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Decision 18-07-023 July 12, 2018

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

Application of Southern California Edison Company (U338E) for Approval of the Results of its Second Preferred Resources Pilot Request for Offers.

Application 16-11-002

**DECISION APPROVING THE RESULTS OF SOUTHERN CALIFORNIA EDISON COMPANY'S SECOND PREFERRED RESOURCES PILOT PROCUREMENT**

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**DECISION APPROVING THE RESULTS OF SOUTHERN CALIFORNIA  
EDISON COMPANY'S SECOND PREFERRED RESOURCES PILOT  
PROCUREMENT**

**Summary**

This decision approves the results of Southern California Edison Company's (SCE's) Second Preferred Resources Pilot Request for Offers, and authorizes SCE to recover in rates payments made pursuant to nineteen purchase and sale agreement contracts for a total of 125 megawatts of preferred resources which will interconnect to the lower voltage level substations and circuits, electrically in-line with either the Johanna A-Bank substation or the Santiago A-Bank substation (J-S Region).

This proceeding is closed.

**1. Factual and Procedural Background**

On November 4, 2016, Southern California Edison Company (SCE) filed its *Application of Southern California Edison Company for Approval of the Results of its Second Preferred Resources Pilot Request for Offers (Application)*, in which SCE requested that the Commission approve the results of its second Preferred Resources Pilot (PRP) Request for Offers (RFO) and approve 19 Purchase and Sale Agreement contracts (PSAs) for 125 megawatts (MWs) of preferred resources.<sup>1</sup> SCE launched its second PRP RFO on September 24, 2015 as a standalone procurement mechanism to solicit offers specifically for preferred resources delivered through the J-S Region to come online between October 2017

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<sup>1</sup> In its Application at 2, SCE describes the "preferred resources" as energy efficiency, demand response, renewable distributed generation and energy storage. SCE procured 60 MW of in-front-of-meter (IFOM) energy storage (ES), 55 MW of Demand Response (DR) supported by ES and load reduction, and 10 MW of behind the meter solar paired with ES (Hybrid).

and January 2020.<sup>2</sup> With its Application, SCE served Public and Confidential Versions of Testimony in Support of its Application.<sup>3</sup>

SCE has not previously sought Commission approval for the PRP, and did not do so here. The scope of its Application is limited to requesting Commission authorization to recover in rates its payments made pursuant to these 19 PSAs.

The Office of Ratepayer Advocates (ORA) filed a protest on December 28, 2016 (Protest). In its Protest, ORA expresses concern that SCE's PRP is an internal program for which SCE has not sought Commission approval. It also questions the goals and objectives of the PRP and whether it is reasonable.<sup>4</sup> SCE filed a reply to ORA's Protest on January 13, 2017.

On January 13, 2017, the assigned Administrative Law Judge (ALJ) issued rulings setting a prehearing conference (PHC) on February 23, 2017, and requiring the parties to meet, confer and file a joint PHC statement by February 21, 2017 (joint PHC statement). At the PHC, the assigned ALJ requested the parties to further meet and confer and to prepare and submit a joint brief setting forth issues that they propose to include within the scope of the proceeding. The parties filed a joint brief on March 13, 2017 (Joint Brief).

The assigned Commissioner issued a scoping memorandum and ruling on April 21, 2017 setting forth the key issues below as within scope of this proceeding:

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<sup>2</sup> See SCE-01 at 23.

<sup>3</sup> Exhibit SCE-01 contains public version of the "Testimony of SCE in Support of its Application" by Gus Flores, Caroline McAndrews, Ranbir Sekhon and Douglas Snow. Exhibit SCE-01C is the confidential version of the testimony.

<sup>4</sup> Protest of ORA dated December 28, 2016 (Protest) at 4.

1. Whether SCE's PRP RFO 2 was conducted in a fair and reasonable manner?
2. Are the contract terms and contract prices of each of the PSAs reasonable?
3. Do the PSAs, collectively and individually, fulfill an existing procurement or local area need?
4. If the PSAs do not fulfill an existing procurement need, are there any other reasons why the PSAs should be approved?
5. Why and how is the PRP RFO 2 not duplicative of other Commission mandates, programs or procurement?
6. Is approval of the PRP RFO 2 in the best interests of SCE customers?
7. Are there safety considerations relevant to the approval of SCE's PRP RFO 2?<sup>5</sup>

On May 1, 2017, SCE served public and confidential versions of supplemental testimony. On June 2, 2017, ORA served public and confidential versions of its testimony.<sup>6</sup> On June 23, 2017, SCE served public and confidential versions of rebuttal testimony. On August 16, 2017, SCE served public and confidential versions of Amended Testimony. An evidentiary hearing was held on August 24, 2017. On September 11, 2017, SCE filed a Motion to Seal a Portion

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<sup>5</sup> The parties identified no adverse impacts upon the economic well-being, public health or safety of California residents.

<sup>6</sup> Exhibit ORA-01 is the public version of testimony by Christopher Myers and Christian Knierim. ORA-01C is the confidential version.

of the Evidentiary Record.<sup>7</sup> The parties filed concurrent opening briefs on September 29, 2017 and concurrent reply briefs on October 30, 2017.

## **2. Motions for Entry of Testimony and to Seal**

ORA and SCE have separately filed motions for entry of testimony into the evidentiary record of this proceeding, pursuant to Rule 11.1 and Rule 13.8 of the Commission's Rules of Practice and Procedure (Rules). Both parties have also filed confidential and public versions of its testimony, and as noted above, SCE filed a Motion to Seal a Portion of the Evidentiary Record pursuant to Rule 11.5(b).

We grant SCE's and ORA's motions to move existing testimony into the record as set forth in the ordering paragraph. Additionally, because both parties have appropriately designated information in their testimony as confidential pursuant to the Commission's guidance in Decision (D.) 06-06-066, we grant SCE's motion to seal portions of the evidentiary record,<sup>8</sup> and deem the request applicable to testimony deemed confidential by ORA as well, for a period of three years from the effective date of this decision.

## **3. SCE's Application**

In its application, SCE explains that the backdrop for its launch of the PRP in the J-S Region was the retirement of coastal Once-Through-Cooling (OTC) plants and the closure of the San Onofre Nuclear Generating Station (SONGS), which together represented loss of approximately 7,000 MW of generation

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<sup>7</sup> SCE requests confidential treatment of Exhibit SCE-01C, Exhibit SCE-01C-A, SCE-02C and SCE-03C.

<sup>8</sup> At 60, Lines 19-24 of SCE-01-C are not sealed. The information discussed there is pertinent to discussion in Section 7.3.2.2 below, about the PSAs which SCE intends to utilize to support Demo C.

capacity. SCE explains that retirement of these facilities have potential to affect electric grid reliability in Southern California's Western Los Angeles Basin (LA Basin), which includes the J-S Region.<sup>9</sup>

SCE contends that customer electricity demand in the J-S Region is growing. It states that load growth in the region presents an opportunity for SCE, through its PRP, to (1) demonstrate the ability to site locally preferred resources to offset the growing load in the J-S Region, driven by new commercial and residential developments and business expansion, (2) operationally integrate and manage distributed energy resources (DERs) as they potentially become more than 20% of the resources serving the J-S Region, and (3) enable customer choice in meeting their energy needs with cleaner preferred resources by providing sourcing avenues through alternative energy service markets.<sup>10</sup>

SCE states that, while its principal purpose for launching the PRP RFO is to support the PRP endeavor, an equally motivating objective is to procure preferred resources to support other important State-led endeavors that focus on the emerging modernized grid including the Electric Program Investment Charge (EPIC), Integrated Grid Project (IGP) and at least two Distribution Resources Plan (DRP) demonstration projects. In addition to these primary purposes, SCE states the PRP RFO 2 procurement may also contribute 124.9 MW of preferred resources, sited in the effective area of the J-S Region, to help meet the remaining 550 MW preferred resource procurement requirement established in the Long Term Procurement Plan (LTTP) Track 1 and 4 decisions. SCE

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<sup>9</sup> See Application at 3.

<sup>10</sup> *Id.*



currently has an obligation to procure 169.4 MW of preferred resources or energy storage.<sup>11</sup>

SCE concludes that procurement of preferred resources to address incremental load growth for the J-S Region is reasonable and in the best interest of customers because it supports the State's environmental and distributed energy resources goals.

#### **4. ORA's Protest and Testimony**

ORA filed a Protest to the PRP and served testimony which elaborated on the concerns expressed in its protest. ORA's overarching argument in its Protest is that the PRP concept itself is unnecessary and unauthorized. Apart from the arguments challenging the validity of the PRP concept itself, ORA's Protest objects to a lack of specificity in SCE's application. ORA argues that although SCE's application sets forth general intent that the PRP will support and advance a tapestry of programs, SCE offers minimal detail about how the PRP links to the Commission-authorized programs and policies or how the procurement authorization sought in the application will support the Commission's policies and programs.<sup>12</sup>

ORA decries the lack of metrics in SCE's application, without which the Commission has no way to assess whether SCE's efforts under the PRP are effective.<sup>13</sup> Additionally, ORA notes that SCE does not forecast the cost that it

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<sup>11</sup> See Application at 4.

<sup>12</sup> See Protest of ORA dated December 28, 2016 at 6.

<sup>13</sup> *Id.* at 9. ORA cites the Smart Grid rulemaking proceeding Rulemaking (R.) 08-12-09, in which the Commission stated that "metrics offer a good way of measuring progress in the implementation of any policy, and allow the Commission, other parties and the public to

*Footnote continued on next page*

intends to incur in order to procure the resources for which it seeks approval.<sup>14</sup> ORA questions whether the resources that SCE seeks to procure under the PRP are really necessary, and whether they can be procured within the scope of existing, previously approved programs.

## **5. SCE's Opening Brief and Testimony**

SCE filed an Opening Brief<sup>15</sup> highlighting points made in its Application and testimony, to further elaborate why the PRP should be approved. SCE argues that the PRP will provide important insight into the value of local, targeted DERs, which will assist SCE in determining whether locally-sited preferred resources will allow SCE to effectively manage or offset forecasted load growth in the J-S Region.<sup>16</sup> It points out that the PRP will provide valuable data to third party market participants, will demonstrate how preferred resources can deliver just as reliably as traditional gas-fired generation, and will facilitate customer choice for meeting energy needs through cleaner resources by providing additional sourcing avenues through alternative energy service markets.<sup>17</sup> SCE notes that the state of California's desire to move toward a "low carbon future," requires electric utilities to procure clean sources of energy/preferred resources to meet energy and reliability needs, which in turn, has accelerated the widespread adoption of and dependency upon DERs. SCE

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measure, compare and contrast the adherence of [the utilities] to statutes and policies created by the Commission.

<sup>14</sup> *Id.* at 8.

<sup>15</sup> See Concurrent Opening Brief (Brief) of SCE dated September 29, 2017.

<sup>16</sup> SCE estimates that DERs may potentially become more than 20% of the resources serving the J-S Region.

<sup>17</sup> Brief of SCE at 3, citing testimony of Caroline McAndrews, SCE-01 at 5.

states that the PRP RFO 2 contracts will support the State's objectives by reducing the need for gas fired electric generation in the J-S region during the hours the PSA resources are used. SCE says that the contracts under the PRP are needed to support the PRP, but also EPIC IGP and DRP projects, which similarly focus on the emerging, modernized, distributed grid.<sup>18</sup> SCE contends that it has yet to be proven that preferred resources can be deployed with customers in significant quantities to meet forecasted hourly incremental load demand in the J-S Region. Therefore, the PRP will allow an opportunity to prove that preferred resources can be deployed in concentrated amounts at local distribution levels in urban areas in a fair and reasonable manner and on reasonable terms. With its PRP, SCE seeks to validate CAISO long term transmission planning assumptions that DERs will be able to meet planning needs and will perform as assumed.<sup>19</sup>

SCE disputes ORA's characterization that the procurement that it seeks under the PRP PSA contracts is duplicative of its procurement under other Commission programs. It says that it will not utilize any funding from other Commission programs, and that PRP procurement will not count toward other program targets.<sup>20</sup> For instance, SCE's supplemental testimony includes Table II-1 (which contrasts the procurement sought under the PRP from procurement under existing Commission Energy Efficiency, Demand Response, Distributed Generation and Self Generation Incentive Programs)<sup>21</sup> and Table II-2

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<sup>18</sup> *Id.* at 4, citing rebuttal testimony of Caroline McAndrews, SCE-03 at 1.

<sup>19</sup> Brief of SCE at 11-12. Also see supplemental testimony of Caroline McAndrews, SCE-02 at 11-13.

<sup>20</sup> Brief of SCE at 16.

<sup>21</sup> See supplemental testimony of Caroline McAndrews, SCE-02 at 3-4.

(which SCE uses to illustrate that, PSA contracts under the PRP will be “supportive of, but not duplicative of” Commission procurement targets under other Commission mandated procurement programs). Also, SCE contends that some of the PSA contracts support demonstration projects (Demos) C and D under its DRP, which are within the J-S Region.<sup>22</sup>

## **6. ORA’s Opening Brief**

ORA’s Opening Brief expands upon concerns raised in ORA’s Protest and testimony.<sup>23</sup> These concerns can be distilled to four: (1) that the 19 PSA contracts are not necessary to fulfill a forecasted Local Capacity Requirements (LCR) need within the LA Basin or J-S Region;<sup>24</sup> (2) that SCE has not demonstrated that it must procure LCR resources through the PRP independent of other existing procurement programs previously approved by the Commission – i.e. the goals and objectives of the PRP are duplicative of existing procurement programs;<sup>25</sup> (3) that the PRP PSA contracts are not necessary to support SCE’s DRP Demonstration projects,<sup>26</sup> and (4) that the costs under the 19 PSA contracts present an unreasonable burden on ratepayers. ORA argues that these factors mitigate against approval of the PSAs under the PRP absent explicit and convincing demonstration that they warrant independent procurement outside of existing Commission authorized activities and programs. It notes that the standard of proof places the burden on SCE to prove reasonableness in all

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<sup>22</sup> *Id.* at 5-6.

<sup>23</sup> See ORA Brief (Public Version) dated September 29, 2017.

<sup>24</sup> ORA Brief at 22-25 and ORA-01 at 2-1.

<sup>25</sup> ORA Brief at 44-57.

<sup>26</sup> ORA Brief at 32-37.

aspects of its application, rather than on ORA to prove the unreasonableness of applicant's request.<sup>27</sup>

## 7. Discussion

As a general policy matter, we applaud SCE's initiative to support grid modernization and the state's environmental goals and we encourage SCE to continue to think creatively about future procurement opportunities to meet these objectives. Over the course of several years, and through multiple decisions and actions, the Commission has expressed support both specifically for the PRP concept and for the types of resources that SCE proposes to acquire through the PRP RFO 2. In D.14-03-004, the Commission stated that, in concept, the PRP "is promising both as a way to meet LCR needs and as a laboratory for innovation regarding preferred resources."<sup>28</sup> At its November 10, 2016 voting meeting, the Commission endorsed the DER Action Plan (*California's Distributed Resources Action Plan: Aligning Vision and Action*), which lists the PRP as an existing DER sourcing mechanism.<sup>29</sup> Also, in D.18-02-018, the Commission adopted a Reference System Plan that included 2,000 MW of energy storage beyond currently mandated levels, highlighting the role that energy storage is

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<sup>27</sup> ORA Brief at 7.

<sup>28</sup> See D.14-03-004 at 65-66 and FoF 56: SCE's Living Pilot is a promising concept. SCE's PRP was previously known as the *Living Pilot*.

<sup>29</sup> SCE Brief at 2. The DER Action Plan specifies "This DER Action Plan is intended to guide development and implementation of policy related to DERs, not to determine outcomes of individual proceedings."

[http://www.cpuc.ca.gov/uploadedFiles/CPUC\\_Public\\_Website/Content/About\\_Us/Organiz ation/Commissioners/Michael\\_J\\_Picker/DER%20Action%20Plan%20\(5-3-17\)%20CLEAN.pdf](http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/About_Us/Organiz ation/Commissioners/Michael_J_Picker/DER%20Action%20Plan%20(5-3-17)%20CLEAN.pdf)

expected to play in meeting the state's GHG reduction goals at the least cost while maintaining reliability.<sup>30</sup>

Although SCE indicates that the PSAs for which approval are sought under this Application will support the multi-year PRP, SCE has not previously sought Commission approval for the PRP itself, and does not do so here.<sup>31</sup> Instead, the scope of this proceeding is limited to the request for approval of the PSAs that were executed under the second PRP RFO. To the extent that SCE intends to establish ongoing PRP resource acquisitions (i.e., PRP RFO 3, PRP RFO 4, etc.), SCE is also required to seek authorization from the Commission for the overall PRP program. We agree with ORA that having multiple related preferred resource acquisition programs (e.g. LCR RFO, ES RFO, DRP, and IDER) creates the potential for duplication and inefficiencies. Likewise, we wish to avoid having loopholes by which developers could forum shop their projects to frustrate cost controls mandated by Commission authorized programs.

We disagree with ORA that ongoing Commission proceedings and programs have already addressed the objectives of the PRP RFO 2.<sup>32</sup> SCE may have begun addressing the goals of the PRP RFO 2 through preferred resource procurement in the J-S Region, but SCE is far from being able to demonstrate the objectives of the PRP RFO 2 because the resources in the J-S Region have not

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<sup>30</sup> See D.18-02-018 *Decision Setting Requirements for Load Serving Entities Filing Integrated Resource Plans* at 79.

<sup>31</sup> SCE-01 at 5. In D.16-09-006, the Commission approved the first RFO under SCE's PRP for two solar photovoltaic projects totaling 2.2 MW.

<sup>32</sup> ORA Brief at 8 and 48 "Through the 2013 LCR RFO, SCE not only achieved its preferred resources goals with regards to LCR in the J-S Region..."

been deployed yet and some of those procured resources may never reach the finish line. SCE has less than 1 MW of DERs deployed in the J-S Region.<sup>33</sup> We find merit in the goals of the PRP RFO 2, specifically, to confirm the ability of preferred resource DERs, deployed in a highly localized manner, to offset load growth in an urban location. The CAISO confirmed that the Western LA Basin, which includes the J-S Region, is a promising location to site resources to meet the area's long-term local capacity.<sup>34</sup> The PRP RFO 2 resource deployment should help us determine to what extent an integrated portfolio of preferred resources deployed at a high concentration can operate just as reliably as a traditional gas fired power plant and meet future customer needs in a clean manner.<sup>35</sup> Can these PSA resources actually negate the need for existing gas-fired peakers to power up?<sup>36</sup> The PRP RFO 2 resource deployment, if successful, will help answer these important questions. Resources procured through other Commission authorized programs may eventually also help answer these questions, but since these 19 PSAs have targeted commercial operation dates by the end of 2019 and therefore would help expedite our

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<sup>33</sup> See Reporter's Transcript of Evidentiary Hearing dated August 24, 2017 at 18, lines 3-11. "Those assumptions have not been proven out. We have bought all those LCR resources. And when you look at the preferred resources pilot area, one of the earlier areas where these resources were supposed to be deployed, we have point -- under one megawatt of those LCR resources deployed, we have yet to approve that they can actually operate in an integrated manner."

<sup>34</sup> SCE-01 at 14, citing CAISO, Clarification to the ISO Board-Approved 2013-2014 Transmission Plan: Locational Effectiveness Factor Calculations in the LA Basin Area, at 1-5 (April 23, 2014). CAISO analysis shows that the Southwest sub-area of the Western LA Basin, which includes the J-S Region, to be the most effective area to site resources in the Western LA Basin to meet the area's long-term local capacity needs.<sup>34</sup>

<sup>35</sup> See Reporter's Transcript of Evidentiary Hearing dated August 24, 2017 at 20, lines 10-15.

<sup>36</sup> *Id.* at 19, lines 16-26.

understanding quickly; which may lead to better analysis in longer term DER procurement.<sup>37</sup> The CPUC DER Action Plan provides the vision for DER policy in California, and the deployment of the PRP RFO 2 PSAs put that vision into action.

Because the PRP RFO 2 projects are an important experiment, we will carefully monitor its progress to determine whether its goals are achieved. SCE's program should provide us with important information about the costs and benefits of the PRP concept, among other things. SCE will file annual compliance reports on the status of the program. We seek to ensure that lessons learned during the implementation of the PRP are quickly identified and applied to future programs.

As discussed in further detail in this section, we find that SCE has met its burden of proof to demonstrate that it conducted the PRP RFO 2 in a fair and reasonable manner, and that the PSA contracts fulfill an existing procurement need. We find that SCE has demonstrated through the course of this proceeding that the cost of the PSAs is reasonable in light of the objectives served and compared to similar projects in similar locations. The approval of the PSAs is justified by the magnitude of their collective expected contribution to local system reliability, existing Commission programs, and larger state policy goals, such as grid modernization, DER penetration, and greenhouse gas reductions. We therefore approve SCE's Application and authorize it to recover in rates payments made pursuant to the PSAs.

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<sup>37</sup> See SCE-01 at 24. PRP RFO 2 PSAs have a forecasted commercial operation date no earlier than October 1, 2017, but no later than January 1, 2020.



### **7.1. Evidentiary Standard and Burden of Proof**

As the applicant in a utility ratesetting proceeding, SCE bears the burden of proof to demonstrate that the expenses it seeks to recover through rates are reasonable.<sup>38</sup> The Commission has ruled that an applicant has the burden of affirmatively establishing reasonableness in “all aspects” of its application.<sup>39</sup> Pursuant to the issues laid out in the Scoping Memo, the Commission will approve SCE’s application upon a showing that its conduct with respect to the PRP RFO 2 was reasonable; that the PSA contracts fulfill an existing procurement or local area need, or should be approved for other reasons; and that the PSA contracts are reasonably priced.

### **7.2. Was SCE’s PRP RFO 2 Conducted in a Fair and Reasonable Manner?**

There has been no objection to the manner in which SCE conducted the PRP RFO 2.<sup>40</sup> SCE engaged and consulted with an Independent Evaluator (IE) throughout the PRP RFO 2 process.<sup>41</sup> The IE concluded the RFO process was fairly administered.<sup>42</sup> Accordingly, we are persuaded that SCE facilitated an open, transparent bid process and responded reasonably to market conditions to increase participation and competition.

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<sup>38</sup> See D.83-05-036.

<sup>39</sup> In the Matter of the Application of California Water Company (2003) D.03-09-021 at 17.

<sup>40</sup> SCE Brief at 19.

<sup>41</sup> See SCE-01 at 18.

<sup>42</sup> *Id.* at 29.

### **7.3. Are the Terms and Contract Prices of each of the PSAs Reasonable?**

SCE argues that ORA did not challenge SCE's selection of offers or PSAs.<sup>43</sup> SCE states in testimony that the costs of the PSAs are comparable to costs of similar projects procured through other RFOs.<sup>44</sup> The IE concluded the evaluation and selection process resulted in the selection of the best offers given SCE's quantitative and qualitative analyses.<sup>45</sup> SCE used a Least-Cost, Best-Fit (LCBF) methodology for selecting competitive offers in the PRP RFO. The LCBF methodology evaluates a number of qualitative and quantitative (expected costs and benefits over the contract delivery period) factors. The least-cost criterion captures quantifiable benefits and costs, while the best-fit criterion addresses qualitative considerations. To evaluate the quantitative value of the PRP RFO 2 offers, SCE employed a Net Present Value (NPV) analysis, which entails forecasting: (1) the present value of the contract benefits; (2) the present value of the contract costs; and (3) the net value between (1) and (2).

ORA asserts that SCE's own valuation shows that all of the 19 PSAs have negative NPVs which shows they are not cost-effective.<sup>46</sup> SCE argues that the PRP RFO 2 resources were competitively-sourced and were procured at competitive prices.<sup>47</sup> SCE argues that PRP RFO 2 offers, which are preferred resources in targeted and urban locations, historically have had a negative NPV,

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<sup>43</sup> SCE Brief at 19.

<sup>44</sup> See SCE-01 at 76.

<sup>45</sup> SCE-01 at 29.

<sup>46</sup> See ORA Reply Brief dated October 30, 2017 at 17.

<sup>47</sup> SCE Brief at 4.

just like other Commission authorized programs like the SCE Solar Photovoltaic Program (SPVP), PRP 1, Aliso Canyon Demand Response (ACDR), Aliso Canyon Energy Storage (ACES), Renewable Auction Mechanism (RAM), Biofuel RAM, Demand Response Auction Mechanism, Community Renewables-RAM, and Feed-in Tariffs including the Renewable Market Adjusting Tariff (ReMAT).<sup>48</sup> ORA objects to SCE's comparison and asserts that unlike the PRP, all of the procurement programs cited by SCE are either required by state law or required by Commission decisions and/or resolutions.<sup>49</sup> SCE also responds that NPV is not the sole measure of cost effectiveness, that it is a quantitative measure used for ranking and selection. There are other qualitative benefits to the PSAs in this PRP that should be considered alongside the NPV calculation.<sup>50</sup>

SCE is not proposing specific rate increases at this time, but is seeking approval of all contracts entered into as a result of the PRP RFO 2, including cost recovery for those contracts in its annual Energy Resource Recovery Account (ERRA) Forecast proceeding.<sup>51</sup> SCE estimates the incremental cost of the PRP RFO 2 procurement to be \$0.20/month per average residential customer on a diminishing scale for 20 years, which SCE urges is a reasonable financial investment in attempting to secure a more certain future that will be increasingly dependent upon DERs.<sup>52</sup> ORA argues that ratepayers should not be required to fund unnecessary projects for resources they do not need because these resources

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<sup>48</sup> See SCE Rebuttal Testimony, SCE-03 at 4.

<sup>49</sup> ORA Brief at 20.

<sup>50</sup> See SCE-03 at 3.

<sup>51</sup> See Application at 8.

<sup>52</sup> SCE Brief at 19.

have already been accounted for in other programs and procurements.<sup>53</sup> SCE asserts that ORA confuses contract execution and resource deployment and the two are not synonymous. SCE argues that some executed preferred resource contracts may not come to fruition, so the PRP 2 contracts are a hedge for any terminated contracts.<sup>54</sup>

### **7.3.1. Discussion**

D.04-12-048 instructed SCE and the other IOUs to employ the Least-Cost Best-Fit methodology when evaluating bids in RFOs, taking into account the qualitative and quantitative attributes associated with each bid.<sup>55</sup> We find that SCE facilitated an open, transparent bid process, procured bids at fair cost competitive prices, and employed a Least-Cost Best-Fit methodology during bid evaluation.

We appreciate ORA's efforts to analyze the contract prices of the PSAs for reasonableness. We agree with SCE that a positive net present value, calculated using SCE's specific methodology, is not the sole appropriate measure of cost-effectiveness and that qualitative benefits should also be considered. It is difficult to make a reasonable comparison of PRP 2 resources costs to other programs that ORA references because the location of PRP RFO 2 resources are highly targeted to a small region (i.e., J-S Region). A 2014 analysis by CAISO shows that the Southwest sub-area of the Western LA Basin, which includes the

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<sup>53</sup> ORA-01 at 1-2 - 1-4. ORA cites that resources have already been accounted for in the Long-Term Procurement Plan (LTPP) Track 1 and 4 Decisions and funded through other programs and procurements, such as SCE's 2013 LCR Request for Offers (RFOs), the DRP, EPIC, Energy Storage, and Integrated Distributed Energy Resources (IDER).

<sup>54</sup> SCE Opening Brief at 12.

<sup>55</sup> D.04-12-048 at 244.

J-S Region, to be the most effective area to site resources in the Western LA Basin to meet the area's long-term local capacity needs.<sup>56</sup> Preferred resources in a targeted and urban location with near-term online dates will likely be more costly than preferred resources that can be sourced anywhere within the SCE service territory with later online dates. We expect that through implementation of resources like PRP RFO 2 resources that we will advance the state's greenhouse gas reduction goals and help lower the cost of these preferred resources in the future.

Ratepayers only pay for PSAs at the time the project is deployed or comes online. Executed contracts can be terminated before coming online.<sup>57</sup> There is uncertainty that all nineteen of the PSAs proposed here will come online. SCE is only authorized to recover in rates, payments to PSAs that are deployed and come online. Whether the PSAs are eligible to satisfy LCR need, DRP need, or as a hedge for need created by contract failures in other preferred resource programs, they will help support grid modernization and the state's environmental goals.

#### **7.4. Evaluation of Need for the PSAs**

The Scoping Memo identified three key issues related to need by which the PSAs are evaluated: First, do the PSAs collectively or individually, fulfill an existing procurement or local area need (and, if one or more PSAs are intended to meet an existing procurement need identified in another rule or proceeding –

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<sup>56</sup> SCE-01 at 14. Citing CAISO, Clarification to the ISO Board-Approved 2013-2014 Transmission Plan: Locational Effectiveness Factor Calculations in the LA Basin Area, at 1-5 (April 23, 2014).

<sup>57</sup> All of the executed contracts from SCE's PRP RFO 1 have been terminated. None of them came online.

do the PSAs satisfy the specific requirements associated with the identified proceeding)? Second, if the PSAs do not fulfill an existing procurement need, are there other reasons why the PSAs should be approved? Third, are the objectives to be met by the PSAs under this PRP duplicative of other Commission mandates, programs or procurement? We address each of these issues in more detail below.

**7.4.1. Do the PSAs, Collectively and Individually, Fulfill an Existing Procurement or Local Area Need?**

**7.4.1.1. LCR Need and Procurement Authorization Under Prior Decisions**

As previously noted, the backdrop for SCE's launch of the PRP in the J-S Region was the retirement of coastal OTC plants and the closure of SONGS, which together represented loss of significant generation capacity. To address the anticipated loss of generation capacity created by the retirement of SONGS and OTC plants, the Commission established the Long Term Procurement Plan (LTPP) Track 1 and Track 4 decisions ("LCR decisions" or "Track 1 and 4 decisions")<sup>58</sup> which, taken together, established procurement requirements with specified minimums for gas resources, preferred energy resources and energy storage. In compliance with the LCR decisions, SCE conducted an LCR procurement solicitation (LCR RFO) and submitted signed contracts to the Commission for approval in Application 14-11-016.

The Commission approved SCE's procurement contracts for the LCR RFO in D.15-11-041 and found that SCE had substantially satisfied the procurement directives of the LCR decisions. That Decision further determined that SCE is

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<sup>58</sup> D.13-02-015 and D.14-03-004.

relieved from any requirement to procure additional resources as part of the RFO but that SCE remained authorized to procure additional preferred resources under those decisions, or via other approved procurement mechanisms.<sup>59</sup> Later, in the Commission's Order Modifying D.15-11-041 and Denying Rehearing of the Decision as modified, the Commission required SCE to procure the amounts established in the Track 1 and Track 4 LTPP; i.e., an additional 169.4 MW of preferred resources or energy storage.<sup>60</sup>

#### **7.4.1.2. Adequate Resources Projected Within LA Basin Local Capacity Area**

In its Opening Testimony, SCE specifies that the PRP RFO 2 PSA contracts may offset 124.9 MW of SCE's current residual 169.4 MW LCR procurement of preferred resources that it is required under D.16-05-053. SCE also notes that the CAISO would be releasing an updated analysis later in 2016 or early 2017 indicating whether a need remains for long-term local capacity resources in the Western LA Basin and that the CAISO analysis may conclude that the electric grid reliability issue has been resolved, or reduced, assuming certain mitigation activities come to fruition.<sup>61</sup> The CAISO analysis determines the minimum quantity of local capacity necessary to meet the LCR criteria.

The evidentiary record shows that CAISO's most recent Local Capacity Technical Analyses<sup>62</sup> (LCR studies), released on May 1, 2017, while finding that

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<sup>59</sup> See D.15-11-041, FOF 11 and 12.

<sup>60</sup> See D.16-05-053. The Commission indicated that SCE could file a petition for modification of the decisions if additional procurement is not necessary.

<sup>61</sup> SCE-01 at 3.

<sup>62</sup> CAISO. *2018 Local Capacity Technical Analysis: Final Report and Study Results*. May 1, 2017; and, CAISO. *2022 Local Capacity Technical Analysis: Final Report and Study Results*. May 3, 2017.

the LA Basin Local Area LCR need has increased by 157 MWs, mainly due to change in assumptions regarding the Aliso Canyon gas storage constraint, also finds no projected resource deficiency in 2018 and 2022<sup>63</sup>. During evidentiary hearing on August 24, 2017, Caroline McAndrews, SCE's director of the PRP, confirmed the LCR Study findings which indicate no deficiency in LCR need in the LA Basin.<sup>64</sup>

ORA notes that the 2018 CAISO study finds that there is 10,735 MW of qualifying capacity available for use to meet 2018 LCR needs in the LA Basin, and that the 2018 CAISO study forecasts LCR needed for the LA Basin in 2018 to be 6,873 MW in case of a Category B event<sup>65</sup> or 7,525 MW in case of a Category C event.<sup>66</sup> ORA claims this results in a *surplus* of 3,862 MW (Category B), or 3,210 MW (Category C) of LCR in the LA Basin for 2018.<sup>67</sup> We agree with ORA that the CAISO forecast shows no deficiency of resources in the forecasted period, though we are not convinced by ORA's calculation of the magnitude of

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<sup>63</sup> The PRP RFO 2 contracts have online dates ranging from 2018-2020.

<sup>64</sup> See Reporter's Transcript of Evidentiary Hearing dated August 24, 2017 at 14, lines 26-28 through 15, line 6.

<sup>65</sup> *Id.* citing 2022 CAISO Local Capacity Technical Analysis dated May 3, 2017 (2022 CAISO Study) at 8 "*Category B describes the system performance that is expected immediately following the loss of a single transmission element, such as a transmission circuit, a generator or a transformer.*"

<sup>66</sup> *Id.* citing 2022 CAISO Local Capacity Technical Analysis dated May 3, 2017 (2022 CAISO Study) at 10 "*Category C describes system performance that is expected following the loss of two or more system elements.*"

<sup>67</sup> *Id.* at 2-3. ORA notes that for the year 2022, the LCR studies show that there are 8,138 MW of qualifying capacity available for use while the Category B need forecast for 2022 in the LA Basin is 5,957 MW and the Category C need forecast for 2022 is 6,022 MW.



*surplus* resources due to complexities associated with sub area needs within a CASIO local area.<sup>68</sup>

SCE counters that meeting any LCR residual need is, at most, a potential and secondary benefit of the PRP RFO 2 procurement.<sup>69</sup> SCE states it never predicated PRP RFO 2 procurement on LCR or even implied it procured the PRP RFO 2 resources to meet a LCR reliability need. SCE claims its Opening Testimony was clear that the PRP RFO 2 contracts were not executed to meet a LCR obligation, but rather to meet the PRP objectives. SCE also notes that its Opening Testimony explained if any residual LCR need existed, either from recent CAISO analysis or as a hedge if existing approved LCR contracts that did not reach the deployment and operational stage, then the PRP RFO 2 contracts would efficiently fill the gap. SCE contends that while LCR resources are expected to support broader-area reliability, the PRP resources, if approved, would allow SCE to determine if a significantly sized, locally-sited, portfolio of DERs can manage incremental load growth in a manner similar to a like-sized gas-fired generation plant.

We agree with SCE, that though LCR need is one consideration that factors into our decision, SCE has been clear that the purpose of the PRP RFO 2 is to

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<sup>68</sup> Though ORA does not provide a definition of *surplus*, ORA testimony suggests that *surplus* (or *deficiency*) = Max. Qualifying Capacity (MW) - Total MW LCR Need. For example, 10,735 MW - 7,525 MW (for Category C) = 3,210 MW Category C *surplus*. This arithmetic has the potential to mask deficiencies in subareas embedded within the larger local area. For example, in the Stockton Area: 605 MW (Max. Qualifying Capacity) - 398 (Total MW LCR Need for Category C) would result in what ORA might characterize as a surplus of 207 MW when in fact CAISO found a deficiency of 321 MW based on subarea needs for Category C. It is not clear whether the available capacity exceeds available supply in the sub area where the PRP RFO 2 PSAs would be located.

<sup>69</sup> SCE-03, Rebuttal Testimony dated June 23, 2017 at 9.

demonstrate the ability to site locally preferred resources to offset incremental load growth in the J-S Region and operationally integrate and manage DERs.<sup>70</sup> The CAISO LCR Studies help us to determine the minimum capacity needed in each Local Capacity Area to ensure reliable grid operations. The CAISO analysis relied on by ORA focuses on the needs and resources in the entire CAISO LA Basin, rather than examining the more specific needs and resources of the J-S Region, which would have been more instructive.<sup>71</sup> Also, the CAISO LCR Studies are forecasts of needs and resources, both of which are uncertain and based on assumptions that may or not come to fruition or may change. The CAISO LCR Studies include assumptions regarding transmission and generation including all projects planned to be operational on the study year.<sup>72</sup> The load forecast used in the CAISO LCR Studies is based on the California Energy Commission load forecast that includes energy efficiency projections.<sup>73</sup> All of these assumptions can change, for example, power plants can retire unexpectedly (e.g., SONGS), generation development projects may fail, or customer load may increase unexpectedly. The CAISO LCR Studies determine the minimum quantity of local capacity necessary to mitigate local reliability problems, the CAISO studies do not specify a maximum quantity of local resources needed.

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<sup>70</sup> SCE-01 at 2.

<sup>71</sup> SCE-01 at 5. The J-S Region is part of the Southwest LA Basin sub-area, which is one of the three substation sub-areas in the Western LA Basin. Analysis of needs and resources within the CAISO Southwest LA Basin sub-area would more precisely determine the need analysis for the J-S Region.

<sup>72</sup> 2022 CAISO Study at 6.

<sup>73</sup> *Id.* at 1.

**7.4.1.3. SCE's Authorization to Procure 169.4 MW of Preferred Resources under D.16-05-053 is in Effect**

SCE states that in addition to the primary purposes of the PRP RFO 2 procurement, it may also contribute 124.9 MW of preferred resources, sited in the effective area of the J-S Region, to help meet a portion of the 550 MW preferred resource procurement requirement established in the Long Term Procurement Plan (LTPP) Track 1 and 4 decisions. It currently has a residual obligation to procure 169.4 MW of preferred resources or energy storage. In addition, SCE explains that it designed the PRP RFO 2 to solicit resources that would count toward the satisfaction of LCR requirements.<sup>74</sup> Specifically, to conform to the LCR RFO requirements, SCE required all PRP RFO 2 resources to be preferred and incremental, located in the Western L.A. Basin, online by 2021, and qualify for Resource Adequacy (RA) either through the interconnection process, by meeting minimum timing requirement (e.g., number of months, days and duration), or modifying RA need.

ORA argues that because LCR is the amount of resource capacity that is needed within a Local Capacity Area to reliably serve the load located within the area,<sup>75</sup> and the CAISO LCR studies demonstrate that SCE does not need the 125 MWs that it seeks to procure through the 19 PSAs under this PRP, then the PSAs should be denied despite the 169.4 MW LCR granted under D.15-11-041 as modified by D.16-05-053.<sup>76</sup> ORA argues in testimony the Commission's intent in

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<sup>74</sup> SCE 02 at 3.

<sup>75</sup> ORA-01, Testimony dated June 2, 2017 at 2- 2, citing 2018 CAISO Local Capacity Technical Analysis dated May 1, 2017 (2018 CAISO Study) at 22.

<sup>76</sup> ORA-01 at 2-1 through 2-4.

permitting SCE to file a petition for modification if the additional procurement under its 2013 LCR RFO was not necessary was to grant SCE the option to terminate its obligation to procure additional resources. ORA claims the Commission's intent was not to require SCE to continue to procure unnecessary resources.<sup>77</sup>

We agree in part with ORA. The approval of SCE's procurement and associated minimum levels of preferred resource and storage procurement under the LCR decisions was based on a projected local capacity need. But we also recognize that the magnitude of the LCR deficiency identified in CAISO analyses can and does change from year to year. In addition, D.16-05-053 specifies conditions for SCE's LCR procurement:

We find reasonable SCE's request to consider CAISO updated LCR studies to account for planned transmission upgrades and load forecasts update when procuring the remaining minimum preferred resources or energy storage. To further the Commission's efforts of grid reliability and safety in the Western LA Basin, SCE shall continue to procure to meet, at least, the minimum requirements set forth in D.13-02-015 and D.14-03-004 via any procurement mechanism and reviewing all relevant updated grid [sic] reliability information. Should SCE determine that additional procurement is not necessary, it may file a petition to modify D.13-02-015 and D.14-03-004.<sup>78</sup>

D.16-05-053 states that D.15-11-041 is modified to require SCE to procure an additional 169.4 MW of preferred resources or energy storage via any procurement mechanism in order to ensure grid reliability and safety in the Western LA Basin; SCE is allowed to consider CAISO LCR studies; and

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<sup>77</sup> *Id.* at 2-6.

<sup>78</sup> D.16- 05 053 at 18.

alternatively, SCE can file a petition for modification of D.13-02-015 and D.14-03-004 if additional procurement is not necessary. To date, SCE has not filed such a petition. As a result, we find SCE's authorization to procure 169.4 MW of preferred resources under D.16-05-053 remains in effect and that the PRP RFO 2 procurement may also contribute 124.9 MW of preferred resources in the J-S Region to help meet a portion of SCE's procurement authority.

#### **7.4.1.4. Projected Load Growth in the J-S Region**

SCE's amended testimony describes two objectives for the PRP:

(1) determining whether locally-sited preferred resources will allow SCE to effectively manage or offset incremental J-S Region load growth and  
(2) determining if resources can be acquired and deployed down to the circuit level. At the time of the PRP RFO 2 launch, SCE projected that there would be a peak load growth in the J-S Region of 275 MW by 2022. Since the PRP's inception, SCE explains that it has annually updated the year 2022 forecasted peak load for the J-S Region based in part on the previous year's electrical demand, normalizing due to temperature, and expected customer projects. Based on its own internal analysis, SCE states that the 2016 peak load growth forecast for the J-S Region is 238 MW, but SCE used the 275 MW forecast to size the PRP RFO 2.<sup>79</sup>

ORA argues that SCE's own internal load analysis shows that load in the J-S Region is declining, and notes that SCE's most recent 2016 forecast is 29 MWs lower than when SCE initiated the PRP in 2013.<sup>80</sup>

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<sup>79</sup> SCE-01-A at 7-8.

<sup>80</sup> See ORA Brief dated September 29, 2017 at 13.

Though ORA states concern that SCE's 2016 load growth forecast is 29 MWs lower than its 2013 forecast, ORA has not contested the credibility of SCE's internal load analysis for the J-S Region. Accordingly, we find reasonable SCE's 2022 forecast of incremental J-S Region load growth of 238 MWs to 275 MWs for the limited purposes of this Decision.<sup>81</sup> SCE is required to annually update this forecast and include it in its annual PRP program reporting.

**7.4.2. Do the PSAs Support Procurement Through Other Commission Programs?**

**7.4.2.1. Do the PSAs Support SCE's DRP Demos C and D?**

In D.17-02-007, the Commission approved SCE's DRP demonstration projects (Demos) C and D.<sup>82</sup> In its testimony, SCE argues that some of the PSAs under the PRP are intended to fulfill its Demos C and D under the DRP proceeding.<sup>83</sup> On page 61 of SCE-01, Table VII-19 delineates the 19 PSA contracts under the PRP RFO. Contracts relevant to Demo C and Demo D are set forth below:

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<sup>81</sup> SCE 01 A at 7-8.

<sup>82</sup> See D.17-02-007 at 3. Demo C is intended to demonstrate DER locational benefits and specifically, to validate the ability of DER to achieve net benefits consistent with the Locational Net Benefits Analysis. Demo D is intended to demonstrate distribution operations and high penetrations of DERs, which call for the utilities to integrate high penetrations of DERs into their distribution planning operations.

<sup>83</sup> See testimony of Caroline McAndrews, SCE-01 at 10-12, amended testimony SCE-01-A at 10-12 and at 61-71. In November 2016 when SCE served its testimony, R.14-08-013 was still under review.

**Resources Supporting Demo C and D  
(from Table VII-19)**

#	Project	Product	Sponsor	MW	Demo
1	Cedar Technologies	Demand Response (End Use Load Reduction (LR) Energy Storage (ES))	AMS	5	D
7	Orange County ES-2	In Front of Meter (IFOM) ES	Convergent	9	D
8	Orange County ES-3	IFOM ES	Convergent	6	D
13	OC Distributed ES II	Demand Response (LR/ES)	NextEra	1.5	C
19	Swell Energy Fund	Demand Response (ES)	Swell	5	C

SCE identifies two PRP RFO 2 contracts for resources located in the J-S Region that would support Demo C: 1) Orange County Distributed Energy Storage II, a wholly owned subsidiary of NextEra (NextEra OC II project); and 2) Swell Energy Fund (Swell project).<sup>84</sup> The NextEra OC II Project will deliver energy to sites that are electrically interconnected to Elden and Hines circuits which support SCE's DRP Demo C with 1.5 MW of capacity. The Swell Project will be installed behind the meters of customers that are electrically in-line with the Johanna and Santiago substations. SCE testimony indicates that 2.2 MW of the 5 MW Swell contract were specifically dedicated to Demo C during contract negotiations after analysis showed that they were needed.

To support Demo D needs, SCE identifies three PRP RFO 2 contracts for resources, totalling 20 MW in capacity, located at Johanna A-bank system within the Johanna and Camden B bank substations. Cedar Technologies/ AMS will provide 5 MW of Behind the Meter capacity under a Demand Response Energy

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<sup>84</sup> *Id.*

Storage Agreement in support of SCE's DRP Demo D.<sup>85</sup> Two Orange County Energy Storage projects owned by Convergent Energy and Power, Inc. will interconnect directly to SCE's distribution-level electric grid at separate and existing 12kV circuits in the J-S Region.<sup>86</sup>

Demo C

ORA does not agree that resources procured through this PRP are necessary to fulfill objectives of Demo C.<sup>87</sup> ORA argues that, in SCE's 2018 General Rate Case (GRC) Application (A.) 16-09-001, SCE states that it will procure resources needed for its Demo C through a proposed Distribution Deferral Pilot.<sup>88</sup> ORA also points out that, in its Comments under the DRP proceeding, SCE acknowledged that it already had 77.87 MW of resources procured through its 2013 LCR RFO that may contribute to Demo C.<sup>89</sup> Therefore, ORA contends that, "SCE does not have a need to procure for its DRP Demo C because Demo C procurement is being addressed in SCE's 2018 GRC and there are existing eligible LCR resources that may contribute to Demo C."<sup>90</sup>

SCE objects to ORA's assertion that the PRP RFO 2 resources are not needed to support SCE's DRP Demo C. SCE argues that there are no other procurement sources, besides the PRP RFO 2, with delivery commitments in the

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<sup>85</sup> See SCE-01 at 62.

<sup>86</sup> *Id.* at 64.

<sup>87</sup> See ORA-01 at 2-7 through 2-12.

<sup>88</sup> *Id.* at 2-9, fn 65, citing SCE 2018 GRC Testimony, Chapter 2, Volume 03, T&D – System Planning Workpapers of Witness E. Takayesu.

<sup>89</sup> *Id.* at fn 66 citing SCE June 17, 2016 comments concerning D.17-02-007 in R.14-08-013.

<sup>90</sup> *Id.*



Demo C area in the timeframe anticipated by D.17-02-007. SCE did not solicit resources for Demo C in the Distribution Defferal (DD) RFO. In fact, SCE cancelled its DD RFO on March 31, 2017. Second, none of the LCR resources have contractual commitments to deliver resources into the Demo C location or in the timeframe needed.<sup>91</sup>

### Demo D

ORA challenges SCE's need to leverage 21 MW of resources in this PRP to support its objectives under Demo D.<sup>92</sup> ORA argues that in the DRP proceeding SCE informed the Commission that its objective in Demo D was to demonstrate reliable operation of the grid with DER penetration levels in excess of 15%. SCE then modified its original Demo D project to include an additional substation to increase its Demo D DER penetration levels to at least 17% by 2017, which the Commission approved.<sup>93</sup> ORA contends that there is no necessity for SCE to exceed the 17% penetration level.<sup>94</sup> SCE argues that even though the Commission found 17 % DRP Demo D penetration sufficient, 55% could provide more benefits needed to achieve California's GHG policy objectives.<sup>95</sup>

D.17-02-007 adopted SCE's original Demo D schedule, but did not address SCE's proposed modified schedule which would have accomodated additional

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<sup>91</sup> SCE Opening Brief at 9.

<sup>92</sup> *Id* at 2-10.

<sup>93</sup> See SCE-03 at 9:10-11. In rebuttal testimony, SCE contends that PRP resources will allow Demo D to be implemented with a DER penetration greater than 55% on some circuits. The Commission was silent on SCE's DRP proceeding request to modify its proposed Demo D schedule to allow it to achieve a 55% penetration level.

<sup>94</sup> See ORA Brief dated September 29, 2017 at 34-35, and fn 137 citing D.17-02-007, at 14.

<sup>95</sup> SCE Reply Brief at 10.

DERs leveraged through the PRP. D.17-02-007 does not explicitly discuss what the targeted level of DER penetration should be for Demo D. Though, the determination of whether the PRP RFO 2 Demo C and Demo D PSAs authorized here are eligible to be counted toward SCE's DRP goals need not be addressed here. The DRP proceeding, if appropriate, could address whether the PRP RFO 2 resources authorized here are consistent with DRP policies.

**7.4.2.2. Do the PSA Contracts Support SCE's Progress Towards the Energy Storage Mandate?**

In its supplemental testimony, SCE states that 60 MW of the PRP resources will support its energy storage procurement needs.<sup>96</sup> SCE further notes that its 2016 Energy Storage Procurement Plan (ESPP)<sup>97</sup> specifically indicated that, if the Commission approved energy storage contracts acquired through this PRP, SCE would seek to count it toward its energy storage procurement targets.<sup>98</sup>

ORA contends that SCE has already conducted significant procurement of energy storage in its 2013 LCR RFO, Aliso Canyon procurements and 2014 and 2016 energy storage solicitations. ORA also argues that SCE has already met its cumulative 2016 energy storage procurement target pursuant to the

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<sup>96</sup> SCE-03 at 10:12-13. The 65 MW of customer-sited PRP RFO 2 resources are ineligible to count towards SCE's total energy storage procurement target since SCE has already exceeded its customer-side cap of 170 MW (*see* SCE-03 at 10, fn. 9).

<sup>97</sup> SCE's ESPP was included in A.16-03-002, which was approved in D.16-09-007 approving SCE's and other IOU Storage Procurement Framework for the 2016 Biennial Procurement Period.

<sup>98</sup> *See* SCE-02 Supplemental Testimony of Caroline McAndrews, at 3-4.

Commission's Energy Storage Program D.13-10-040,<sup>99</sup> and has exceeded both its distribution and transmission domain procurement requirements for 2016. For these reasons, ORA argues that, although SCE's total cumulative energy storage procurement target is 580 MW by 2020, SCE should procure its outstanding energy storage procurement obligation through the biennial process established in D.13-10-040, unless a pressing reliability need occurs in the interim as was the case with both the LCR decisions and LCR RFO and Aliso Canyon Energy Storage RFO.<sup>100</sup> We disagree. Although the procurement schedule under the 1.325 gigawatt storage mandate is divided into four biennial cycles, there is nothing in D.13-10-040 prohibiting the utilities from meeting their targets early.

While it is clear from D.13-10-040 as well as prior Commission decisions that energy storage must be cost-effective when procured through the biennial storage solicitation process, D.13-10-040 also allowed energy storage projects authorized in other Commission proceedings to count towards the overall procurement targets, recognizing that future procurement of energy storage would be increasingly tied to need determinations within the LTPP proceeding. In this instance, we are approving the PRP RFO 2 contracts based on their ability to fulfill the authorized LCR procurement. Again, the determination of whether the PRP RFO 2 in-front of the meter storage PSAs authorized here are eligible to be counted toward SCE's AB 2514 energy storage target goals need not be addressed here. The AB 2514 proceeding (i.e., R.10-12-007), if appropriate, could

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<sup>99</sup> See ORA Brief dated September 29, 2017 at 39-40. ORA contends that SCE's current energy storage procurement position is 342.7 MW.

<sup>100</sup> Resolution E-4791 required SCE to conduct an expedited procurement of energy storage to alleviate potential gas shortages resulting from Aliso Canyon.

address whether the PRP RFO 2 resources authorized here are consistent with AB 2514 policies.

**7.4.3. How the PSA Contracts Are Not Duplicative of Other Commission Mandates, Programs or Procurement**

SCE argues that it selected the J-S Region as the ideal location for its PRP because of its proximity to the retiring plants, the projected growing demand in that area, and the CAISO's conclusion that the Western LA Basin was the most effective location for siting resources to meet long-term capacity needs. SCE contends that the J-S Region is a first-time opportunity to test the ability of DERs sited at the A-bank level to offset growing demand, particularly in urban areas down to the circuit level.<sup>101</sup> ORA argues that the SCE PRP RFO 2 duplicates SCE's LCR Procurements, the DRP Program, the IDER Program, the Energy Storage Program, and SCE's 2018 GRC Distribution Deferral Proposal.<sup>102</sup> In response, SCE counters that although ORA correctly notes the PRP RFO 2 resources meet LCR requirements, it is incorrect to conclude that all LCR resources are equivalent to PRP resources. SCE argues that PRP RFO 2 and LCR resources are not one in the same because LCR resources serve transmission system level needs over a large area and the preferred resources acquired from the LCR RFO are not highly concentrated in a particular sub-area. By contrast, the PRP resources are concentrated at the A-bank level, which is the interface between the transmission and distribution grids.<sup>103</sup> SCE claims that PRP

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<sup>101</sup> SCE Opening Brief at 2.

<sup>102</sup> ORA Opening Brief at 44-57.

<sup>103</sup> SCE Reply Brief at 4-5.

resources allow it to test the performance assumptions regarding concentrated portfolios of DERs locally sited and interconnected at the A-bank level, below the transmission system level where LCR resources are sited. The PRP testing thus informs grid modernization efforts in a way LCR resources widely dispersed at the transmission system level cannot. SCE also argues that a secondary benefit of the PRP is that it efficiently supports Commission programs and goals including the DRP Demo C and D, Energy Storage Mandate, and outstanding LCR procurement authority.<sup>104</sup>

We find the goal of the PRP RFO 2 to confirm the ability of preferred resource DERs, deployed in a highly localized manner, to offset load growth in the urban J-S Region is a unique and novel concept that is not specifically being pursued by any other Commission mandate, program, or procurement. And though PRP RFO 2 resources can count toward other Commission programs, it is incorrect to conclude that those other program resources are equivalent to PRP RFO 2 resources. We agree with SCE, to the extent that PRP RFO 2 resources are eligible and can contribute toward meeting the goals of existing Commission programs, we find the PRP RFO 2 is supportive of those programs rather than duplicative of those programs.

## **8. Safety**

In its application and opening testimony, SCE described its efforts to ensure that the proposed RFO 2 contracts operate in a safe and reliable manner. In contracting for resources, SCE sufficiently addressed potential safety concerns

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<sup>104</sup> SCE-02 at 3-7.

in a proactive and responsible manner, and there appear to be no obvious safety concerns as a result of that process.

## **9. Categorization and Need for Hearing**

In the Scoping Memo issued April 21, 2016, the Commission categorized this proceeding as ratesetting and determined that hearings were necessary. We affirm this categorization.

## **10. Comments on Proposed Decision**

The Alternate Proposed Decision of Commissioner Michael Picker 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 June 19, 2018 by ORA and SCE. Reply comments were filed on June 25, 2018 by ORA and SCE.

This section summarizes the changes to the decision made in response to comments and reply comments on the proposed decision. We do not summarize every comment made, but instead focus on major arguments where we did or did not make revisions in response to party input. SCE's comments support the Alternate Proposed Decision. ORA's comments contain arguments against the Alternate Proposed Decision.

First, ORA argues that the Alternate Proposed Decision acts arbitrarily by ignoring evidence that the PRP RFO 2 unnecessarily duplicates other ratepayer funded projects. SCE, in its reply comments, argues that at hearings ORA did not probe SCE's witness regarding the PRP and any overlap or duplication concerns with existing programs. SCE also argues that a secondary benefit of the PRP is that it efficiently supports Commission programs and goals including the DRP Demo C and D, Energy Storage Mandate, and outstanding LCR procurement authority.

We disagree with ORA, but we have added some language to make clear that the goal of the PRP RFO 2 PSAs to confirm the ability of preferred resource DERs, deployed in a highly localized manner, to offset load growth in the urban J-S Region is a unique and novel concept that is not specifically being pursued by any other Commission mandate, program, or procurement. Although the PRP RFO 2 resources may count toward other Commission programs, it is incorrect to conclude that those other program resources are equivalent to PRP RFO 2 resources. We agree with SCE to the extent that PRP RFO 2 resources are found to be eligible to contribute toward meeting the goals of existing Commission programs: We find the PRP RFO 2 PSAs are supportive of those programs rather than duplicative of those programs. In addition, the Alternate Proposed Decision requires SCE to seek authorization from the Commission for the overall PRP program to the extent that SCE intends to establish ongoing PRP resource acquisitions in the future, in order to further reduce the potential for duplication and inefficiencies. SCE, in its opening comments, agrees it is appropriate for the Commission to require SCE to seek authorization from the Commission for the overall PRP program for future PRP resource acquisitions.

Second, ORA argues that the Alternate Proposed Decision insists that the SCE PRP RFO 2 contracts are required to fulfill an LCR need. In fact, the Alternate Proposed Decision did not find there was an LCR need, and instead recognized that there are adequate resources in the Los Angeles Basin LCR. But LCR need is only one consideration that factors into our decision. The subject area of SCE's PRP is the J-S Region which is located within the Southwest LA Basin sub-area, which is located within the even larger Los Angeles Basin local area. The CAISO analysis relied on by ORA focuses on the needs and resources

in the entire CAISO LA Basin local area, rather than examining the more specific needs and resources of the J-S Region, which would have been more instructive.

Third, ORA argues that the Alternate Proposed Decision is at odds with D.16-05-053 in terms of limitations placed on SCE in the procurement ordered in that decision. We disagree with ORA, but we have added some language to make clear what procurement conditions are specified in D.16-05-053. SCE has specified it has considered the CAISO updated LCR studies, and has not filed a petition to modify D.13-02-015 and D.14-03-004. SCE proposed that the PRP RFO 2 resources be eligible to count toward the 169.5 MW preferred resource and energy storage procurement requirement specified by D.16-05-053. It follows that the Alternate Proposed Decision is consistent with D.16-05-053 by finding that the PRP RFO 2 procurement may contribute 124.9 MW of preferred resources in the J-S Region to help meet a portion of SCE's procurement authority under D.16-05-053.

Fourth, ORA argues that the Alternate Proposed Decision finds the CAISO LCR studies unreliable but arbitrarily finds SCE's J-S region forecast reasonable. In its reply comments, SCE argues the Commission recognizes the unremarkable proposition that forecasts are speculative and moving targets. SCE also argues that ORA's argument regarding forecasts is misleading because the CAISO does not perform a PRP region forecast, CAISO performs a forecast for larger segments of the system whereas SCE's forecast is PRP region-specific. We disagree with ORA. We can adopt both the CAISO forecast for the larger Los Angeles Basin and also the SCE forecast for the smaller J-S Region.

Fifth, ORA argues that the Alternate Proposed Decision commits legal error by deciding issues adopted the DRP Demo Decision. In its reply comments, SCE argues that in addition to the PRP RFO 2 goals the PSAs would



have secondary benefits by supporting other Commission programs and goals, including the DRP Demos C and D, Energy Storage Mandate, and the outstanding LCR procurement authorization. We disagree with ORA, but we have added language specifying that the determination of whether the SCE PRP RFO 2 Demo C and Demo D PSAs are eligible to be counted toward SCE's DRP goals should be addressed in the DRP proceeding.

Finally, ORA argues that the Alternate Proposed Decision errs by ignoring the Commission's statutory obligation to ensure energy storage procurement is cost-effective. In its reply comments, SCE argues that NPV, which is an internal IOU scoring metric to rank bids in solicitations, is not synonymous with cost effectiveness. SCE contends that the Commission's long-standing cost effectiveness analysis takes into account quantitative benefits and also qualitative benefits. We disagree with ORA's reasoning. As we specified earlier, D.13-10-040 notes that energy storage must be cost-effective when procured through the biennial storage solicitation process. The SCE PRP RFO 2 resources were not procured through the biennial storage solicitation process.

No other changes have been made to the Alternate Proposed Decision.

## **11. Assignment of Proceeding**

Carla J. Peterman is the assigned Commissioner in this proceeding.  
Patricia B. Miles is the assigned ALJ.

### **Findings of Fact**

1. SCE seeks approval of 19 PSAs totaling 125 MW supporting its second PRP, which SCE intends to launch within the J-S Region in the Los Angeles Basin, which was served by now retired OTC plants and SONGS, closure of which represented loss of approximately 7,000 MW of generation capacity.

2. In D.14-03-004, the Commission stated support for the concept of the PRP as promising both as a way to meet LCR needs and as a laboratory for innovation regarding preferred resources.

3. The Commission has endorsed California's Distributed Resources Action Plan to guide development and implementation of policy related to DERs, under which the PRP is listed as an existing DER sourcing mechanism.

4. In D.16-05-053, the Commission's Order Modifying D.15-11-041, the Commission required SCE to procure an additional 169.4 MW of preferred resources or energy storage.

5. CAISO analyses determine the minimum quantity of local capacity necessary to meet LCR criteria but do not specify a maximum quantity of local resources needed.

6. CAISO LA Basin Local Capacity Technical Analysis for 2018 forecast that there is 10,735 MW of qualifying capacity.

7. CAISO LA Basin Local Capacity Technical Analysis for 2018 forecast that there is a 2018 LCR need of 6,873 in the case of a Category B event and 7,525 MW in the case of a Category C event.

8. CAISO 2014 analysis cites the Southwest LA Basin sub-area, which contains the J-S Region, as one of the most effective areas to site resources to meet the area's long-term local capacity needs.

9. SCE's PRP RFO 2 procurement contributes 124.9 MW of preferred resources in the J-S Region to help meet a portion of the procurement authorized by D.16-05-053.

10. SCE forecasts 238-275 MW load growth in the J-S Region by 2020 based on its internal analysis.

11. In D.13-10-040, establishing the Commission's Energy Storage Program, SCE is not prohibited from meeting or exceeding energy storage targets early.

12. Many of the SCE RFO 2 PSAs support objectives that are consistent with existing Commission mandates, programs and procurement.

13. The SCE RFO 2 PSAs will help support grid modernization and the state's environmental goals.

14. SCE will only be authorized to recover in rates, payments to PSAs that are deployed and come online.

### **Conclusions of Law**

1. SCE conducted the PRP RFO 2 in a fair and reasonable manner.

2. The resources sought under this PRP RFO 2 can meet load growth in the J-S Region.

3. The PSAs under this PRP RFO 2 may be eligible to support procurement required through other Commission programs.

4. The 19 PSAs are in the best interests of SCE ratepayers and SCE should be authorized to recover the costs of the PSAs in rates.

5. The Commission should monitor the PRP on an ongoing basis to assess the progress and impacts of the program on the goals of the PRP.

6. SCE should file an annual compliance report as described in this decision. The first report should be due on August 1, 2019, and subsequent reports filed on August 1 thereafter. The filing of the compliance report does not re-open the proceeding.

7. ORA's motion to seal Exhibit ORA-01C and SCE's motion to seal Exhibits SCE-01C-A, SCE-02C and SCE-03C should be granted for a period of three years after the effective date of this decision, as set forth in the order below.

8. SCE's motion to seal Exhibit SCE-01C should be granted, except with respect to page 60, lines 19-24, for a period of three years after the effective date of this decision, as set forth in the order below.

9. SCE's and ORA's motions to move their testimony into the record should be granted as set forth in the order below.

10. The Application should be granted.

11. This decision should take effect immediately.

## **O R D E R**

### **IT IS ORDERED** that:

1. The Application of Southern California Edison Company (SCE) (U338E) for Approval of the Results of its Second Preferred Resources Pilot Request for Offers is approved. SCE is approved to enter into nineteen purchase and sale agreements and to recover in rates payments made pursuant to that agreement.

2. Southern California Edison shall seek authorization from the Commission for the overall Preferred Resources Pilot (PRP) program for future PRP resource acquisitions.

3. Southern California Edison Company shall file an annual compliance report in this proceeding as described in this decision. The first report shall be filed on August 1, 2019, and subsequent reports filed on August 1 thereafter. The filing of the compliance report does not re-open the proceeding.

4. Southern California Edison Company is ordered to exclude from rates any of the 19 contracts that are not deployed or are terminated before coming online.

5. Southern California Edison Company's September 11, 2017 Motion to Seal a Portion of the Evidentiary Record is granted. With the exception of page 60, lines 19-24 of Exhibit SCE-01C, the confidential versions of Southern California

Edison Company's Exhibits SCE-01C, SCE-01C-A, SCE-02C and SCE-03C shall remain under seal for a period of three years from the effective date of this decision, consistent with Decision 06-06-066. During this three-year period, the information shall not be publicly disclosed except on further Commission order or Administrative Law Judge ruling. If Southern California Edison Company believes that it is necessary for this information to remain under seal for longer than three years, Southern California Edison Company may file a new motion owing good cause for extending this order no later than 30 days before the expiration of this order.

6. The Office of Ratepayer Advocates' September 19, 2017 Motion to Seal a Portion of the Evidentiary Record is granted. The confidential testimony in Exhibit ORA-01C shall remain under seal for a period of three years from the effective date of this decision, consistent with Decision 06-06-066. During this three year period, the information shall not be publicly disclosed except on further Commission order or Administrative Law Judge ruling. If the Office of Ratepayer Advocates believes that it is necessary for this information to remain under seal for longer than three years, the Office of Ratepayer Advocates may file a new motion showing good cause for extending this order no later than 30 days before the expiration of this order.

7. Application 16-11-002 is closed.

This order is effective today.

Dated July 12, 2018, at San Francisco, California.

MICHAEL PICKER

President

LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

Commissioners

I reserve the right to file a dissent.

/s/ CARLA J. PETERMAN

Commissioner

A.16-11-002

D.18-07-023

Dissent of Commissioner Carla J. Peterman on D.18-07-023, Approving the Results of Southern California Edison Company's Second Preferred Resources Pilot Procurement

I respectfully disagree with my colleagues on this decision approving the results of Southern California Edison's (SCE) Second Preferred Resource Pilot (PRP) procurement. While I am supportive of the general concept of this pilot, I do not believe SCE met its burden of proof demonstrating why these contract costs are justified and should be recovered in rates. My rationale is as follows.

First, I believe the manner in which SCE structured this application significantly undermined the Commission's ability to evaluate these contracts, which for me resulted in concerns regarding whether these contracts will actually meet the core objectives of the pilot. Specifically, the Request for Offers (RFO) that led to these contracts is part of a larger pilot program that has not previously been authorized or evaluated by the Commission, and which SCE adamantly argued should not be evaluated here. While a utility is always free to self-initiate programs, it becomes very difficult to evaluate the resultant procurement from such programs if they are filed with the Commission in a piecemeal fashion (and some not at all), and without the benefit of looking at the program as a whole.

This piecemeal aspect of the application is particularly complicated by the fact that SCE's underlying purpose for this pilot is to evaluate very specific study objectives - whether locally-sited distributed energy resources (DERs) can offset increasing customer demand and the use of gas-fired peaker plants - where it becomes relevant to understand how the 125 megawatts in this application fit into the larger 275 megawatt portfolio that SCE claims is needed for the pilot, and whether together the portfolio is appropriately designed and sized to meet the intended purpose. Regrettably, SCE provided none of this information for us to consider.

Second, the stated objectives of the pilot evolved over time, resulting in a lack of demonstrated clarity as to why these contracts need to be executed now, and at this location. When SCE first introduced the concept of the PRP in 2013 there was still a Local Capacity Requirement (LCR) deficiency in the Los Angeles Basin, and the purpose of the pilot was to determine whether local-sited distributed energy resources (DER) could offset the need for new gas-fired peaker plants. As

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argued in the instant proceeding, the purpose of the RFO is now to study whether the contracts can offset existing peaker plants. While this study objective is not less important in its own right, it does impact what is being measured and evaluated. Here again, SCE offered limited justifications for our consideration. Despite the very specific scoping memo questions at the beginning of the proceeding directing SCE to demonstrate whether and how the contracts are fulfilling the goals of the RFO, SCE provided little explanation describing how these 19 contracts are designed and located in spots that will actually offset gas-fired generation, or reduce greenhouse gas emissions, an aspect further hindered by SCE's own admission that any load growth in the area could be fully met by imports.

On the related issue the 169.4 megawatts of preferred resources or energy storage procurement remaining from Decision (D.) 16-05-053, my interpretation of this rehearing decision is that the remaining procurement should occur while reviewing all updated grid information, including the most recent analysis by the California Independent System Operator (CAISO). The 2018 and 2022 CAISO LCR studies that were filed in this proceeding indicate there is currently no LCR deficiency in the Los Angeles Basin, a position which no party disputed.

Finally, SCE provided several secondary need-based justifications for these contracts, all of which I believe do not hold up under scrutiny. Specifically, SCE stated that these contracts may provide hedge value for LCR contract failure, but failed to address the actual risk of LCR contract failure, the magnitude of need, and why these contracts are best positioned to address such a shortfall. SCE also provided secondary justifications based on meeting existing Commission programs, including the Distribution Resources Plan pilots and energy storage mandate, but failed to justify why these contracts should be approved when they fail to meet the basic requirements of these programs, including specific cost caps and cost-effectiveness requirements adopted in previous Commission decisions.

My preference is not to be voting against a concept that I think has true potential; however, the combination of all the aforementioned aspects of this application leaves me with too many concerns to justify the multi-million dollar price tag that these contracts will impose on ratepayers. Moving forward, it is worth highlighting that SCE and the Office of Ratepayer Advocates were the only two parties that participated in this proceeding. While it is unclear at this point how much the proceeding may have benefitted from additional party participation, I



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strongly encourage storage developers and trade groups to actively participate in these types of proceedings in the future, where their input may be instrumental in achieving broader Commission support.

/s/ CARLA J. PETERMAN

7/12/2018