



**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

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Order Instituting Rulemaking to Establish
Policies, Processes, and Rules to Ensure Reliable
Electric Service in California in the Event of an
Extreme Weather Event in 2021.

Rulemaking 20-11-003

**SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) RESPONSE TO E-MAIL
RULING DIRECTING PARTIES TO SERVE AND FILE RESPONSES TO PROPOSALS
AND QUESTIONS REGARDING EMERGENCY CAPACITY PROCUREMENT BY
THE SUMMER OF 2021**

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SOUTHERN CALIFORNIA EDISON COMPANY’S (U 338-E) RESPONSE TO E-MAIL RULING DIRECTING PARTIES TO SERVE AND FILE RESPONSES TO PROPOSALS AND QUESTIONS REGARDING EMERGENCY CAPACITY PROCUREMENT BY THE SUMMER OF 2021

Pursuant to Administrative Law Judge Stevens’ E-mail Ruling Directing Parties to Serve and File Responses to Proposals and Questions Regarding Emergency Capacity Procurement by the Summer of 2021, dated December 11, 2020 (Ruling), Southern California Edison Company (SCE) respectfully submits this response to the California Public Utilities Commission (Commission or CPUC).

I.

INTRODUCTION

As stated in its comments on the Ordering Instituting Rulemaking Emergency Reliability (OIR), SCE strongly supports the Commission taking action to ensure reliable electric service if an extreme heat storm occurs in the summer of 2021. To make the best use of the limited time available, the Commission should focus on the most promising avenues for enhancing California Independent System Operator (CAISO) system reliability by decreasing demand or increasing supply. Of those two options, reducing demand by enabling more participation in demand response programs is more likely to be achievable in meaningful quantity prior to summer 2021. However, SCE also supports pursuing feasible and cost-effective options for increasing supply

during times of system need in the summer of 2021 that can be implemented equitably from a procurement obligation and cost allocation standpoint.

SCE is concerned that, if implemented as a mandate to procure a specific amount of capacity and/or firm energy, expedited procurement has the potential to establish procurement requirements that the investor-owned utilities (IOUs) cannot reasonably meet given the tight supply conditions in the CAISO system and the very short timeframe left to develop any new resource capacity before next summer. An expedited procurement mandate could also result in high costs for customers that are locked in for a long period of time beyond the immediate emergency needs for summer 2021. Additionally, there is a limit to how much decreased demand and increased supply is needed in total for next summer and the Commission's actions in this rulemaking should be guided by an assessment of that overall system need and an evaluation of the feasibility, reliability benefits, and cost-effectiveness of all of the options available for decreasing demand and increasing supply. These demand- and supply-side options stack to meet the total system need and while SCE agrees that accelerated action is needed on any expedited procurement to achieve a summer 2021 deadline, the Commission should not order expedited procurement at the expense of more realistic and affordable opportunities to decrease demand through demand response programs.

To address these concerns, rather than a procurement requirement, SCE recommends the Commission authorize the IOUs to use their best efforts to procure cost-effective incremental capacity and/or firm energy that can contribute to meeting net peak demand during the summer of 2021. As proposed in the Ruling, the IOUs should procure on behalf of all customers in their service territories with the costs and benefits allocated to all benefitting customers through the Cost Allocation Mechanism (CAM). SCE also supports many other aspects of the expedited procurement proposals set forth in the Ruling, including the resource types to be considered; consideration of resource adequacy (RA)-only contracts and tolling agreements; contracting through bilateral negotiations and negotiations with offers from recent Integrated Resource

Planning (IRP) Request for Offers (RFO) bid stacks; and Commission approval of IOU power purchase agreements through a Tier 1 advice letter process.

In addition to using a “best efforts” standard for expedited IOU CAM procurement, SCE suggests the following modified and additional guidelines and parameters for the expedited procurement:

- The procured resources must contribute to the net peak, with a preference for dispatchable resources.
- The procured resources must have a commercial operation date (COD)/delivery date no later than September 1, 2021, with a preference for earlier dates during summer 2021.
- The procured new resources should not be required to count for RA provided they are online and contractually required to submit bids in the CAISO markets consistent with the RA must offer obligation.
- To ensure procurement addresses system needs by increasing supply to the CAISO system and not cannibalizing procurement that would already occur in the RA program, this expedited procurement should only consider resources that result in incremental capacity. The Commission should also consider authorizing the IOUs to procure firm energy imports on behalf of all customers for the summer of 2021 after load-serving entities’ (LSEs) month-ahead RA showings for those months, with cost recovery through the CAM.
- The expedited procurement should focus on shorter term contracts.
- The total amount of incremental procurement should be limited by the reasonableness of the procurement costs. The valuation of new resources should be competitive with similar recent procurement. The IOUs should have discretion in whether to procure and not be required to procure if the resources are not cost competitive.
- The IOUs would utilize an independent evaluator and consult with their CAM Procurement Review Groups.

- A Tier 1 advice letter approval process would be used for IOU power purchase agreements and a Tier 2 advice letter approval process would be used for any utility-owned generation contracts.

II.

SCE'S RESPONSES TO PROPOSALS AND QUESTIONS IN RULING

A. Procurement Type Initial Proposal

SCE recommends the Commission authorize the IOUs to use their best efforts to procure cost-effective incremental capacity and/or firm energy that can contribute to meeting net peak demand during the summer of 2021. To make certain procurement is incremental and does not merely displace RA procurement by other LSEs, the IOUs should first focus on procuring new resources, including new capacity additions from existing resources. Additionally, as explained below, the Commission should consider authorizing the IOUs to procure firm energy imports on behalf of all customers for the summer of 2021 after LSEs' month-ahead RA showings for those months. As proposed in the Ruling and further discussed below, the IOUs should procure these resources on behalf of all customers in their service territories and the costs and benefits of such procurement should be allocated to all benefitting customers through the CAM.

A "best efforts" standard, as opposed to a compliance obligation or procurement requirement, is appropriate because of the uncertainty around how much additional supply is available. Supply conditions are tight in the CAISO system. Indeed, the Preliminary Root Cause Analysis regarding the mid-August 2020 heat storm events prepared by the CAISO, the Commission, and the California Energy Commission (CEC) identifies tight supply conditions as one of the factors that contributed to the emergency, stating that "[i]n transitioning to a reliable, clean, and affordable resource mix, resource planning targets have not kept pace to lead to

sufficient resources that can be relied upon to meet demand in the early evening hours.”¹

The Preliminary Root Cause Analysis also recommends “[e]xpedit[ing] the regulatory and procurement processes to develop additional resources that can be online by 2021.”²

However, there is a limited amount of incremental supply from existing resources available for summer 2021, and the very short timeframe before the summer of 2021 (particularly accounting for the time needed to adopt a final decision in this proceeding authorizing any procurement and the time needed for Commission approval of any resulting procurement contracts) will make it extremely challenging to bring any new resources that are not already in progress online by summer 2021.

It would be unreasonable to impose a compliance obligation or procurement mandate for a specific amount of capacity or firm energy that the IOUs cannot reasonably meet. An authorization that the IOUs undertake their best efforts to procure cost-effective incremental capacity and/or firm energy will increase the supply of resources that can be made available to the CAISO system for the summer of 2021 while acknowledging the uncertainty in how much additional capacity or firm energy will be available regardless of the IOUs’ efforts.

SCE also suggests that any resources procured under this IOU best efforts CAM procurement be available to contribute during the most critical times of system need – the net peak. The rotating outages on August 14 and 15, 2020 coincided closely with the net demand peaks.³ The Preliminary Root Cause Analysis states:

The construct for RA was developed around peak demand, which until recently has been the most challenging and highest cost moment to meet demand. The principle was that if enough capacity was available at peak demand there would be enough capacity at all other hours of the day as well since most resources could run 24/7 if needed. With the

¹ CAISO, Commission, CEC, Preliminary Root Cause Analysis Mid-August 2020 Heat Storm, October 6, 2020, at 4, available at: <http://www.caiso.com/Documents/Preliminary-Root-Cause-Analysis-Rotating-Outages-August-2020.pdf>.

² *Id.* at 15. The Preliminary Root Cause Analysis recognizes this would most likely focus on demand-side resources such as demand response that can complement the resources already under construction. *See id.* at 15, 65.

³ *See id.* at 6.

increase of solar penetration in recent years, however, this is no longer the case. The single critical period of peak demand is giving way to multiple critical periods during the day. ***A second critical period is the net demand peak, which is the peak of load net of solar and wind generation resources and occurs later in the day than the peak. While RA processes should meet load at all times throughout the day, the net demand peak is becoming the most challenging time period in which to meet demand.***⁴

The CAISO also referred to the net peak demand period “as the most critical for system reliability.”⁵ Therefore, to enhance reliability if an extreme weather event occurs in the summer of 2021, any expedited procurement should be able to meet net peak demand needs.

The Ruling’s proposals would require that the procured capacity must have a COD by June 1, 2021. SCE agrees that ideally, any procured capacity would have a COD/delivery date by June 1, 2021. That said, projects that come online by July, August, or September 2021 would still provide valuable incremental capacity that could contribute to net peak demand periods for summer 2021 and enhance system reliability. SCE’s 2021 CAISO system loss-of-load expectation study determined that the loss of load events were concentrated primarily in August during hour ending (HE) 17 through HE 20.⁶ The CAISO’s stack analysis showed the greatest system need in September 2021.⁷ Given the tight supply conditions and uncertainty around available supply and the short time before summer 2021, the Commission should not exclude procurement of resources coming online in July, August, or September 2021 (or incremental capacity or firm energy from existing resources that can begin delivering in July, August, or September 2021). SCE recommends that resources that can deliver incremental capacity or firm energy by no later than September 1, 2021 be eligible for the procurement, and that the IOUs have a preference for earlier COD/delivery dates in summer 2021 in their procurement and evaluation processes.

⁴ *Id.* (emphasis added).

⁵ Comments of the California Independent System Operator Corporation on Order Instituting Rulemaking Emergency Reliability, November 30, 2020 (CAISO OIR Comments), at 9.

⁶ See Southern California Edison Company’s (U 338-E) Comments on Order Instituting Rulemaking to Establish Policies, Processes, and Rules to Ensure Reliable Electric Service in California in the Event of an Extreme Weather Event in 2021, November 30, 2020, at 16, A-7.

⁷ See CAISO OIR Comments at 16.

Additionally, the Commission should not require the procurement of new resources to count as RA. For in-front-of-the-meter projects, obtaining Full Capacity Deliverability Status and a net qualifying capacity can be a lengthy process. Although these are required for RA status, resources can be operational and provide reliability benefits without them. With the expedited timeframe for this procurement, some resources could come online or add additional capacity by summer 2021 but not obtain full RA status by that date. For these reasons, SCE suggests that the Commission allow new resources that are online and contractually required to submit bids in the CAISO markets, consistent with the RA must offer obligation, to be eligible for the procurement.⁸ Like RA resources, these resources would be required to offer their capacity into the CAISO markets to satisfy grid needs. Moreover, this approach is consistent with the Commission's decision on the IRP system reliability procurement, where resources that do not yet count for RA but are online and contractually required to submit bids in the CAISO markets consistent with the RA must offer obligation are considered online for purposes of the August 1, 2021 procurement requirement.⁹

SCE generally supports the proposed resource types that should be considered for procurement in the Ruling's proposals, but raises some questions on how to determine the incrementality of firm forward energy import contracts. In situations where an IOU procures firm forward energy imports for summer 2021 in advance of LSEs' month-ahead RA showings for those months, it may be difficult to determine whether those imports are incremental to what already would have been procured to meet LSEs' RA requirements. Moreover, such procurement could lead to inadvertent cannibalization of the same imports that would already have been procured under the RA program, which would not enhance grid reliability by increasing supply for the CAISO system during the summer of 2021.

⁸ In this situation, the Commission should also consider whether these resources should reduce the RA obligations of all LSEs in the procuring IOU's service territory.

⁹ See D.19-11-016 at Conclusion of Law 27.

To address this issue, the Commission should authorize the IOUs to procure firm energy imports on behalf of all customers under the CAM at the conclusion of LSEs' month-ahead RA showings for summer 2021, to the extent Maximum Import Capability (MIC) capacity is available. For example, at the conclusion of the month-ahead RA showings, it will be known how much of the MIC for the month was utilized by LSEs to meet their RA requirements. If the MIC has not been fully utilized, then the probability of firm energy imports being feasible (i.e., less likely to face congestion to deliver energy within California) is high. In such a case, the IOUs could procure firm energy imports (if available and reasonable) through best efforts with assurance that such imports would not displace RA procurement by LSEs. If the MIC and LSEs' import allocation rights were not fully used, the procuring IOU may also be able to go beyond its existing import allocation rights without causing any congestion issues. This import procurement would be for reliability purposes and should be authorized for CAM cost recovery and deemed per se reasonable if procured consistent within volume limits bounded by the remaining MIC (with the MIC divided evenly by Transmission Access Charge load share of each IOU) and all other IOU bundled procurement plan requirements. The Commission may also want to consider authorizing additional IOU RA procurement from existing resources under the CAM after the IOUs have met their RA requirements to increase CAISO system supply. Given the timing of this procurement, the Commission does not need to grant authorization immediately and SCE can provide additional details at a later date.

Finally, SCE agrees with the proposal that incremental efficiency upgrades to existing power plants should be eligible for procurement provided they result in additional incremental capacity. The Commission should not exclude procurement of incremental capacity from existing natural gas generation units. SCE fully supports California's aggressive greenhouse gas reduction and clean energy goals and agrees that the state needs to begin an orderly transition away from natural gas resources. However, given the tightness in system capacity, potential expansion of existing natural gas generation resources may be one of the more realistic options to increase supply by next summer.

1. **In considering incremental authorization for procurement, what parameters should the Commission place on contracts regarding pricing, contract term, and operational characteristics?**

In addition to the parameters discussed above, SCE recommends that contracts with shorter terms be the focus of this expedited procurement. Shorter term contracts that meet the target online dates are preferable as they would limit customers' long-term exposure to potentially high pricing. Before making long-term commitments, shorter term contracting also allows the Commission and stakeholders to consider further study of system needs considering the development success of the full amount of D.19-11-016 system reliability procurement and other procurement currently in development, the final root cause analysis, and a thorough and robust examination of the long-term level of reliability California desires for its electric grid. Additional long-term contracts could lock the state into resources that may not be the best fit to meet California's policy and reliability goals in the years beyond the immediate emergency.

With respect to pricing, the valuation of new resources should be competitive with similar recent procurement. The IOU should have discretion on whether to procure and not be required to procure if the resources are not cost competitive.

Dispatchable resources merit preference under the procurement. Dispatchable resources would offer a more direct and reliable impact to system reliability during net peak demand periods.

2. **Should the Commission limit the total volume of incremental procurement authorized?**

SCE recommends the Commission consider the reasonableness of overall procurement costs, not necessarily the volume of incremental procurement. Based on the limited time for procurement before summer 2021 and the requirement to be cost competitive with recent procurement, it is unlikely that the volume will be excessive. As proposed in the Ruling, procurement will be performed bilaterally which will likely result in multiple Tier 1 advice letter

filings. Should the IOU reach a quantity that is believed to be sufficient, the Commission can inform the IOU of the sufficiency at that time to avoid additional procurement.

If the Commission determines a volume limit is necessary, the Commission should consider a 1,000 MW limit system-wide, which is about 50% of the new resource capacity expected to come online in summer 2021 (and thus still at development risk).

3. Should procurement that cannot achieve a commercial operation date by June 1, 2021 also be considered in this procurement authorization?

As discussed above, procurement that can achieve a COD/delivery date by September 1, 2021 should be considered in the procurement authorization. As an extreme example, a resource that cannot reach commercial operation by June 1 but can reach commercial operation by July 1 still provides significant value, including the months of August and September which are more likely to see the highest levels of peak and net peak demand. Accordingly, the procuring IOU should prefer resources that are offering earlier online dates but should not rule out resources that will be online by September 1, 2021.

The Commission should not consider resources that cannot deliver by September 1, 2021 in this expedited procurement authorization. Ordering expedited procurement for the summer of 2022 at this time is premature given the uncertain system capacity need for 2022 and the significant resources that will already be added to the system for 2021 and 2022 under the D.19-11-016 system reliability procurement, as well as this expedited procurement for summer 2021 and demand response activities authorized in this rulemaking for summer 2021 that may also be in place for summer 2022. Expedited procurement for summer 2022 could unnecessarily duplicate those efforts and impose costs on customers for resources that are ultimately not needed.

4. Are there any additional considerations regarding the procurement type that the Commission should consider in issuing a procurement authorization?

SCE has no additional considerations at this time.

5. **Are there additional specific issues the Commission should consider in authorizing procurement to ensure that the procurement is cost-effective under the existing circumstances, would addresses system needs, and be in the public interest?**

To ensure that the procurement is cost-effective under existing circumstances, SCE recommends that the procurement be required to be cost competitive with recent procurement activities. To ensure that the procurement addresses system needs by increasing supply to the CAISO system and not cannibalizing procurement that would already occur in the RA program, SCE suggests several protections to provide assurance that the procurement is incremental.

First, IOU CAM procurement on behalf of all Commission-jurisdictional customers will allow for Commission oversight to ensure that individual LSEs would not procure the same resources that would already be procured to meet existing RA requirements.

Second, the IOUs should first focus on procuring new resources that are incremental, including incremental efficiency upgrades to existing power plants that result in additional capacity and incremental energy storage capacity.

Third, for firm energy imports, the IOUs should be authorized to procure incremental firm energy imports under the CAM beyond what has been shown in LSEs' summer 2021 month-ahead RA showings 45 days ahead of the month up to the unused amount of MIC. This will ensure that the IOUs do not inadvertently procure the same imports that otherwise would have been RA resources resulting in no incremental firm energy imports for the CAISO system.

At a later date, the Commission may also want to consider authorizing the IOUs to undertake additional RA procurement from existing resources under the CAM after the IOUs have met their RA requirements to increase CAISO system supply.

B. Procurement Process Initial Proposal

SCE supports the Ruling's proposal that the authorized contracting vehicles include bilateral negotiations and negotiations with offers from recent IRP RFO bid stacks. Bilateral contracting is the best vehicle for this expedited procurement because of the time needed to conduct a solicitation process, particularly if a solicitation did not begin until after a decision is issued in this rulemaking (anticipated to be in April or May 2021). Targeted bilateral opportunities are more efficient and would have a higher probability of success to deliver resources by the summer of 2021.

6. Are there other expedited processes besides bilateral negotiations or revisiting offers from recent IRP RFO bid stacks that could be used to ensure cost-competitive resources are procured to be online for Summer 2021?

SCE is not aware of any other expedited processes at this time.

7. Can or should actions be taken to expedite the permitting and interconnection processes associated with this procurement?

There are two processes to interconnect generation with access to the wholesale energy market. The first is the CAISO interconnection process. The second is the IOUs' wholesale distribution tariffs for resources interconnecting to the distribution system with access to the wholesale market. Both of these processes are subject to Federal Energy Regulatory Commission (FERC) jurisdiction. As such, it would not appear to be feasible for the Commission to make changes that would enable these processes to occur more quickly without FERC action. Therefore, the Commission should focus on elements that it and/or the state can control. SCE encourages the Commission to focus on ways to expedite the permitting process for this procurement to the extent feasible. This route may offer tangible benefits to expedite procurement for summer 2021.

8. What existing investor-owned electric utility procurement processes (for example, Procurement Review Group consultation independent evaluator oversight, etc.) should be utilized for this procurement?

SCE supports using an independent evaluator and consultation with its CAM Group for this procurement. These existing IOU procurement processes have worked successfully for many other IOU procurement activities, including CAM procurement, and provide an independent evaluation of the IOU's procurement and the ability for key non-market participant stakeholders to be consulted and raise any issues before the execution of procurement contracts, thus potentially avoiding issues in the Commission approval process. The Commission should authorize the IOUs to recover any independent evaluator costs through the CAM in any decision or ruling directing the IOUs to begin expedited procurement.

9. What information must be included in any filings seeking final approval from the Commission, including in any potential advice letter filings that might be evaluated and resolved by the Commission's Energy Division?

To maximize the likelihood of delivering incremental procurement by next summer, it is critical that the Commission approval process for this procurement move very quickly. SCE suggests that the Commission streamline the information required in advice letter filings to focus on the most relevant information needed for Commission approval – a demonstration of cost competitiveness, that the resource is incremental, and that the resource has a viable path to deliver by its online date in summer 2021. These details should be the primary information needed by Energy Division to review contracts submitted under this expedited procurement.

10. Are there any additional considerations regarding the procurement process that the Commission should consider in issuing a procurement authorization?

SCE has no additional considerations at this time.

C. Procurement Cost Recovery and Ratemaking Treatment

SCE agrees with the proposal that this expedited procurement be undertaken by the IOUs for the benefit of all customers in their service territories with the cost and benefits allocated to all benefitting customers through the CAM. There is not enough time before the summer of 2021 for all 40+ Commission-jurisdictional LSEs to procure for themselves or give such LSEs the opportunity to procure with the ability to opt-out and have an IOU procure on their behalf or have the IOU backstop any deficient procurement. There is also no ability to equitably allocate procurement obligations given the uncertainty of available supply.

IOU procurement pursuant to the CAM would allow for an orderly procurement process under Commission oversight that could ensure that LSEs would not procure the same resources that would already be procured to meet existing RA requirements or not be held accountable for their contributions. The CAM is an established statutorily- and Commission-approved process that has worked successfully for more than 10 years. IOU CAM procurement would benefit system reliability for all customers and ensure that costs are likewise allocated equitably to all customers. SCE is concerned that if all LSEs were ordered to procure, and some were not able to comply, then the costs and benefits of successful procurement would be allocated unequally, resulting in cost shifting.

As discussed above, the Commission should not impose a procurement requirement and should instead authorize the IOUs to use their best efforts to procure incremental capacity and/or firm energy that can contribute to net peak demand in summer 2021. It would be difficult, if not impossible, to impose a “best efforts” standard on LSEs that are not fully subject to Commission oversight over their procurement. For all these reasons, IOU CAM procurement is the most effective and efficient option for best efforts procurement to increase supply that can contribute to net peak demand periods for the summer of 2021.

11. Are there any additional considerations regarding cost recovery and ratemaking treatment the Commission should consider in issuing a procurement authorization?

As discussed above, SCE supports the proposal in the Ruling and does not have any additional considerations at this time.

D. Process for Commission Review

SCE agrees with the Ruling's proposal of a Tier 1 advice letter approval process for IOU power purchase agreements and a Tier 2 advice letter approval process for utility-owned generation contracts. Given the extremely tight timeframe for this procurement, there simply is not enough time to complete a Tier 3 advice letter approval process and bring resources online by summer 2021.

12. Are there any additional considerations regarding the process for commission review that the Commission should consider in issuing a procurement authorization?

As noted above, SCE supports the proposal for a Tier 1 advice letter process for approval of IOU power purchase agreements. However, the power purchase agreements would still be subject to a termination right until Commission approval is obtained to ensure that cost recovery under the CAM is granted. Even under a Tier 1 advice letter process that is effective pending disposition, "all service rendered pursuant to the advice letter before disposition will be subject to a Commission order requiring refunds or such other or additional adjustments as the Commission may require."¹⁰ Thus, before fully proceeding with a power purchase agreement, the IOU and the counterparty would still require a disposition of the Tier 1 advice letter to make certain that the contract is approved by the Commission. SCE cautions that a protest or

¹⁰ Commission General Order 96-B, Rule 7.3.3.

suspension of a Tier 1 advice letter that delays the disposition of the advice letter beyond the initial 30-day review period could still delay meeting a summer 2021 online date.

III.

CONCLUSION

For all the foregoing reasons, the Commission should adopt SCE's recommendations discussed herein.

Respectfully submitted,

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