EXHIBIT D

1. Ratepayer Indifference Can Be Achieved Only By Adjusting The Market-Based SRAC To Account For QF-Specific GMMs

The PX uses GMMs to determine the payment made to a generator for energy scheduled into and delivered through the ISO grid. The settled cost payment to a particular generator is equal to the ISO-metered hourly quantity of energy delivered, multiplied by the generator's specific hourly GMM, multiplied by the applicable hourly PX clearing price. SCE DLLT (Mayfield), p. 9:3-7. As even the most ardent opponent of GMMs must admit, this means that every rational generator will take GMMs into account in making its bid, adjusting either the price or the quantity to account for the adjustment made by the PX for GMMs. TR (El-Gasseir) at 1057:26 – 1059:1; *see also*, TR (Beach) at 873:12 – 874:10 and SCE RLLT (Bergmann), p. 7:17 – 8:4. As a result, market-clearing prices inevitably incorporate the effect of GMMs. *Id.* This simple – *and undisputed* – fact requires the Commission to adopt GMMs as the correct line loss factor for QFs receiving market-based SRAC payments.

Because the market-clearing prices established by the PX necessarily reflect the application of GMMs, and because the market-clearing price is the utility's avoided cost (subject to adjustments for imbedded capacity value and market distortions), the market-based SRAC must also account for GMMs in order to comply with PURPA's standard of ratepayer indifference. Not adopting GMMs as the correct line loss factor for QFs receiving

market-based SRAC payments will necessarily result in payments exceeding avoided cost.[1]

SCE has previously demonstrated the relationship between GMMs and avoided cost with a simple hypothetical:

> Assume that Edison buys one MWh of power from the PX at a market-clearing price of $10. Edison's unit cost is $10/MWh. In the alternative, assume that Edison purchases the one MWh from a QF that is located on the ISO grid and has a GMM factor of 0.95. If one also assumes that the Commission in this proceeding has set the market-based SRAC at the PX clearing price, Edison must pay the QF $10 even though the PX will acknowledge receipt of only 0.95 MWh. Edison's unit cost, if it purchases from the QF without adjustment for the QF's GMM (and assuming elimination of the current line loss adder), is $10.53/MWh – $0.53 higher than Edison's avoided cost of $10.00/MWh in the PX.

SCE DLLT (Stern) at 9:20-10:4. The difference is attributable to the fact that the price paid for the purchase from the PX already incorporates the effect of transmission losses while the payment to the QF, without the application of the relevant GMM, does not. Thus, only by applying the GMM factor to the QF purchase can the two purchases be made equivalent.

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[1] It is true that some QFs may have GMMs higher than one, reflecting the fact that there are line loss savings associated with their generation. In the aggregate, however, SCE's QFs have a GMM below the ISO average. For all QFs under contract with Edison, the 1999 annual average of the product of GMMs and DLFs was 0.974 SCE DLLT (Davis) at 12, n. 16. This means that in the aggregate, such QFs were paid approximately 4.9% more, using the current transmission level factor of 1.023, than had they paid on the basis of the methodology proposed by SCE.

CCC witness Beach essentially agreed that all of the assumptions and calculations supporting SCE's illustrative example are correct. *See*, TR (Beach) at 838:4-840:5; 855:10-856:25; 873:12-874:10. Only Caithness attempted to refute this illustration with a hypothetical intended to compare loss factors for out-of-state power purchases with those for remotely located QFs. CRLLT (El-Gasseir/Clark), 13-14. On cross-examination, however, not only was this second hypothetical shown to be arithmetically incorrect, Caithness' witness also recognized that the hypothetical arbitrarily assumed that the price the utility would pay for out-of-state power would be the same as that paid for an equivalent amount of PX power, an assumption which has no Record support. *Id*.; TR (El-Gasseir) at 1091:24-1094:8; 1094:9-1101:3.[2] In short, only one party has even attempted to refute the logic of SCE's illustration, and no party has done so credibly.

Continued application of the current 1.023 transmission line loss factor, as advocated by Caithness (and CCC in the alternative), further compounds the disparity demonstrated in SCE's illustration. Assuming again that the per unit cost for the QF purchase is $10.53/MWh, then application of the current transmission level line loss factor will increase the total per unit cost to $10.77/MWh. This means that the cost for the QF

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[2] Given his own admission that rational bidders take GMMs into account in formulating their price and quantity decisions, Mr. El-Gasseir's argument that the price at the border and the price in the PX should be assumed to be equal is simply not credible. In order to compete with the PX price, the out-of-state seller would necessarily have to discount its price to account for losses. *Cf., e.g.,* TR (Linsey) at 956:23-957:14. If the out-of-state seller did not make this adjustment to price, it would not be economic for the utility to purchase out of state in lieu of in the PX, even though the "asking" price of both sellers was the same.

purchase is $0.77/MWh – or 7.7% higher than the utility's avoided cost, which, in this hypothetical, is the PX day-ahead market-clearing price.[3] SCE DLLT (Stern) at 10:5-10.

The foregoing analysis irrefutably demonstrates two things. First, whatever one thinks about GMMs, the current line loss factors must be abandoned. Every hour that a line loss factor of 1.023 or 1.026 is applied to a QF payment based on the market-clearing price is an hour in which the ratepayer cost is higher than if the power had been acquired in the market. SCE DLLT (Davis), at 12-13. Second, failure to use GMMs will, by definition, result in payments to QFs which exceed the utility's avoided cost of purchasing energy from the PX and result in continued overpayments. *Id.* SCE estimates that ratepayers lose $80,000 a day as a result of the use of the current factors instead of GMMs, or approximately $30 million annually. *Id.*

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[3]   The same result occurs regardless of the "base" SRAC used. SCE has used the day-ahead clearing price in this example only for convenience of illustration.