MPP power output has historically been greater than CEU’s customer load requirements. With the exception of load shape requirements, CEC has not had any “unmet long-term generation resource needs,” as described in PUC §399.30(a), and the addition of any renewable energy resources would have created additional surplus energy. CEU has recently increased its retail sales and expects to have unmet energy requirement in the future that can be met from renewable energy resources.

Section 9: Status of RPS Procurement Efforts

A. Participation in the Southern California Public Power Authority (“SCPPA”)

The City is a member of SCPPA, which is a joint powers agency that includes eleven (11) municipal utilities and one irrigation district. CEU participates in SCPPA’s Requests for Proposals for renewable energy offers. SCPPA and its members, including the City, entered into an agreement to jointly undertake the investigation, planning, development and feasibility to build, own and operate certain renewable electric energy projects. These joint solicitations allow CEU to purchase the output of portions of multiple diverse projects and gain economies of scale, rather than limit the projects that they would be capable of participating in due to the comparatively small demand of most of the individual utilities. Through SCPPA the members can better manage the risks that projects may be delayed or canceled.

B. Request for Information – RPS Procurement

In an effort to better understand eligible renewable resource availability, pricing and transactional terms, that may apply to small POU’s, a group of small POU’s (“Small POU Group”), which includes CEU, Corona Department of Water & Power, Eastside Power Authority, Moreno Valley Utility, Rancho Cucamonga Municipal Utility, and Victorville Municipal Utility Services issued a Request for Information (“RFI”) in October 2012 for the purpose of gathering relevant information from sellers of PCC 1 resources sufficient to allow the members in the Small POU Group to develop renewable energy resources procurement plans pursuant to PUC §399.30(a), and to evaluate costs and options in connection with their respective obligations for Compliance Periods 1, 2 and 3 pursuant to PUC §399.30(b). The responses to the RFI included project opportunities that could meet the short-and long-term PCC 1 needs of CEU when funds become available as described in Section 11.A.5.iii.

C. Incremental RPS Procurement Cost to Meet RPS Procurement Obligation

CEU continues to monitor the indicative prices for renewable energy products. Based upon current market conditions, the forecasted “Incremental RPS Procurement Costs” (defined as the difference in the projected cost of non-renewable energy resources and the projected cost of Eligible Renewable Energy Resources) associated with meeting the total RPS Procurement Obligation are:

Compliance Period 1
January 1, 2011 – December 31, 2013

	Assumed Procurement	Forecasted Incremental Cost
Portfolio Content Category 1	13,697	\$342,000
Portfolio Content Category 2	6,848	48,000
Portfolio Content Category 3	6,849	5,000
Total Compliance Obligation	27,394	\$397,000

Compliance Period 2
January 1, 2013 – December 31, 2016

	Assumed Procurement	Forecasted Incremental Cost
Portfolio Content Category 1	26,390	\$660,000
Portfolio Content Category 2	8,120	40,000
Portfolio Content Category 3	6,090	5,000
Total Compliance Obligation	40,600	\$705,000

Compliance Period 3
January 1, 2017 – December 31, 2020

	Assumed Procurement	Forecasted Incremental Cost
Portfolio Content Category 1	75,150	\$1,880,000
Portfolio Content Category 2	15,030	75,000
Portfolio Content Category 3	10,020	10,000
Total Compliance Obligation	100,200	\$1,965,000

Section 10: Concurrent and Future Exploratory Efforts – Distributed Generation

Consistent with the objectives of SB 2-1X and meeting the State’s overall RPS targets the City has encouraged the installation of behind-the-customer-meter distributed generation of photovoltaic solar panels (“BTM Solar Systems”). In 2010 and 2011 the City installed a 101 kW and 135 kW photovoltaic systems on the roofs of the water reservoirs at the Cerritos Corporate Yard. The City has also initiated exploratory efforts with large business enterprises within the city for the purpose of studying the feasibility and commercial viability of jointly developing or supporting the installation of BTM Solar Systems and using electricity products from the BTM Solar Systems to satisfy CEU’s RPS procurement requirements.

Section 11: Application of Optional Compliance Measures

A. Cost Limitation

1. *Cost Limitation Rule.* Pursuant to the authority granted to the City Council by PUC §399.30(d)(3) to adopt conditions that allow for cost limitations for procurement expenditures used to comply with its RPS procurement requirements consistent with PUC §399.15, and consistent with section 3206(a)(3) of the CEC Regulations, the City Council adopts the following:

(a) The cost limitation rules shall ensure that:

- i. The limitation is set at a level that prevents disproportionate rate impacts;
- ii. The costs of all procurement credited toward achieving the RPS are counted toward the limitation; and
- iii. Procurement expenditures do not include any indirect expenses including, without limitation, imbalance energy charges, sale of excess energy, and decreased generation from existing resources.

(b) In setting the limitation, the City Council shall rely on all the following:

- i. The most recent renewable energy resources procurement plan for CEU;
- ii. Procurement expenditures that approximate the expected cost of building, owning, and operating eligible renewable energy resources; and
- iii. The potential that some planned resource additions may be delayed or cancelled.

2. *Relevant Factors.* The following factors are relevant in the City Council's consideration of a cost limitation to determine the funding available to procure Eligible Renewable Energy Resources and meet the CEU's RPS obligation.

- i. Cerritos is a city of approximately 50,000 residents, located about 20 miles southeast of Los Angeles.
- ii. In response to the 2000-2001 California energy crisis, the City Council authorized Cerritos' investment in a generation entitlement share of the MPP, which was subsequently constructed by SCPPA and began commercial operations in 2005.
- iii. CEU is obligated to pay for its generation entitlement share of MPP on a take or pay basis, with little opportunity to avoid costs associated with MPP.

- iv. CEU began serving retail customers in 2005 using output from the MPP, and CEU sells excess generation from MPP on the wholesale market at prices generally below CEU's average costs associated its generation entitlement share of MPP.
 - v. CEU provides the supply of electricity to its retail customers and Southern California Edison Company ("SCE") provides physical distribution of electricity to the customers' meters.
 - vi. CEU's sales to its retail customers have contractual rate limitations.
 - vii. CEU's retail customers have the option to switch energy service providers if, among other things, CEU's rate for the supply of electricity is not less than or equal to competing providers, including SCE.
 - viii. As explained in detail in a report presented to the City Council on June 13, 2013 ("CEU Report"), CEU has operated at a deficit since its inception, and its losses have been funded primarily through advances from the City's General Fund. As described in the CEU Report, CEU has initiated an aggressive plan to increase revenues and obtain a near-term financial status that would allow CEU to operate at a surplus.
 - ix. As described in the CEU Report, on an annual average basis energy from Cerritos' generation entitlement share of MPP has been surplus of CEU's retail customer load such that CEU does not have any "unmet long-term generation resource needs," as described in PUC § 399.30(a).
 - x. In Compliance Period 1, CEU's expenses (before the incremental cost of procuring electricity products to satisfy the RPS requirements and any associated indirect expenses) are forecasted to be greater than revenues.
 - xi. In Compliance Period 1, any procurement of Eligible Renewable Energy Resources would result in an increase in CEU's operating deficit and would negatively impact CEU's ability to meet its financial obligations.
3. *Information Reviewed.* Pursuant to PUC §399.30(d)(3), and consistent with Section 9 of the RPS Enforcement Program the City Council relied on the following information to consider a limitation on the Incremental RPS Procurement Costs for all Eligible Renewable Energy Resources in Compliance Period 1:
- i. The information on cost and availability of Eligible Renewable Energy Resources that is contained in this and was obtained through the RFI and subsequent offers to sell eligible renewable energy products.
 - ii. The forecast of CEU's revenues less expenses (before the incremental cost of procuring electricity products to satisfy the RPS requirements and any associated indirect expenses).

- iii. The forecasted Incremental RPS Procurement Costs for RPS-eligible resources to fully satisfy the RPS in Compliance Period 1, which, as described in Section 9C, is \$397,000 (“Full RPS Cost”).
 - iv. The procurement expenditures associated with the offers the City received to build, own, and operate eligible renewable energy resources.
 - v. Monitoring the offers the City received for planned renewable energy resources that were delayed or canceled.
4. *Establishment of Initial Cost Limitation.* Based on the foregoing factors and information, the City Council establishes a limitation on the procurement expenditures for RPS-eligible resources in Compliance Period 1. For Compliance Period 1, CEU is forecasting expenses (before the incremental cost of procuring electricity products to satisfy the RPS requirements and any associated indirect expenses) greater than revenues. Therefore the initial cost limitation is hereby set at zero (“Initial Cost Limitation”), and CEU is not obligated to expend any funds on RPS procurement.
5. *Establishment of Cost Limitations for Compliance Period 2 and Compliance Period 3 and thereafter.* The City Council hereby establishes a cost limitation on the Incremental RPS Procurement Cost for Compliance Period 2 and Compliance Period 3 and thereafter as follows:
- i. During the annual budget approval process, CEU will calculate the revenues less expenses (before the incremental cost of procuring electricity products to satisfy the RPS requirements; and any associated indirect expenses) and identify the funds available from such amount to concurrently satisfy the applicable RPS requirement and maintain prudent reserves (“Cost Limitation Guideline”).
 - ii. CEU will have no obligation to expend funds on RPS procurement in excess of the Cost Limitation Guideline or RPS procurement targets.
 - iii. In the event that the Cost Limitation Guideline results in an amount greater than zero, CEU will seek contracts for eligible renewable resources on a least cost, best fit basis in an effort to achieve the procurement targets specified in Sections 7.B. and 7.C. Procurement considerations will include availability of resources, financial feasibility, transmission availability and any other relevant factors to ensure procurement contracts fit CEU’s risk profile as a small POU.