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TO PARTIES OF RECORD IN APPLICATION 21-10-005:

This is the proposed decision of Administrative Law Judge Sophia J. Park. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's November 3, 2022 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ ANNE E SIMON

Anne E. Simon

Chief Administrative Law Judge

AES:smt

Decision **PROPOSED DECISION OF ALJ PARK** (Mailed 9/27/2022)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California
Edison Company (U338E) for
Approval of its Catalina Repower
Project.

Application 21-10-005

**DECISION APPROVING ALL-PARTY SETTLEMENT
AGREEMENT AND MAKING ADDITIONAL FINDINGS**

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**DECISION APPROVING ALL-PARTY SETTLEMENT
AGREEMENT AND MAKING ADDITIONAL FINDINGS**

Summary

This decision approves an all-party settlement agreement regarding Southern California Edison Company's proposed Catalina Repower Project. The settlement agreement establishes a process for Southern California Edison Company to obtain future Commission review and approvals for the project once the South Coast Air Quality Management District completes its rulemaking on air emissions requirements impacting the project and issues the necessary permits to construct for the project. In addition, this decision makes findings regarding the load forecast and reliability criteria to be used for the project.

This proceeding is closed.

1. Background

Santa Catalina Island (Catalina) is a closed electrical system in that the electricity generated and distributed on the island is isolated and self-contained. Six diesel engine generators at the Southern California Edison Company (SCE) Pebbly Beach Generating Station (PBGS), with a combined capacity of 9.325 megawatts (MW), provide approximately 95 percent of delivered electricity to Catalina.¹ Additional sources of electricity generation and storage at PBGS include 23 propane-fueled microturbines (combined capacity of 1.5 MW) and one sodium-sulfur energy storage battery (1.0 MW capacity and 7.5-megawatt hour (MWh) total energy output).²

On October 15, 2021, SCE filed an application for approval of its proposed Catalina Repower Project, which involves replacement of the six existing diesel

¹ Ex. SCE-01A at 9.

² *Id.* at 10.

generators serving Catalina in order to comply with new South Coast Air Quality Management District (SCAQMD) requirements. SCE had initially included a request to replace the six diesel generators in its 2021 general rate case (GRC), Application (A.) 19-08-013. Given the uncertainty of the scope and project timeline, the Commission in Decision (D.) 21-08-036 directed SCE to submit a standalone application with its most up-to-date version of the Catalina Repower Project proposal for Commission review.³

The Utility Reform Network (TURN) and the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) timely filed protests to the application on November 17, 2021 and November 18, 2021, respectively.

The assigned Administrative Law Judge (ALJ) held a telephonic prehearing conference on December 6, 2021. The assigned Commissioner issued a scoping memo and ruling on December 17, 2021, setting forth the issues and schedule for the proceeding. At the time the scoping memo was issued, SCAQMD was considering revisions to its Rule 1135, which sets forth requirements for emissions of nitrogen oxides (NO_x) from electricity generating facilities. The scoping memo directed SCE to promptly file a notice in this proceeding if SCAQMD adopted any changes to Rule 1135 that would impact SCE's proposed project.

On January 25, 2022, SCE filed a motion for suspension of the procedural schedule due to rules changes adopted by SCAQMD. The assigned ALJ granted SCE's motion on January 26, 2022.

SCE filed a notice on January 27, 2022, describing changes to SCAQMD's Rule 1135 adopted by SCAQMD on January 7, 2022, and how those changes

³ D.21-08-036 at 362-363.

would impact the Catalina Repower Project. The Rule 1135 revisions require SCE to meet new NOx emission limits on both a per-unit and facility-wide basis and prohibit SCE from installing new diesel units after December 31, 2023.

SCE's notice also described SCAQMD's reassessment of the applicability of the particulate matter (PM) standard for engines in SCAQMD Rule 1470 to one of the existing diesel units, Unit 15. In 2017, SCAQMD issued SCE a permit to construct for an extensive overhaul of Unit 15. While reviewing the 2017 overhaul in connection with a five-year permit renewal in 2021, SCAQMD staff concluded that Unit 15 should have been subject to Rule 1470's lower PM limit for reconstructed engines rather than the higher limit for older, existing engines. Unit 15 would not have been able to meet this lower limit and still cannot. On January 4, 2022, the SCAQMD Hearing Board approved an Abatement Order, which authorized SCE to continue operation of Unit 15 while evaluating the feasibility of various PM-reduction measures and submitting a plan for compliance.

The parties subsequently engaged in settlement discussions and filed joint status reports regarding their settlement efforts on February 28, 2022 and April 1, 2022.

On April 29, 2022, the parties filed a joint motion for approval of a settlement agreement.⁴ On the same day, SCE filed its amended application and served amended testimony requesting approval of the Catalina Repower Project.

TURN served direct testimony on May 31, 2022, and Cal Advocates served direct testimony on June 2, 2022. SCE served rebuttal testimony on June 29, 2022.

⁴ The Settlement Agreement is included as Appendix A to the April 29, 2022 motion.

No party requested evidentiary hearings by the July 7, 2022 deadline set in a May 11, 2022 e-mail ruling.

SCE, Cal Advocates, and TURN filed opening briefs on July 15, 2022 and reply briefs on July 29, 2022.

On August 22, 2022, SCE, Cal Advocates, and TURN jointly filed a motion for admission of evidence into the evidentiary record. SCE concurrently filed a motion for leave to admit one of the evidentiary exhibits under seal. The August 22, 2022 joint motion and SCE's motion were granted on August 24, 2022.

The proceeding stood submitted for the Commission's decision on August 22, 2022.

2. Standard of Review

Pursuant to Rule 12.1(d),⁵ the Commission will not approve a settlement unless it is "reasonable in light of the whole record, consistent with law, and in the public interest." As a matter of public policy, the Commission generally favors settlements of disputes if they are fair and reasonable in light of the record.⁶ This policy supports many goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce an unacceptable result.

3. Proposed Settlement Agreement

3.1. Summary of Terms

The proposed settlement is an all-party settlement that would allow SCE to move forward with replacing two existing generators on Catalina with two new, emissions-compliant diesel generators that meet the Environmental Protection

⁵ Unless otherwise specified, all references to a Rule are to the Commission's Rules of Practice and Procedure.

⁶ D.14-12-040 at 15; D.11-12-053 at 72.

Agency Tier 4 final emission standards. The settlement agreement also sets forth the processes by which SCE would seek Commission approval for the replacement, retrofit, or retirement of Unit 15, as well as secure the remaining resources needed for Catalina. Specifically, the parties agree to the following three phases for the Catalina Repower Project:

- Phase 1A addresses SCE's installation of two new diesel units to replace existing Units 8 and 10.⁷ The parties agree SCE will use the Tier 2 Advice Letter process to seek Commission approval to install the two new diesel units limited to the conditions set forth in the anticipated permits to construct from SCAQMD. TURN and Cal Advocates agree not to protest the need for the replacement of Units 8 and 10 but may challenge the reasonableness of any recorded costs when rate recovery is sought.
- Phase 1B addresses the replacement, retrofit, or retirement of Unit 15.⁸ SCE will file a Tier 2 Advice Letter for Phase 1B (not to be combined with the Advice Letter for Phase 1A) seeking Commission review and approval for implementation of the solution for Unit 15 required by SCAQMD following SCE's application of a permit to construct for all solutions other than implementation of a diesel particulate filter or catalyst blocks. If the SCAQMD-approved solution is a diesel particulate filter or catalyst blocks, SCE will implement the solution without submitting an advice letter.
- Phase 2 addresses SCE's future Catalina Clean Energy All-Source Request for Offers (RFO) for renewable, zero carbon, and near-zero emission generation resources.⁹ SCE may seek Commission approval via a Tier 3 Advice Letter

⁷ Settlement Agreement, Section 6.1.

⁸ Settlement Agreement, Section 6.1.

⁹ Settlement Agreement, Section 6.3.

for any contracts executed via the RFO. If SCE determines that non-zero-emissions generation resources are needed for Catalina beyond Phase 1 and the All-Source RFO, SCE will use the application process to seek approval for any specific commitments, including any utility-owned resources. SCE makes other commitments related to Phase 2, including the commitment to share information with Cal Advocates and TURN on the RFO design and evaluation methodology prior to issuance of the RFO. TURN and Cal Advocates commit to resolve any concerns regarding the RFO informally, and if that effort fails, would have an opportunity to submit a motion seeking Commission direction.

3.2. Discussion

The parties assert that the settlement agreement represents compromise of disputed positions between the parties after arm's length negotiations and that the agreement is reasonable, consistent with the law, and in the public interest.

We find the settlement agreement is reasonable in light of the whole record and in the public interest. SCE's initial application proposed to replace the six existing diesel generators with six new, emissions-compliant diesel generators. SCE's initial application included plans for a RFO to obtain offers for renewable energy, energy storage, demand response, and energy efficiency. However, SCE viewed any potential long-term options from the RFO as complements to, and not substitutes for, the six new diesel generators.

TURN's protest raised several concerns regarding SCE's proposal to install six new diesel generators. Among other things, TURN argued that deficiencies in SCE's modeling did not enable the Commission to assess whether SCE's proposal is compatible with, or would effectively frustrate, the development of

incremental clean resources.¹⁰ Cal Advocates' protest argued the Commission should consider a number of issues in assessing the reasonableness of SCE's proposed project, including whether the proposed project is the best option to comply with SCAQMD emissions requirements, whether the costs were reasonable, and how the proposed project would impact SCE's ability to meet future climate goals.

SCAQMD's requirements relating to its Rule 1135 and Rule 1470, which impact SCE's proposed project, have evolved during this proceeding and continue to evolve. SCAQMD is in the process of considering more changes to Rule 1135.¹¹ The outcome of the Abatement Order process related to Unit 15 is also unknown at this time. Since SCE's project must comply with SCAQMD requirements, the Commission cannot approve SCE's project in its entirety until the final SCAQMD requirements are known.

In light of this ongoing uncertainty, we find the proposed settlement agreement presents a reasonable path forward. The settlement agreement does not resolve all the issues raised by the parties in their protests but rather sets forth a process for SCE to obtain future Commission review and approvals for the project once the final SCAQMD requirements are known and permits to construct issued.

¹⁰ TURN Protest at 1-2.

¹¹ SCE reports that: "SCAQMD staff indicated their intent to reopen Rule 1135 in February 2022 for further modification regarding potential viable clean energy options and the site-wide 13 tons/year NOx emission limit effective January 1, 2026, which includes an update of the best available retrofit control technology (BARCT) study for SCE's proposed project." (SCE January 27, 2022 Notice at 3.)

No party disputes that at least two new diesel generators will be needed to meet Catalina's electricity capacity needs.¹² The settlement agreement allows SCE to expeditiously proceed with replacing two generators prior to SCAQMD's current December 31, 2023 installation deadline while still requiring compliance with any subsequent SCAQMD rule changes or approved permits to construct.

The settlement agreement also provides a process that will allow for consideration of future least-cost clean energy solutions for Catalina. The parties recognize "Catalina's unique situation as the largest microgrid in California, the state's policy goals for significant [greenhouse gas] and criteria air pollutant reductions, and the need to consider other solutions that can provide the island with clean, reliable and affordable electricity."¹³ Phase 2 will allow for consideration of these other solutions that are consistent with the state's policy goals. The agreed upon process allows for TURN and Cal Advocates to provide input regarding the RFO and challenge the results of and SCE's conduct with respect to the RFO. Furthermore, if SCE determines that non-zero-emissions generation resources are needed for Catalina beyond Phase 1 and the All-Source RFO, SCE will need to file an application demonstrating why these alternatives are able to satisfy the criteria of reliability, feasibility, cost, emissions compliance, and compliance with other applicable state or federal requirements.

We also find the settlement agreement is consistent with the law. The process for conducting the settlement was in accordance with Article 12 of the Rules of Practice and Procedure, and we are unaware of any inconsistency with the Public Utilities Code, Commission decisions, or the law in general. The

¹² See Settlement Agreement at A-6.

¹³ April 29, 2022 Motion at 6.

settlement agreement requires all phases of SCE's project to be in compliance with any relevant SCAQMD requirements and approved SCAQMD permits to construct. The settlement agreement also provides for further Commission review of the project's compliance with SCAQMD requirements through the advice letter process.

Based on the foregoing, we find the settlement agreement meets the criteria for approval under Rule 12.1(d). Therefore, we approve the settlement agreement without modification. With our approval of the settlement agreement and additional findings below, there are no issues remaining to be decided by the Commission in this proceeding. Therefore, this proceeding is closed by this decision.

Notwithstanding the closure of this proceeding, in order to effectuate Section 6.3.1 of the settlement agreement,¹⁴ any party may file a compliance filing in this docket providing an update regarding the status of the RFO and requesting the reopening of this proceeding to enable the filing of a motion concerning the RFO pursuant to Section 6.3.1.¹⁵ Upon the filing of such a compliance filing, the assigned ALJ may issue a ruling reopening the proceeding for the sole purpose of enabling the filing and consideration of the motion, which shall be limited to the matters set forth in Section 6.3.1 of the settlement agreement. Prior to filing any motion, the parties shall meet and confer in a good faith effort to informally resolve any disputes regarding the RFO, and the motion shall state facts showing the parties' good faith meet and confer efforts. Upon the

¹⁴ "If TURN or Cal Advocates is not satisfied with SCE's proposed resolution of any identified concerns, it may file a motion in A.21-10-005 requesting additional direction from the Commission prior to the launch of an RFO." (Settlement Agreement at A-10.)

¹⁵ Pursuant to Rule 11.1, a motion may only be filed in an open proceeding.

disposition of the motion, the assigned ALJ shall issue a ruling closing the proceeding unless there are other matters, excluding intervenor compensation matters, pending in the docket.

4. Unsettled Issues

While the parties have agreed on a general process for SCE to move forward with the Catalina Repower Project, there are still points of disagreement that are not resolved in the settlement agreement. Cal Advocates requests that the Commission make findings on the issues set forth below.

4.1. Load Forecast

A load forecast is necessary to determine the balance of generation SCE will need to procure through its Phase 2 RFO. The load forecast identifies the amount of capacity SCE will need to procure, as well as the months of the year and hours of the day that SCE will need to target when evaluating offers.

SCE and Cal Advocates developed separate load forecasts. Cal Advocates' load forecast method results in yearly peak load forecasts that are higher than SCE's forecast during 2022-2028 and lower during 2029-2039.¹⁶ The two forecasts also differ as to the peak date, peak hour, and annual energy usage. The different assumptions used in the two forecasts are addressed below.

4.1.1. Base Year

SCE uses 2018 as a base year for recorded energy consumption for its forecast, while Cal Advocates uses 2021. SCE states that economic activity is highly correlated with electricity demand and that one of Catalina's major sources of economic activity is tourism.¹⁷ SCE argues 2020 and 2021 are not representative years because there were fewer annual visitors to Catalina in 2020

¹⁶ Ex. SCE-02C at 11, Table II-1.

¹⁷ Ex. SCE-02 at 16.

and 2021 due to the COVID-19 pandemic.¹⁸ SCE assumes the impacts of the COVID-19 pandemic will recede and that future electricity demand will be similar to pre-pandemic levels due to recovery of economic activity driven by tourism. SCE argues 2018 reflects Catalina's typical annual energy needs prior to the COVID-19 pandemic. SCE chose 2018 as opposed to 2019, which had a lower peak, because SCE argues future resource decisions should be able to meet a recent historical peak.¹⁹

Cal Advocates argues 2021 is the appropriate starting year for the load forecast because it uses the most recent data available and corresponds to typical annual energy needs for Catalina.²⁰ Cal Advocates argues that peak loads declined between 2017 and 2021 and that 2018 misrepresents the load trend.²¹ Cal Advocates also notes that annual electrical consumption did not significantly decrease in 2021 (1.7% decrease compared to 2016-2019 average) despite the fact that there were 23% fewer tourists in 2021 compared to the 2016-2019 average.²²

As an initial matter, there are discrepancies in SCE's and Cal Advocates' presentations of the 2021 recorded data. SCE and Cal Advocates present the following recorded data for 2021:²³

| | Peak Date (MM/DD) | Peak Hour | Peak (kW) | Annual Energy (kWh) |
|---------------|------------------------------|------------------|------------------|--------------------------------|
| SCE | 09/04 | 16 | 5,014 | 29,260,989 |
| Cal Advocates | 08/06 | 13 | 5,665 | 29,322,275 |

¹⁸ *Id.* at 16-17.

¹⁹ *Id.* at 17.

²⁰ Cal Advocates Opening Brief (OB) at 6-7.

²¹ *Ibid.*

²² *Id.* at 7.

²³ See SCE OB at 12.

SCE asserts Cal Advocates' methodology is flawed for two reasons: (1) Cal Advocates does not interpolate hourly load data appropriately for microturbine and battery units, and (2) Cal Advocates' methodology of combining SCE's Continuous Emissions Monitoring System (CEMS) generation data source for diesel generation with the Ovation Distributed Control System (DCS) data source for storage and microturbines is inconsistent and less accurate.²⁴

We find SCE uses a more accurate methodology than Cal Advocates to identify the 2021 recorded peak date, peak hour, peak load, and annual energy. In contrast to Cal Advocates' methodology, SCE performed a linear interpolation using the two closest times before and after each hour to determine the peak hour more accurately.²⁵ Moreover, SCE used Ovation DCS generation data, which is available for all of its units (diesels, microturbine, and storage) and is based on an instantaneous record at the collected time, as opposed to CEMS, which is not available for microturbine and storage units and is an average across the hour.²⁶ Cal Advocates contends it prepared the most accurate load forecast it could using the data provided by SCE but does not dispute SCE's contentions that SCE's methodology would result in more accurate results.²⁷ Therefore, we find the 2021 recorded data presented by SCE to be the most accurate data in the record and use that data for purposes of this decision.

With respect to the selection between 2018 or 2021 as the base year, we find SCE's proposal to use 2018 to be reasonable. Cal Advocates argues 2021 is a

²⁴ *Id.* at 14.

²⁵ *Id.* at 14-15.

²⁶ *Id.* at 15.

²⁷ Cal Advocates OB at 9.

better starting point because it is more recent and corresponds to typical annual energy needs for Catalina. Cal Advocates does not adequately justify why 2021 corresponds to Catalina's typical annual energy needs. SCE notes that in 2021, Catalina had 23% fewer tourists compared to the 2016-2019 average and annual electricity usage was 1.7% less than the 2016-2019 average.²⁸ Although this data indicates that the decrease in tourism did not have a significant impact on annual energy usage, it is unclear whether and to what extent the fewer number of tourists impacted other load characteristics, such as the peak load.

Recorded data from 2018-2021 demonstrates that there has not been a clear trend in peak load. Rather, peak load has fluctuated with an increase between 2019 and 2020.²⁹ Given this fluctuation and lingering impacts of the pandemic on tourist numbers, it is unclear that 2021 recorded data would be appropriate for use as a base year to forecast Catalina's future energy needs. In the absence of a clear trend or explanation for what accounts for historical fluctuations in peak load and considering Catalina's lack of interconnections to the mainland electrical grid, we find it prudent for SCE to use a recent year with the highest peak load, 2018, in making future resource decisions.

4.1.2. Load Growth Factor

SCE takes a two-step approach to estimating the load growth forecast for 2022-2039.³⁰ For 2022-2026, SCE's growth forecast is based on specific known projects with water allocations confirmed for construction. For 2027-2039, SCE estimates the average annual load additions based on a representative subset of the projects currently in development for 2022-2026. SCE's load growth amount

²⁸ Ex. SCE-02 at 16, Table II-4.

²⁹ *Id.* at 11, Table II-1.

³⁰ *Id.* at 20.

based on these projects equates to a 0.29% factor in 2027 and then declines annually to a 0.28% factor in 2039.³¹ In addition to these projects, SCE's load forecast includes Building Electrification (BE) as proposed in SCE's BE Application (A.21-12-009) for the years 2024-2027 with an expected follow-on program from 2028-2032.³²

Cal Advocates' forecast includes a generic growth factor of 0.5% for each year in the forecast.³³ Cal Advocates' load growth factor is based on the factor used by the National Renewable Energy Laboratory and NV5 in the July 2020 Santa Catalina Island Repower Feasibility Study (Feasibility Study).

Cal Advocates argues that its approach flexibly accounts for any type of potential load growth as opposed to SCE's approach, which speculates about projects or development that are not yet certain.³⁴

We agree with Cal Advocates that it is premature to incorporate SCE's forecast for BE into the load forecast. SCE's proposed BE programs for 2024-2027 are currently being considered by the Commission in A.21-12-009. The application is being actively litigated by several parties and the Commission cannot prejudge the outcome of the application. In addition, although SCE's load forecast includes a follow-on BE program for 2028-2032, no such program has yet been submitted to the Commission for approval.

³¹ *Id.* at 21. SCE's methodology is based on estimated load growth of specific projects and not based on application of a load growth percentage.

³² *Id.* at 22.

³³ Cal Advocates OB at 7.

³⁴ *Id.* at 8-9.

Given the uncertainties, we find a more flexible approach to be warranted and find reasonable Cal Advocates' proposed load growth factor of 0.5%.³⁵ However, we note that pursuant to the current schedule for A.21-12-009, a final Commission decision is expected in that proceeding in April 2023.³⁶ If the Commission issues a decision in A.21-12-009 approving BE programs for SCE, SCE may submit an updated load forecast incorporating the load impacts from any BE programs approved by the Commission when submitting Phase 2 contracts or projects for Commission approval.

4.2. Reliability

Cal Advocates requests that the Commission make the following findings related to reliability: (1) adopt Cal Advocates' "Flexible N+2" reliability criteria, and (2) disregard SCE's claim that inverter-based technology must be limited to 30% on Catalina.³⁷

Given the isolated and self-contained nature of the electrical system on Catalina, SCE has historically followed a conservative "N+2" reliability criteria for Catalina. SCE has defined the N+2 criteria as being able to serve peak demand if the two largest diesel units are unavailable.³⁸ Cal Advocates criticizes the continued use of the N+2 reliability metric as being too restrictive and not considering the ability of non-fossil generation to meet peak demand.³⁹ SCE agrees with Cal Advocates that the N+2 criteria is no longer appropriate because

³⁵ SCE's baseline forecast excluding BE would equate to a lower annual load growth factor than the 0.5% recommended by Cal Advocates.

³⁶ *E-mail Ruling Granting The Utility Reform Network's Motion for Extension of Time*, issued in A.21-12-009 on July 7, 2022.

³⁷ Cal Advocates OB at 5.

³⁸ Ex. SCE-01A at 45.

³⁹ Ex. PAO-01 at 2-11.

the N+2 criteria assumed diesel generation only and the new amendments to Rule 1135 will limit the number of new diesel units SCE can install.⁴⁰

SCE and Cal Advocates agree that a Flexible N+2 reliability criteria (which considers diesel, renewable resources, and other generation sources) would be reasonable for Catalina.⁴¹ A Flexible N+2 standard acknowledges that SCE will pursue two to three diesel replacements as part of the settlement agreement and recognizes the ability of non-fossil resources to contribute to peak load.⁴²

We agree the N+2 criteria is no longer appropriate. While we generally find the Flexible N+2 criteria to be reasonable, specifics regarding the criteria have not been provided by the parties. Therefore, we intend to further evaluate the reasonableness of this criteria during our evaluation of the projects submitted during Phase 2 of the settlement agreement.

Inverter-based resources include solar and other direct-current resources. SCE's Pebbly Beach Alternatives Study Preliminary Action Plan, dated April 1, 2022, claimed that Catalina cannot support more than 30% of total demand with inverter-based resources.⁴³ Cal Advocates argues adopting a 30% limit would unnecessarily restrict the deployment of renewables on Catalina and urges the Commission to reject this limit.⁴⁴

⁴⁰ SCE OB at 19.

⁴¹ *Ibid.*; Cal Advocates OB at 5. In testimony, Cal Advocates had recommended use of either a flexible N+2 standard or a traditional planning reserve margin (PRM) of 20%. (Ex. PAO-01 at 2-11.) We agree with SCE that a PRM may not be appropriate for Catalina given the isolated nature of its electrical grid. Even if the Commission were to consider a PRM for Catalina, there is inadequate justification as to why 20% would be the appropriate reserve margin level.

⁴² Ex. PAO-01 at 2-11.

⁴³ *Id.* at 2-5 citing Ex. PAO-02 at 35.

⁴⁴ Cal Advocates OB at 10.

SCE does not request that the Commission adopt a 30% limit on inverter-based resources in this proceeding. Rather, SCE generally states that the use of inverter-based resources, including solar and the existing microturbines, is limited by grid stability concerns.⁴⁵ SCE states that the 30% limitation is based on assumptions in the preliminary report, which may change as SCE continues to study the issue.⁴⁶ For example, SCE's Unit 15 Abatement Order Report indicated that the maximum amount of generation from inverter-based resources at PBGS could exceed 30% with appropriate control technologies.⁴⁷ SCE's engineering study on the maximum amount of inverter-based generation at PBGS is continuing and is expected to be completed in the fourth quarter of 2022.⁴⁸ SCE intends to use the conclusions from the report in determining the additional control measures that will be required when determining the maximum amount and type of renewable RFO offers to be accepted.⁴⁹

There is inadequate information in the record of this proceeding to support a 30% or any other limit on inverter-based resources. Given the continued study that is occurring on this issue, we will review the reasonableness of any future limit on inverter-based resources SCE may propose during our review of any contracts submitted or application filed pursuant to Phase 2 of the settlement agreement.

4.3. Emissions Compliance

Cal Advocates requests that the Commission make the following findings related to emissions compliance: (1) SCE does not need three diesel

⁴⁵ SCE OB at 20.

⁴⁶ *Ibid.*

⁴⁷ *Ibid.*

⁴⁸ *Ibid.*

⁴⁹ *Ibid.*

replacements to comply with SCAQMD's Rule 1135; (2) SCE does not need to replace Unit 15 to bring the Unit into compliance with SCAQMD's Rule 1470 on particulate matter, and (3) Unit 15's retirement is a reasonable alternative to replacement if the catalyst block retrofit fails to bring the Unit into Rule 1470 compliance.⁵⁰

Cal Advocates' requested findings related to emissions compliance are premature at this time. As discussed above, SCAQMD is currently in the process of considering changes to Rule 1135 and SCAQMD's Abatement Order process related to Unit 15 is ongoing. SCE has not requested Commission approval to implement any specific solution for Unit 15 at this time. Phase 1B of the settlement agreement sets forth a process for SCE to seek Commission review and approval via advice letter for implementation of the solution for Unit 15 required by SCAQMD following SCE's application of a permit to construct for all solutions other than implementation of a diesel particulate filter or catalyst blocks.⁵¹ SCE's advice letter filing pursuant to Phase 1B will need to demonstrate why the proposed solution is cost-effective, necessary to achieve emissions requirements, and required for reliability.⁵² Cal Advocates and others may protest SCE's advice letter filing if they believe SCE has not adequately demonstrated that its proposed solution meets the above criteria.

4.4. Cost Analysis

Cal Advocates requests that the Commission make the following findings related to costs for the project: (1) SCE's cost forecasts are outdated, (2) SCE should be required to rely solely on the cost information derived from its

⁵⁰ Cal Advocates OB at 11.

⁵¹ Settlement Agreement, Section 6.2.

⁵² Settlement Agreement, Section 6.2.

upcoming RFO, and (3) SCE shall not calculate avoided costs for its least-cost ranking of RFO results using an all-diesel repowering solution.⁵³

SCE argues that Cal Advocates' requested findings are premature and unnecessary.⁵⁴ Section 6.3 of the settlement agreement sets forth a process for SCE to share cost-effectiveness information with Cal Advocates and TURN prior to the launch of the RFO, and Cal Advocates and TURN may raise concerns informally with SCE or formally with the Commission regarding the design of the RFO and SCE's actions with respect to the RFO.

We find Cal Advocates' requested findings regarding what costs SCE should use in the RFO to be premature at this time given: (1) SCAQMD's ongoing rulemaking related to Rule 1135 and ongoing Abatement Order process related to Unit 15; (2) the RFO design is still being developed and an RFO design has not been presented to the Commission for review; and (3) the settlement agreement provides for a process for stakeholder involvement and Commission review of the RFO and its results.⁵⁵

SCE describes the RFO process it intends to utilize for the Catalina RFO, which includes engaging its Procurement Review Group (which includes participants from the Commission's Energy Division, Cal Advocates, and TURN), use of an Independent Evaluator, and use of SCE's "CPUC-approved

⁵³ Cal Advocates OB at 5.

⁵⁴ SCE OB at 22.

⁵⁵ The issue of whether SCE should be authorized to recover costs for the Catalina Repower Project is not within the scope of this proceeding. (Scoping Memo at 3.) D.21-08-036 authorized SCE to create a Catalina Repower Memorandum Account to track costs related to the project for possible future recovery following a reasonableness review in its next GRC. (D.21-08-036 at 678-679, Ordering Paragraph 7.)

least-cost, best-fit methodology” to evaluate the RFO results.⁵⁶ We find the general process described by SCE to be reasonable.

We do find merit to Cal Advocates’ arguments that the cost forecasts SCE presented in this proceeding are outdated and inadequately justified. However, SCE is not at this time proposing that these cost forecasts be used in the RFO. SCE initially suggested that the cost forecast for replacing the six existing diesel units with six new diesel units could be an appropriate reference point against which to compare other approaches.⁵⁷ SCE subsequently acknowledged that the cost estimates it presented in its 2021 GRC and this proceeding are outdated and should not be used without update or confirmation that they are appropriate for use in evaluating RFO offers.⁵⁸ SCE also states that there has been no determination whether the diesel generators or another alternative is appropriate for use in the least-cost, best-fit methodology.⁵⁹ Given the ongoing uncertainties regarding what may ultimately be a feasible solution for Catalina and the ongoing work on the RFO design, we do not foreclose SCE from using an updated forecast or any other particular cost forecast in the RFO.

SCE will need to demonstrate the reasonableness of any contracts executed via the RFO. In addition, as set forth in the settlement agreement, Cal Advocates may participate in the RFO design process and raise concerns regarding the RFO informally to SCE or formally to the Commission via a motion, protest to SCE’s advice letters seeking approval of contracts executed pursuant to the RFO, or

⁵⁶ Ex. SCE-01A at 62-65; *see also* Settlement Agreement, Section 6.3.1.

⁵⁷ Ex. SCE-01A at 49.

⁵⁸ SCE OB at 23.

⁵⁹ *Id.* at 24.

during the application process if SCE seeks approval for resources outside of the RFO process.

4.5. Feasibility Analysis

Cal Advocates requests that the Commission make a finding that it is feasible for SCE to achieve the 13-ton facility-wide NO_x limit in SCAQMD Rule 1135 by 2029.⁶⁰

We do not find sufficient information in the record for a finding that it is or is not feasible for SCE to achieve the 13-ton NO_x limit by 2029. The question of whether SCE can achieve the 13-ton NO_x limit by 2029 is dependent on the results of the RFO. Until the RFO is performed, it is unknown what projects will be feasible to meet the balance of SCE's generation needs following Phase 1 of the settlement agreement. Given that the projects have not yet been identified, the timing of when the projects can be placed into service also cannot be determined at this time. The timing is dependent on considerations such as the timing and results of the RFO; the outcome of negotiations with landowners to secure the necessary land for solar, energy storage, or other suitable renewable energy projects; receiving necessary permits and approvals; and the time to build the projects.

Cal Advocates argues that SCE overstates the acreage required to install solar and storage projects on Catalina and that there is sufficient land on Catalina to accommodate a 60% solar renewable scenario as set forth in SCE's original Feasibility Study.⁶¹ SCE agrees with Cal Advocates that according to updated technology, the current estimate of land needed for a 60% solar renewable

⁶⁰ Cal Advocates OB at 6.

⁶¹ *Id.* at 14. SCE summarizes the scenarios evaluated in the Feasibility Study in Section IV of Ex. SCE-01A.

scenario has dropped by half from SCE's original Feasibility Study estimate.⁶² However, SCE asserts that the actual amount of land required will be determined by the developer proposals in the upcoming RFO and the availability of the necessary land will depend on the willingness of landowners to lease land.⁶³ We agree that the developer proposals from the RFO will provide more precise estimates as to the amount of land required. Once the developer proposals are submitted, the feasibility of SCE meeting the 13-ton NO_x limit by 2029 can be better assessed.

5. Comments on Proposed Decision

The proposed decision of ALJ Sophia J. Park in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

6. Assignment of Proceeding

Genevieve Shiroma is the assigned Commissioner and Sophia J. Park is the assigned ALJ in this proceeding.

Findings of Fact

1. On October 15, 2021, SCE filed the instant application seeking approval to replace its six existing diesel generators serving Catalina.
2. On January 7, 2022, SCAQMD adopted changes to its Rule 1135 requiring SCE to meet new NO_x emission limits on both a per-unit and facility-wide basis on Catalina and prohibiting SCE from installing new diesel units on Catalina after December 31, 2023.

⁶² SCE OB at 25.

⁶³ *Ibid.*

3. SCAQMD is in the process of considering more changes to its Rule 1135.
4. In 2017, SCAQMD issued SCE a permit to construct for an extensive overhaul of Unit 15 at PBGS.
5. In 2021, SCAQMD staff concluded that Unit 15 should have been subject to the lower PM limit for reconstructed engines in SCAQMD Rule 1470.
6. On January 4, 2022, the SCAQMD Hearing Board approved an Abatement Order, which authorized SCE to continue operation of Unit 15 while evaluating the feasibility of various PM-reduction measures and submitting a plan for compliance.
7. The outcome of SCAQMD's Abatement Order process related to Unit 15 is unknown at this time.
8. In light of ongoing uncertainties regarding SCAQMD's requirements relating to its Rule 1135 and Rule 1470, the proposed settlement agreement presents a reasonable process for SCE to obtain future Commission review and approvals for the Catalina Repower Project once the final SCAQMD requirements are known and permits to construct are issued.
9. It is undisputed that at least two new diesel generators will be needed to meet Catalina's future electricity capacity needs.
10. The proposed settlement agreement allows SCE to expeditiously proceed with replacing two generators prior to SCAQMD's current December 31, 2023 installation deadline while still requiring compliance with any subsequent SCAQMD rule changes or approved permits to construct.
11. The proposed settlement agreement provides for a process that will allow for consideration of future least-cost clean energy solutions for Catalina and consistency with the state's clean energy policy goals.

12. SCE's methodology for identifying the 2021 recorded peak date, peak hour, peak load, and annual energy usage on Catalina is more accurate than Cal Advocates' methodology.

13. SCE's proposal to use 2018 as the base year for the Catalina load forecast is reasonable.

14. Peak load on Catalina has fluctuated from 2018-2021 with the highest peak load recorded in 2018.

15. In the absence of a clear trend or explanation for what accounts for historical fluctuations in peak load and considering Catalina's lack of interconnections to the mainland grid, it is prudent for SCE to use a recent year with the highest peak load as a base year in making future resource decisions.

16. It is premature to incorporate SCE's forecasts for BE programs that are currently being considered by the Commission in a separate proceeding or that have not yet been submitted to the Commission for approval into the load forecast.

17. Given the uncertainties regarding load growth from specific projects, Cal Advocates' more flexible approach of using an annual load growth factor of 0.5% is reasonable.

18. The N+2 reliability criteria is not appropriate for Catalina if SCE is required to implement a solution other than an all-diesel solution.

19. The Flexible N+2 reliability criteria, which assumes SCE will have two to three diesel replacements and takes into consideration the ability of non-fossil resources to contribute to peak load, is more appropriate than the N+2 reliability criteria based on current SCAQMD requirements, but further evaluation of the criteria is needed.

20. Study on the maximum amount of inverter-based generation that should be allowed at PBGS is ongoing.

21. The record does not support adopting any limit on inverter-based resources at this time.

22. Cal Advocates' requested findings related to emissions compliance are premature at this time given SCAQMD's ongoing proceedings.

23. The cost forecasts SCE presented in this proceeding are outdated and inadequately justified.

24. Cal Advocates' requested findings regarding what costs SCE should use in the RFO are premature at this time.

25. Until the RFO is performed, it is unknown whether it will be feasible for SCE to achieve the 13-ton facility-wide NO_x limit in current SCAQMD Rule 1135 by 2029.

Conclusions of Law

1. The Commission should not approve SCE's project in its entirety until the final SCAQMD requirements impacting the project are known.

2. The proposed all-party settlement agreement is reasonable in light of the whole record.

3. The proposed all-party settlement agreement is consistent with law.

4. The proposed all-party settlement agreement is in the public interest.

5. The proposed all-party settlement agreement should be approved.

O R D E R

IT IS ORDERED that:

1. The April 29, 2022 Joint Motion for Approval of Settlement Agreement between Southern California Edison Company, The Utility Reform Network, and Public Advocates Office is granted.

2. Notwithstanding the closure of this proceeding, any party may file a compliance filing in this docket providing an update regarding the status of the Catalina Clean Energy All-Source Request for Offers (RFO) and requesting the reopening of the proceeding to enable the filing of a motion concerning the RFO pursuant to Section 6.3.1 of the approved settlement agreement. Upon the filing of any such compliance filing, the assigned Administrative Law Judge (ALJ) may issue a ruling reopening the proceeding for the sole purpose of enabling the filing and consideration of the motion, which shall be limited to the matters set forth in Section 6.3.1 of the approved settlement agreement. Prior to filing any motion, the parties shall meet and confer in a good faith effort to informally resolve any disputes regarding the RFO, and the motion shall state facts showing the parties' good faith meet and confer efforts. Upon the disposition of the motion, the assigned ALJ shall issue a ruling closing the proceeding unless there are other matters, excluding intervenor compensation matters, pending in the docket.

3. Application 21-10-005 is closed.

This order is effective today.

Dated _____, at Chico, California