

PUC Striving Towards RPS Goal of 20% by 2010

□ PUC is Aggressively Implementing RPS Program

- 2004 PUC adopted four Decisions:
 - Set the Standard Contract Terms and Conditions for RPS procurement
 - Established the Market Price Referent (MPR) methodology for evaluating RPS bids
 - Adopted methodology for calculating transmission costs associated with new renewable development
 - Adopted Least-Cost Best-Fit methodology, which identifies how utilities should evaluate and rank RPS bids they receive
- 2005 PUC adopted four Decisions:
 - Approved 2005 RPS short-term procurement plans and RFOs
 - Approved 2005 RPS long-term procurement plans
 - Streamlined MPR process and increased transparency of calculation
 - Determined the scope of CPUC's RPS jurisdiction over ESPs, CCAs, and SMJUs
- 2006 PUC expects to issue additional Decisions that:
 - Clarify and expand upon reporting and flexible compliance guidelines adopted in prior CPUC decisions
 - Approve the 2006 IOU short-term RPS procurement plans
- Feb 2006 PUC opened new RPS proceeding to address the following issues in 2006:
 - Rules for participation of ESPs, CCAs, small utilities, and multi-jurisdictional utilities in RPS program.
 - Coordination with related programs (e.g., California Solar Initiative)
 - Evaluate use of unbundled and/or tradable renewable energy credits (RECs) for RPS compliance.

□ Measurable Progress in Achieving RPS Goals is Under Way

- Actual renewable deliveries in 2005:
 - PG&E – 13.5 % (9,801 GWh)
 - SCE – 17.7% (13,195 GWh)
 - SDG&E – 5.5% (830 GWh)
- Attachment 1 – table of signed/approved RPS Contracts

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□ PUC Compliance Rules are Consistent with RPS Statute and PUC Policy

- Pursuant to SB 1078, PUC is:
 - Using actual deliveries, not contacts signed, as the metric for determining RPS compliance.
 - Allowing unlimited “forward banking” of surplus RPS procurement.
 - Requiring that procurement deficits be deferred for no more than 3 years.
- PUC does allow LSEs to use contracts, w/ deliveries in the future, to temporarily defer (earmarking) RPS compliance obligation.
 - Earmarking can only be used for deficits greater than 25% of annual incremental procurement requirement.
 - Earmarked contracts must deliver within 3 years or the LSE is out of compliance and penalties will be assessed.
- Feb 2006 - CEC issued RPS generation verification report for 2001 – 2004
 - PUC could not determine compliance until CEC had issue verification report.
 - PUC expects to make 2003-2005 compliance determination by 4th quarter 2006.

□ PUC Reviews RPS Bidding Protocols, Contract Selection Process, and Executed Contracts

- PUC staff and PRG review IOU bidding protocols and contract selection process used in every solicitation.
- PUC staff review all contracts submitted to PUC for approval.
- PUC monitors achievement of project milestone for approved contracts.

□ Potentially Significant Obstacles to Full Compliance with 20% in 2010 are Emerging

- Price:
 - While CPUC staff will not have access to 2005 RPS bids until the 2005 MPR is adopted (scheduled for April 14, 2006), it is well-known that turbine prices have increased significantly.
 - CEC has not disclosed SEP award process, which is increasing perceived regulatory risk.
 - While SEPs have not been required to date, PG&E and SDG&E will be filing contracts (2) from their 2004 solicitations that require SEPs.
 - It is expected that future projects will be more expensive as developers perceive a sellers market, i.e., greater demand for SEPs.

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- Developer/Contract Issues:
 - Several of SCE's 2003 contracts are potentially delayed because developers are unwilling to pay environmental and feasibility studies required for transmission upgrades.
 - Problems exist with wind power PPAs because wind turbine market is now tight. Developers that have not lock in turbine prices are claiming inability to honor their contract (PPA) prices.
 - IEP claims that big developer(s) are not participating due to credit and collateral requirements of IOUs.
 - SCE's wind PPA's, located in Tehachapi area, potentially have their online dates delayed because of their high position in the interconnection queue.
 - Major wind projects in the Tehachapi area have locked up early positions in the interconnection queue (establishing priority for the Phase 1 Tehachapi transmission) - - "queue clogging" - - but have not signed interconnection agreements or PPAs. It is unclear whether they intend to sell power to California LSE's.
- ESP, CCAs, Small and Multi-Jurisdictional Utilities - RPS Participation:
 - Non-IOUs may have difficulty reaching RPS procurement targets if required to sign long-term renewable contracts.
 - RECs might be a solution but the CEC's WREGIS tracking system, a requirement for REC trading, won't be ready until late 2007.
- ISO Transmission Queue:
 - Projects lower in the queue and with earlier online dates must finance some or all of the costs of transmission associated with projects that are higher in the queue with later online dates.
 - SCE appears to ascribe the entirety of costs associated with the transmission needed to support the higher queued projects to lower queued projects, thus imposing a significantly higher cost on the lower queued projects.
 - PG&E and SDG&E only ascribe the incremental costs of transmission necessary to bring lower queued projects online with additional costs associated with shared infrastructure assigned only if lower queued projects with later online dates actually materialize.
 - The ISO and SCE are currently in talks to resolve this issue.
- Transmission Cost Recovery Issues:
 - PUC is developing a draft decision regarding application of backstop cost recovery mechanism (399.25) for transmission costs that aren't rolled in TAC rates. This should make some of the queuing issues moot.

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□ **Transmission Investment is Required to Meet RPS 20% by 2010 Target**

- PG&E:
 - Claims that transmission upgrades are not required
- SCE:
 - Final decision on Antelope Phase 1/Segment 1 scheduled for 2006 Q4.
 - Timeline affected by Forest Service requirements
 - Final decision on Antelope Phase 1/Segments 2&3 scheduled for 2007 Q2
 - PUC's Feb 2006 decision requires SCE to:
 - Perform the studies by the end of 2006 necessary for filing CPCNs for:
 - Phase 2 Antelope to Mesa upgrades
 - Antelope to Tehachapi Substation 5 230kV line(s).
 - Phase 3 - second 500kV line between Tehachapi and Antelope Substations
 - Determine preferred route for Phase 4 (e.g. Tehachapi to Midway or Tehachapi to Vincent) by end of 2006.
 - Authorized SCE to record costs for transmission studies that ISO tariff requires developers to pay for - cost will be recovered from developers.
 - Assigned Commissioner Ruling to follow would order PEAs prepared and CPCN applications filed by early 2007 to maintain 2010 on-line date for up to 3,000 MW of transmission capacity.
- SDG&E:
 - Sunrise: application and request for suspension of Commission rules for CPCN is being processed.
- PUC is evaluating ways to streamline the CPCN review process; workshop anticipated late March

□ **Potential PUC Actions to Address Obstacles to Compliance**

- Address credit/collateral policies in 2006 long term procurement proceeding
- Address/resolve ISO queue issue
- Meet with developers to assess claims of non-participation/gaming
- Tighten contract requirements for 2006 solicitation to avoid site, transmission, and gaming issues
- Convene ISO/CEC/CPUC team to identify options to expedite transmission approvals
- Explore the use of RECs and flexible delivery requirements
- Evaluate proposals for flexible compliance in 2010 to mitigate seller's advantage