

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION E-4957
October 25, 2018**

**REDACTED
RESOLUTION**

Resolution E-4957. Approves an Agreement between Southern California Edison and California State University – Channel Islands Site Authority.

PROPOSED OUTCOME:

- This Resolution grants Southern California Edison’s (SCE) request for Approval of its Agreement with California State University – Channel Islands Site Authority.

SAFETY CONSIDERATIONS:

- There are no new safety risks associated with the approval of this contract.

ESTIMATED COST:

- The cost of the Agreement is confidential.

By Advice Letter 3769-E, filed on March 15, 2018.

SUMMARY

This Resolution grants Southern California Edison’s (SCE) request for approval of its Agreement with California State University – Channel Islands Site Authority (CSU-CISA) from the CI Power Cogeneration Plant (CI Cogen) Facility for energy, capacity and all related products, dated as of March 15, 2018.

The agreement (Agreement) was the result of bilateral negotiations and the term of the contract is approximately two years, having begun on April 12, 2018. It is expected to produce 0.0107 million metric tonnes (MMT) of GHG savings.

BACKGROUND

Background on Relevant terms of the CHP/QF Settlement

On December 16, 2010, the Commission adopted the Qualifying Facility and Combined Heat and Power Program Settlement Agreement (Settlement) with the issuance of Decision (D).10-12-035. The Settlement resolved a number of longstanding issues regarding the contractual obligations and procurement options for facilities operating under legacy and qualifying facility contracts.

The Settlement establishes megawatt (MW) procurement targets and GHG Emissions Reduction Targets the investor-owned utilities (IOUs) are required to meet by entering into contracts with eligible CHP Facilities, as defined in the Settlement.

Pursuant to the Settlement, the three large electric IOUs must procure a minimum of 3,000 MW of CHP and reduce GHG emissions consistent with the California Air Resources Board (CARB) Scoping Plan, currently set at 4.8 million metric tonnes (MMT) by the end of 2020.

Sections 6 and 7 of the Settlement Term Sheet provides accounting methodology and principles for the IOUs and the CPUC to track GHG emissions reductions as a result of various activities, including contracting new CHP facilities, physically changing a CHP facility, shutting down existing CHP facilities, changing operations, etc.

Under D.15-06-028, the Greenhouse Gas Emissions Reduction Targets were revised to collectively achieve 2.72 MMT of emissions reductions from CHP facilities by 2020.

Background on the CI Power Cogeneration Plant Facility

The CI Cogen facility is a 27.5 MW CHP facility leased by CSU-CISA from California State University Channel Islands (CSUCI), which previously functioned as a baseload plant and served the heating, cooling and electricity needs of CSUCI. CSUCI took over the CI Cogen Facility from what was then Camarillo State Hospital. The facility was approved in the mid-1980s as a public-

private partnership where the host agency would purchase thermal and/or electrical energy. In 2010, CSUCI purchased the facility and assumed responsibility under the 1984 Standard Offer 4 PPA with SCE, which ended on April 11, 2018. CSUCI leased the facility to CSU-CISA, which was established in 1988 by the legislature to help fund infrastructure for the campus.

SCE and CSU-CISA negotiated the Agreement, which commenced on April 12, 2018, and ends on March 31, 2020. Under the new Agreement the facility will be made fully dispatchable under SCE's direction. Under this Agreement, all of the electricity will be sold to SCE by CSU-CISA. The heating and cooling needs previously met by the Facility will be transferred to stand-alone units.

SCE Settlement Targets

Because SCE reached its MW Settlement target when the Commission approved the Tesoro PPA in March 2017, SCE is only using the Agreement to reach its GHG emission reduction target of 1.23 MMT. The CSU-CISA Agreement contributes 0.0107 MMT toward that GHG reduction target because the facility will be converting to a Utility Prescheduled Facility (UPF) and will have reduced run time.

NOTICE

Notice of AL 3769-E was made by publication in the Commission's Daily Calendar. Southern California Edison states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

Advice Letter 3769-E was protested.

ORA's Protest

SCE's Advice Letter 3769-E was timely protested by the Office of Ratepayer Advocates (ORA), filed on April 4, 2018. In its protest, ORA raised three main issues:

- SCE needs to clarify which costs will be recovered through SCE's Cost Allocation Mechanism (CAM);
- SCE needs to demonstrate a need for Resource Adequacy (RA) capacity; and
- SCE needs to clarify the calculations used to derive the time differentiated Heat Rate (TDHR) used in SCE's Greenhouse Gas (GHG) Credit calculations.

On the first point, ORA notes that SCE requests that its "costs under the Agreement [] be recovered through SCE's CAM," which ORA asserts is a violation of the terms of the CHP Settlement Agreement. ORA references Decision (D.) 10-12-035, which states that:

[T]he IOUs are authorized to recover 'net capacity costs' from all bundled, direct access (DA) and [community choice aggregator] CCA customers on a non-by-passable basis. Net capacity costs are the total costs paid by the IOU under the [qualifying facility] QF/CHP Program less the value of the energy and ancillary services supplied to the IOU under the program.

ORA thus recommends the Commission approves only SCE's net capacity costs under the Agreement for recovery through SCE's CAM.

On the second point, ORA contends that SCE must demonstrate the need for RA capacity, "without which the costs of the Agreement would be unjustifiable." ORA notes that the Independent Evaluator's reports, "SCE projects that during the two-year term of the contract that the costs of the contract (primarily capacity payments) will exceed the market value of the contract," resulting in a premium paid per GHG reduction credit. Relative to other CHP resources offering GHG reduction under the Settlement, the cost per GHG credit for the California State University – Channel Islands Site Authority is cost competitive, however if there

is no need for RA capacity, ORA estimates the premium would no longer be cost competitive. ORA thus protests that SCE should demonstrate that it has an RA capacity need that is met by the Agreement.

On the third point, ORA notes that “the number of GHG credits able to be claimed is equal to the Baseline year emissions minus the sum of the projected Power Purchase Agreement emissions and emissions associated with replacing 100% of the decreased electric generation at a [time differentiated Heat Rate].” ORA additionally notes SCE has not provided those calculations and thus ORA is unable to verify the number of GHG credits the PPA should provide. ORA thus requests SCE to provide the calculations used to determine that the PPA is eligible for 0.0107 (MMT) of GHG savings.

SCE’s Reply

SCE responded to ORA’s protests on April 11, 2018. In their reply, SCE addressed all three of ORA’s points.

On the first point, SCE clarified that it seeks to recover only the net capacity costs associated with the Agreement through its CAM. SCE “confirms that it will recover only its net capacity costs under this Agreement through its CAM pursuant to Term Sheet Section 13.1.2.2.”

On the second point, SCE contends that it need not prove a need for RA capacity for the costs to be justifiable. SCE notes that the Ordering Paragraphs from Decision 15-06-028, which provide guidance on how SCE is to procure CHP contracts, do not require SCE to prove a need for RA capacity nor excuse SCE for failure to meet the targets due to a lack of RA need. SCE additionally references Resolution E-4569, in which the Commission notes that, “[g]oing forward, we notify that we will reject any solicitations and contracts that are brought forward as capacity-only in the context of the QF/CHP program,” which SCE contends indicates the Commission did not intend the Settlement was necessarily intended to obtain RA capacity.

On the final point, SCE contends the methodology it used to calculate the GHG reduction credits was consistent with the Settlement and the methodology

presented by Energy Division staff in a February 12, 2012 presentation. SCE provided their calculations as Confidential Appendix B and notes it will include its TDHR calculations as a confidential appendix in pertinent future advice letters.

DISCUSSION

On March 15, 2018, SCE filed Advice Letter 3769-E requesting Commission approval of an agreement for the purchase of energy, capacity and all related products between SCE and California State University - Channel Islands Site Authority from the CI Power Cogen Plant.

In this Advice Letter, SCE requested that the Commission:

1. Approve of the Agreement in its entirety;
2. Find that the Agreement, and SCE's entry into the Agreement, is reasonable and prudent for all purposes, subject only to further review with respect to the reasonableness of SCE's administration of the Agreement;
3. Find that the 0.0107 MMT of GHG emissions reductions associated with the Agreement applies towards SCE's GHG Target;
4. Find that the Agreement is not subject to the EPS;
5. Find that SCE's costs under the Agreement shall be recovered through SCE's CAM;
6. Grant any other relief the Commission finds just and reasonable.

Energy Division has reviewed the Advice Letter and the Protests and will address each of the three points.

Costs to be Recovered through SCE's CAM

ORA requests SCE clarify that it seeks only 'net' capacity costs "from all bundled DA and CCA customers on a non-by-passable basis." ORA references D. 10-12-035, which established the CHP Settlement Agreement.

SCE's reply confirms that it only seeks to recover net capacity costs associated with the Agreement and that the Commission should "interpret 'costs' in Request for Commission Approval #5 in Advice [Letter] 3769-E as 'net capacity costs.'"

The SCE reply explains that it does not dispute ORA's recommendation. The Commission is satisfied with this clarification and approves SCE's Request for Commission Approval #5 with modification. The Commission modifies SCE's Request for Commission Approval #5 by changing 'costs' to 'net capacity costs,' to eliminate any ambiguity.

Whether SCE Must Demonstrate That It Has a Need for RA Capacity

ORA contends that the price of the contract is economical only if there is a need for RA capacity. According to ORA, the "cost per GHG credit is calculated by dividing the above-market costs of the Agreement by the number of GHG credits it provides," which includes the value of RA capacity. ORA notes that SCE did not prove a need for the RA capacity and the Commission should thus consider the cost per GHG credit without including the value of the RA capacity unless SCE can prove a need for it.

SCE replies that "the costs are justifiable because the Agreement meets Commission compliance requirements." SCE furthers its contention by referencing Commission decisions that do not "excuse[] SCE from meeting the CHP GHG Target if it has a lack of need for RA."¹ SCE additionally notes the Commission specifically proscribed it from entering into, "RA-only solicitations and contracts as part of the QF/CHP RFOs in future solicitations."²

In its review, ED staff began by checking the location of the CI Power Cogeneration Plant Facility at 1947 W. Potrero Road, Camarillo, California 93012 and confirmed that it is located within the Moorpark sub-area of the Big

¹SCE's Reply dated April 11, 2018, citing D.15-06-028 at Ordering Paragraphs 6, 7 and 15.

² SCE's Reply dated April 11, 2018, citing E-4569 at p. 8.

Creek/Ventura local reliability area. According to the Moorpark Sub-Area Local Capacity Requirements Procurement Plan of Southern California Edison Company Submitted to Energy Division Pursuant to D.13-02-015, dated December 21, 2017, SCE has a need for local RA capacity in the Moorpark sub-area.

Either ORA is correct that SCE needs to justify a need for RA capacity in order for the costs to be justified, or SCE is correct that it is under no obligation to prove a need for RA capacity and thus the costs are justified. The need for local RA capacity in the Moorpark sub-area renders the debate moot such that this Resolution need not address the merits of either ORA's protest or SCE's reply.

Whether SCE Correctly Calculated the Time-Differentiated Heat Rate used to Calculate its GHG Credits.

ORA notes that SCE did not provide the calculations used to derive the time-differentiated heat rate used to calculate the eligible 0.0107 MMT of GHG savings SCE seeks in its Advice Letter. As a result, ORA was unable to verify those calculations.

In its reply, SCE stated it used the correct methodology to calculate the time-differentiated heat rate, which it included as Appendix A, and provided the actual time-differentiated heat rate calculations used to derive 0.0107 MMT of GHG savings. SCE additionally stated that it will include its time-differentiated heat rate as a confidential attachment to future advice letters claiming GHG credits under the Settlement.

Upon reviewing the confidential attachments, ED staff finds that the Independent Evaluated and SCE used the correct methodology to determine the time-differentiated heat rate and correctly applied it.

Energy Division evaluated the Proposed PPA based on the following criteria:

- Consistency with D.10-12-035, which approved the QF/CHP Program Settlement, including:
 - Consistency with GHG Counting Rules

- Need for Procurement
- Cost Reasonableness
- Public Safety
- Project Viability
- Consistency with the Emissions Performance Standard (EPS)
- Consistency with D.02-08-071 and D.07-12-052, which respectively require CAM Group participation
- The analysis and recommendations of an Independent Evaluator, if available.
- Disadvantaged Community Designation

Consistency with D.10-12-035, which approved the QF/CHP Program Settlement

Consistency with Definition of CHP Facility and Qualifying Cogeneration Facility

To be eligible to count towards Settlement MW and GHG goals, all CHP facilities, excluding those that convert to UPFs, must meet the federal definition of a qualifying cogeneration facility under 18 C.F.R. § 292.205 by the term start date and through the duration of the proposed PPA, and must also maintain QF certification. With reference to the federal regulations, the Settlement establishes minimum operating and efficiency requirements for topping-cycle facilities and establishes efficiency standards for bottoming-cycle facilities. As an existing CHP Facility converting to UPF, CSU-CISA's CHP facility meets the terms of the Settlement.

Consistency with GHG Counting Rules

Under the terms of the Second Program Period, revised by D.15-06-028, SCE can count the CI Cogen Facility, a converted UPF facility, as 0.0107 MMT of reduced GHG emissions because it will be reducing operations. Under the goals of the CHP Settlement, SCE is converting the CI Cogen Facility from must-take, as-available energy to fully dispatchable energy. The reduced runtime of the facility reduces costs and GHG emissions. Thus, by reducing runtime and GHGs, SCE's contract with CSU-CISA meets the goals of the Settlement.

Need for Procurement

SCE's total MW procurement goal for the CHP Program is 1,402 MW. SCE does not need to procure this CHP resource in order to meet its CHP MW target but does need to meet its GHG reduction target per the CHP Settlement. The Agreement will provide 0.0107 MMT of GHG reductions towards SCE's target. The Agreement meets a procurement need.

Cost Reasonableness

The price of this bilateral agreement is competitive, based on the least-cost best-fit methodology against the offers submitted in SCE's most recent CHP RFO 5, and thus the costs are just and reasonable. More information on the cost of this proposal is contained in the Confidential Appendix.

Public Safety

Pursuant to D.15-06-028, SCE required CSU-CISA to provide a report from an independent, California licensed engineer certifying that the CI Cogen Facility has a feasible safety plan. Energy Division reviewed the safety plan and the engineer's certification and finds that it meets the requirements set forth in D.15-06-028.

Consistency with the Emissions Performance Standard (EPS)

The Emissions Performance Standard applies to baseload generation pursuant to D.07-01-039. However, this standard only applies when there is a "long-term financial commitment" by a load-serving entity, which only exists when it enters into "a new or renewed contract with a term of five or more years." The CSU-CISA Agreement has a term of less than five years and thus is not subject to the EPS.

Cost Allocation Mechanism (CAM) Group Participation

SCE presented information about the agreement on January 18, 2018. SCE has complied with the Commission's rules for CAM group participation.

Independent Evaluator (IE)

SCE engaged Merrimack Energy Group, Inc. to act as an IE for CHP RFO 5 and the IE participated in all elements of the RFO including participating in meetings and monitoring all communications between the parties.

Disadvantaged Community Designation

Senate Bill 350 (de León, Chapter 547, Stats. 2015) contains disadvantaged community goals that are cross-cutting and therefore will be integrated into all policy areas.

This facility, including the CHP generating unit, are physically located in Camarillo, CA, Census Tract 6111005600, which is not a CalEnviroScreen Version 3.0 designated Disadvantaged Community.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments. SCE submitted comments providing clarification on the procurement process. The revised resolution reflects these comments.

FINDINGS

1. Commission Decision 10-12-035 directed SCE to procure 1,402 MW of combined heat and power capacity and established a 1.22 MMT GHG reduction target.
2. On March 15, 2018, Southern California Edison Company (SCE) filed Advice Letter (AL) 3769-E seeking approval of an agreement for the purchase of energy, capacity, and all related products between Southern

California Edison Company and California State University – Channel Islands Site Authority from the CI Power Cogeneration Plant facility.

3. SCE is authorized to count 0.0107 MMT as a GHG Credit towards its Settlement GHG Emissions Reduction Target.
4. An independent California licensed engineer has certified the CI Power Cogeneration Plant facility has a feasible safety plan, and Energy Division finds the safety plan and the engineer's certification meet the requirements set forth in D.15-06-028.
5. The cost associated with the Agreement is just and reasonable.
6. The CSU-CISA Agreement has a term of less than five years and thus is not subject to EPS.
7. The CI Cogeneration Plant facility is not located in a disadvantaged community designated by CalEnviroScreen.

THEREFORE IT IS ORDERED THAT:

1. The request of Southern California Edison to approve the Agreement with California State University – Channel Islands Site Authority is approved and SCE is authorized to recover costs via the cost allocation mechanism, as proposed in Advice Letter 3769-E.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on October 25, 2018; the following Commissioners voting favorably thereon:

/s/ ALICE STEBBINS
ALICE STEBBINS
Executive Director

MICHAEL PICKER
President
CARLA J. PETERMAN
LIANE M. RANDOLPH
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
Commissioners

Confidential Appendix A

APPENDIX REDACTED