

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 SB2-1X. The RPS program is codified at Public Utilities Code (“PUC”) sections 399.11-399.32. 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”). The California Energy Commission (“CEC”) adopted the “Enforcement Procedures for the Renewables Portfolio Standard for Local Publicly Owned Electric Utilities,” (“CEC Regulations”), that specify 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.

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. On November 18, 2013, the City Council conducted a public hearing and adopted Resolution 2013-22 to establish its RPS Procurement Plan.

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 impose two future multi-year compliance periods, followed by annual compliance periods:

Compliance Period	RPS Procurement Obligation
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 (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 65% from 2014 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 15% from 2014 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 initial 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 2 (January 1, 2014 – December 31, 2016)

Subject to the Cost Limitation Guideline described in Section 11.A.4.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.

	2014	2015	2016	Total
Forecasted Retail Sales (MWh)	62,156	62,156	62,156	186,468
RPS Procurement Obligation (% of Total)	20%	20%	25%	
RPS Procurement Obligation (MWh)	12,431	12,431	15,539	40,401
Minimum Procurement of Portfolio Content Category 1 (MWh)	8,080	8,080	10,100	26,260
Maximum Procurement of Portfolio Content Category 3 (RECs)	1,865	1,865	2,331	6,061
Residual Procurement from Portfolio Content Category 2 (MWh)	2,486	2,486	3,108	8,080

- 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 3 (January 1, 2017 – December 31, 2020)

Subject to the Cost Limitation Guideline described in Section 11.A.4.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.

	2017	2018	2019	2020	Total
Forecasted Retail Sales (MWh)	62,156	62,156	62,156	62,156	248,624
RPS Procurement Obligation (% of Total)	27%	29%	31%	33%	
RPS Procurement Obligation (MWh)	16,782	18,025	19,268	20,511	74,586
Minimum Procurement of Portfolio Content Category 1 (MWh)	12,587	13,519	14,451	15,383	55,940
Maximum Procurement of Portfolio Content Category 3 (RECs)	1,678	1,803	1,927	2,051	7,459
Residual Procurement from Portfolio Content Category 2 (MWh)	2,517	2,703	2,890	3,077	11,187

- 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. Subsequent Annual Compliance Periods

For each subsequent annual compliance period, subject to modifications to the Cost Limitation Guideline described in Section 11.A.4.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 (“RFP”) 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. Price Monitoring – RPS Incremental Costs to Meet RPS Procurement Obligation

CEU continues to monitor the indicative prices for renewable energy products (“RPS Prices”) for the purpose of gathering relevant information 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 Period 2 and 3 pursuant to PUC §399.30(b). 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 2
January 1, 2013 – December 31, 2016

	Assumed Procurement	Forecasted Incremental Cost
Portfolio Content Category 1	26,260	\$300,000
Portfolio Content Category 2	8,080	35,000
Portfolio Content Category 3	6,061	5,000
Total Compliance Obligation	40,401	\$340,000

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

	Assumed Procurement	Forecasted Incremental Cost
Portfolio Content Category 1	55,940	\$645,000
Portfolio Content Category 2	7,459	50,000
Portfolio Content Category 3	11,187	5,000
Total Compliance Obligation	74,586	\$700,000

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 RPS 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 Procurement 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 SCPA 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. SCE bills, and collects from CEU's customers a public benefit charge to fund programs that would include new investment in renewable energy resources and technologies consistent with existing statutes and regulations, which promote those resources and technologies. Those funds are retained by SCE and not available for CEU to procure eligible renewable energy products.
- vii. CEU's sales to its retail customers have contractual rate limitations.
- viii. 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.

- ix. 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 (“Net Fund Position”), 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.
 - x. In Compliance Period 2, 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 2, 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 CEU’s 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 2:
- i. The information on cost and availability of Eligible Renewable Energy Resources that is contained in this RPS Procurement Plan and was obtained through the SCPPA RFP and RPS Prices to sell eligible renewable energy products.
 - ii. CEU’s negative Net Fund Position reported in the “Comprehensive Annual Financial Report”.
 - iii. 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).
 - iv. The forecasted Incremental RPS Procurement Costs for RPS-eligible resources to fully satisfy the RPS in Compliance Period 1, which, as described in Section 9B, is \$340,000 (“Full RPS Cost”).
 - v. The procurement expenditures associated with the offers the City reviewed to build, own, and operate eligible renewable energy resources.
 - vi. Monitoring the offers the City received for planned renewable energy resources that were delayed or canceled.
4. *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 forecast the Net Fund Position (before the incremental cost of procuring electricity products to satisfy the RPS requirements; and any associated indirect expenses) through the next budget year and identify the funds available from such

amount to concurrently satisfy the applicable RPS requirement and maintain prudent reserves (“Cost Limitation Guideline”).

- ii. In the event that the Net Fund Position is negative and the Incremental RPS Procurement Costs is greater than zero, 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.A. and 7.B. 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.