PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

 **Agenda Id: 18615**

**ENERGY DIVISION RESOLUTION E-5098**

 **August 27, 2020**

RESOLUTION

**RESOLUTION E-5098:** Request by Southern California Edison Company (SCE) for Approval of AES Alamitos Resource Adequacy Power Purchase Agreement

**PROPOSED OUTCOME**: This Resolution would approve Southern California Edison’s (SCE’s) contract with AES Alamitos, LLC for Units 3, 4 and 5 of the AES Alamitos Generating Station from 2021 through 2023 to meet SCE’s system, local and flexible resource adequacy requirements.

**SAFETY CONSIDERATIONS**:

* As existing and operational generating facilities, there are no incremental safety implications associated with this contract beyond the status quo.
* As part of the Electric Safety and Reliability Branch’s (ESRB’s) responsibility to ensure compliance with General Order (GO) 167, ESRB conducts audits of power plants through performance data analysis, record review, field inspection, and plant staff interviews. If ESRB auditors find any non-compliance with GO 167, the power plant must take corrective action(s) to remedy the deficiency or face enforcement actions by the CPUC.

**ESTIMATED COST:** Contract costs are confidential at this time.

 By Advice Letter 4209-E, Filed on May 8, 2020

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# Summary

Southern California Edison Company (SCE) requests approval of a Resource Adequacy (RA) Power Purchase Agreement (AES Alamitos PPA) between SCE and AES Alamitos, LLC for Units 3, 4 and 5 of the AES Alamitos Generating Station (AES Alamitos) from 2021 through 2023. If approved, the AES Alamitos PPA would assist SCE in meeting its system, local and flexible RA requirements. Under the contract, AES Alamitos would be responsible for offering the contracted capacity into the California Independent System Operator (CAISO) market consistent with the CAISO Tariff, including a must-offer obligation.

SCE requests that the California Public Utilities Commission (CPUC or the Commission) issue a resolution approving this Advice Letter, without material modification, on or before August 27, 2020. The following table summarizes the AES Alamitos PPA.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Seller** | **Generation Type** | **Location** | **RA /Contract Capacity (MW)** | **Product** | **Term of Agreement** |
| AES Alamitos, LLC | Gas-fired generation | AES Alamitos Generating Station Units 3, 4 & 5 - Long Beach, CA | 1165.82 | LA Basin Local | January 1, 2021-December 31, 2023 |

This Resolution approves the AES Alamitos PPA, without modification.

# Background

AES Alamitos Units 3, 4 and 5 are natural gas fired generating units providing a total of 1,165.82 MW[[1]](#footnote-2) of RA capacity located in Long Beach, California, within the Los Angeles Basin Local Capacity Requirement (LCR) area. AES Alamitos 3, 4, and 5 currently utilize coastal water to cool their units through a single-pass system known as once-through-cooling (OTC). At this time, AES Alamitos Units 3, 4 and 5 are under an RA contract with SCE that expires on December 31, 2020.

Once-Through-Cooling (OTC)

In 2010, the California State Water Resources Control Board (SWRCB) adopted a state wide policy on the use of coastal and estuarine waters for power plant cooling (OTC policy).[[2]](#footnote-3) This policy established technology-based standards to implement federal Clean Water Act section 316(b) and reduce the harmful effects associated with cooling water intake structures for power generating facilities on marine and estuarine life. The state OTC policy applied to a total of 19 power plants (including 2 nuclear plants) with a combined ability to withdraw almost 16 billion gallons of water per day from the state’s coastal and estuarine waters using a single-pass system, also known as once-through cooling (OTC).

To comply with OTC policies and continue operations, OTC units must either reduce intake and velocity (Track 1) or reduce impacts to aquatic life comparably by other means (Track 2).[[3]](#footnote-4)

Six units at the AES Alamitos Generating Station are subject to the state’s OTC policy. All six units have an OTC compliance date of December 31, 2020. However, three of the six units (Units 1, 2 and 6) retired early, on
December 31, 2019, to provide emission offsets to build a new 640 MW combined cycle gas turbine..

Several generating companies contested the SWRCB OTC policy in court, but a

settlement was reached between the SWRCB and the current owners of the power plants on October 9, 2014. [[4]](#footnote-5)

In 2012, the Commission adopted Decision (D.) 12-04-046, which authorized the investor-owned utilities (IOUs) to sign PPAs with OTC units if those commitments did not commit to purchases beyond the SWRCB’s OTC compliance deadlines. The decision also required that the IOUs submit the contracts for Commission approval via a Tier 3 advice letter, if the contracts were for longer than two years (or via an Application if the contracts were longer than 5 years) or had a contract termination date less than one year prior to the applicable SWRCB compliance deadline. Finally, the decision required that if the OTC contract terminates one year or less prior to the applicable SWRCB compliance deadline, the advice letter or application must specifically show how the agreement helps facilitate compliance with the SWRCB OTC policy. Four specific criteria were established to help facilitate OTC compliance and these criteria included a showing from the IOU demonstrating:

* How the contract helps facilitate compliance with the SWRCB OTC policy, or at a minimum why it does not delay compliance;
* The expected operation of the OTC facility under normal load (1 in 2) and high load (1 in 10) conditions, including the number of starts and run time after each start;
* The LCR net position with and without the OTC facility over the contract duration and two years beyond the contract duration; and
* How any other available generation resources compare under these criteria.[[5]](#footnote-6)

In November 2019, Commission adopted D.19-11-016 in the Integrated Resource Planning (IRP) proceeding, R.16-02-007. In D.19-11-016, the Commission determined that there could be a significant system resource adequacy shortfall in California by the summer of 2021 if the Commission did not authorize the procurement of additional electric capacity resources to address system reliability.[[6]](#footnote-7)

As a result, the Commission concluded that “[a]pproximately 3,750 MW of capacity from OTC units is currently scheduled to retire by December 31, 2020 and could be available for a compliance date extension from the Water Board, in order to serve as a bridge to allow new clean resources to come online.” The Commission also concluded that “[i]n addition to extension of OTC capacity, another minimum of 3,300 MW of incremental system resource adequacy and renewable integration resources will be needed by Summer 2021, as a ‘least regrets’ amount necessary to ensure system reliability.”

Specifically, the Commission recommended the extension of OTC compliance deadlines of the following units with current compliance deadlines of December 31, 2020, for the period specified, in order to allow time for new clean electricity capacity to come online:

* Alamitos Generating Station, Units 3-5, for up to three years;
* Huntington Beach Generating Station, Unit 2, for up to three years;
* Redondo Beach Generating Station, Units 5, 6, and 8, for up to two years;
* Ormond Beach Generating Station, Units 1 and 2, for up to one year; and
* Moss Landing, Units 1 and 2, until such time as the planned upgrades are certified by the State Water Resources Control Board. [[7]](#footnote-8)

Additionally, D.19-11-016 waived the provisions adopted in D.12-04-046 that bar the IOUs from “signing power purchase agreements with units utilizing once-through cooling technologies where the term of the agreement extends beyond the compliance deadlines, even if the deadlines are later extended.” The Commission also specified that contracts with OTC units shall be for a duration of no more than the time period specified by the SWRCB and contracts would not go into effect if the SWRCB does not grant the compliance extensions. [[8]](#footnote-9)
The IOUs also required to obtain contract approval via Tier 3 Advice Letters.[[9]](#footnote-10)

SCE asserts that AES does not plan to retrofit Alamitos Units 3, 4 & 5 with alternative cooling technologies to comply with Track 1 or employ any operational or technical measures to comply with Track 2 of the OTC policy.[[10]](#footnote-11)

SCE states that the AES Alamitos PPA is reasonable and complies the directives of D.19-11-016 because the CPUC recommended that these units be extended for a period of up to three years and because the:

AES Alamitos PPA will not go into effect if the SWRCB does not extend the OTC compliance deadline to allow the units to continue to operate before the delivery term of the AES Alamitos PPA begins. The term of the AES Alamitos PPA is also limited to the time period that the SWRCB allows AES Alamitos Units 3, 4 and 5 to continue to operate.[[11]](#footnote-12)

SCE also states that the AES Alamitos PPA helps SCE meet its system, local and flexible RA needs for 2021-2023.

Competitive Solicitation Process

On December 20, 2019, SCE launched its ‘DEC2019 RA Request for Offer’ seeking to buy and sell RA capacity products from market participants, for the August 2020 - December 2024 RA compliance months/years. This entailed SCE notifying and inviting over 2,000 market participants to engage in the RFO, with offers due by January 7, 2020. In compliance with D.19-11-016, SCE allowed OTC units with compliance deadline extensions recommended in the decision, to bid into the solicitation.

SCE received a significant response to the RFO, including 226 offers for SCE to purchase capacity and 7 offers for SCE to sell capacity. From January 24, 2020 to February 14, 2020, SCE evaluated the offers and made its shortlist selection based on the best price offered initially or obtained during the evaluation period. Selected counterparties were notified by February 14, 2020. SCE utilized a least-cost, best-fit methodology to value and select resources bid in the RFO process. This methodology takes into account both quantitative and qualitative attributes associated with offers to arrive at the best value and most cost-effective solution for customers. SCE also utilizes a net present value method in performing its quantitative assessment of offers. A net present value methodology 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). SCE also assesses the nonquantifiable characteristics of each offer by performing an analysis of the qualitative attributes of each project.

SCE concluded its DEC2019 RA RFO on April 17, 2020 and selected the following RA purchases as a result of its final evaluation and selection process. The quantitative benefits associated with all these contracts are their RA capacity value.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Counterparty** | **Product** | **Resource** | **Volume (MW)** | **Term** |
| AES Alamitos, LLC | LA Basin | Alamitos Units 3, 4 & 5 | 1165.82 | 2021 - 2023 |
| GenOn Energy Management, LLC | Big Creek-Ventura | Ormond Beach Units 1 & 2 | 1491 | 2021 – 2023 |
| Dynegy Moss Landing, LLC | System (Bay Area) | Moss Landing Blocks 1 & 2 | 2021: 9702022: 460 | 2021 – 2022 |
| Calpine Energy Services, L.P. | System (Bay Area) | Delta Energy Center | 2023: 5002024: 500 | 2023 - 2024 |
| System (Bay Area) | Metcalf Energy Center | 2023: 5702024: 570 | 2023 - 2024 |
| Big Creek-Ventura | Pastoria Energy Facility | 2023: 3502024: 700 | 2023 - 2024 |

Cost Recovery

SCE proposes to record the costs of the AES Alamitos PPA, in the 2020 vintage subaccount of its Portfolio Allocation Balancing Account (PABA) and recover the associated costs from bundled service customers and applicable departing load.[[12]](#footnote-13)[[13]](#footnote-14)

Request for Expedited CPUC Approval

SCE specifically requests that the CPUC issue a resolution approving the AES Alamitos PPA no later than August 27, 2020 and include the following:

1. Approval of the AES Alamitos PPA in its entirety;
2. A finding that the AES Alamitos PPA, and SCE’s entry into the AES Alamitos PPA, is reasonable and prudent for all purposes, including, but not limited to, recovery in rates of payments made and to be made pursuant to the AES Alamitos PPA, subject only to further review with respect to the reasonableness of SCE’s administration of the AES Alamitos PPA;
3. A finding that SCE is authorized to allocate the benefits and costs of the AES Alamitos PPA to its bundled service customers and applicable departing load customers; and
4. Any other and further relief as the Commission finds just and reasonable[[14]](#footnote-15).

SCE asserts that the expedited approval of this advice letter is necessary to meet the Year-Ahead RA compliance filing deadline of October 31, 2020.

# Notice

Notice of AL 4209-E was made by publication in the CPUC’s Daily Calendar. SCE 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 4209-E was not protested.

# Discussion

The CPUC has reviewed the Advice Letter and finds that SCE’s request for approval of the AES Alamitos PPA is reasonable.

**The AES Alamitos** **PPA is compliance with the CPUC’s OTC procurement rules.** As described in SCE’s advice letter, the CPUC waived the D.12-04-046 rule that prohibits the IOUs contracting with OTC facilities beyond their compliance deadlines, even if those deadlines are later extended. SCE entered into the AES Alamitos PPA to address the system reliability need identified in D.19-11-016. We agree that the four criteria established in D.12-04-046 for approval of OTC procurement are not relevant for purposes of approving the AES Alamitos PPA because these rules were established prior to near-term reliability need identified in D.19-11-016, which recommended the extension of AES Alamitos Units 3, 4 and 5 for a period of up to three years.

SCE has demonstrated a system need for the AES Alamitos PPA and has submitted the Tier 3 advice letter required by D.19-11-016. Additionally, the
AES Alamitos PPA terms provide:

* That the PPA will not go into effect if the SWRCB does not extend the OTC compliance deadline to allow the units to continue to operate before the delivery term of the AES Alamitos PPA begins.
* That the term of the PPA is limited to the time period that the SWRCB allows AES Alamitos Units 3, 4 and 5 to continue to operate.

**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.  Thus, in evaluating the AES Alamitos PPA, the Commission will analyze its impact on such communities.

The California Environmental Protection Agency (CalEPA) is responsible for identifying disadvantaged communities for purposes of the Cap-and-Trade program funding. CalEPA has designated disadvantaged communities as the 25% highest scoring census tracts in the state using results of the California Communities Environmental Health Screening Tool, Version 3 (CalEnviroScreen 3.0). The tool combines twenty indicators in “population” and “pollution burden” categories. SB 350 directs the CPUC to also use CalEPA’s tool to identify disadvantaged communities.

Disadvantaged Communities include but are not limited to:

* Areas disproportionately affected by environmental pollution and other hazards that can lead to negative public health effects, exposure, or environmental degradation.
* Areas with concentrations of people that are of low-income, high unemployment, low levels of home ownership, high rent burden, sensitive populations, or low levels of educational attainment.

Alamitos Generating Station is located at 690 N Studebaker Rd. in Long Beach, CA. CalEnviroScreen 3.0 indicates that this location is in census track 6037980007 but does not have a statewide CalEnviroScreen ranking (for all CES indicators) because the census tract does not contain a residential population, however, the CES data reflects that it ranks in the 94th percentile for pollution burden. The bordering Census Tract, 6037577602, reflects a CalEnviro screening of 65th -70th percentile slightly below the 75th percentile cut off for disadvantage community status. This census tract ranks in the 87th percentile for pollution burden.

**SCE’s Procurement Review Group (PRG) was notified and consulted on the DEC2019 RA RFO and the selection of the AES Alamitos PPA. The AES Alamitos PPA meets an identified system resource adequacy need.**

The CPUC established the PRGs to oversee procurement activities of the IOUs and mandated that each IOU maintain and routinely consult with its PRG.
The purpose of the PRG is to review and assess the details of the IOU’s overall procurement strategy and specific proposed procurement contracts and processes prior to submitted filings to the CPUC.[[15]](#footnote-16)

As explained in the advice letter, SCE consulted the PRG four times regarding the DEC2019 RA RFO. The PRG was initially briefed on December 12, 2019 with regards the RFO launch,[[16]](#footnote-17) then again on January 24, 2020 and February 5, 2020 regarding its approval and shortlisting, and finally on February 13, 2020 regarding final selection and approval to execute contracts.

The December 12, 2019 PRG consultation included pre-RFO launch information including RFO product and terms. During the other three PRG meetings, SCE presented the RFO offers and selections along with its RA position (which was updated throughout the RFO process). The material provided during these meetings confirmed an identified system RA capacity need for the AES Alamitos PPA. The AES Alamitos PPA will also assist SCE in meetings its local and flexible RA obligations. PRG participants included Energy Division Staff, Public Advocates Office Staff, TURN, The Independent Evaluator (Merrimack Energy), and SCE staff. Public information on this PRG meeting can be found at- <https://www.sce.com/procurement/review-group-info>.

**The cost of the AES Alamitos PPA is reasonable.** The cost for the AES AlamitosPPA, which is confidential at this time, is reasonable. As described in SCE’s AL, SCE utilized a competitive solicitation process to procure resources needed to meet its 2020-2024 RA requirements. D.08-11-008 requires the IOU to use an Independent Evaluators (IE) for all competitive solicitations that involve affiliate transactions, utility-owned or utility-turnkey offers, and for all solicitations that seek products two years or greater in duration, regardless of who participates. As required by D.08-11-008, SCE used Merrimack Energy Group as the IE for its DEC2019RA RFO. As reflected in the Independent Evaluator Report (provided as Confidential/Public Appendix C), “SCE selected the best offer for the products and delivery period required which led to a reasonable expenditure of costs to meet requirements.”[[17]](#footnote-18) Additionally, the IE report concluded that the offer selections by SCE were reasonable and are in the best interests of customers.

**The proposed cost recovery is reasonable.** SCE’s proposed cost recovery would record the costs of the AES Alamitos PPA in the 2020 vintage subaccount of its Portfolio Allocation Balancing Account (PABA) and would recover these costs from bundled customers and applicable departing load. This proposal is reasonable and consistent with the manner in which these PPA costs are recovered when the contract exceeds a one-year term. It is also consistent with SCE’s approved preliminary statement Part WW Section 2.a and 2.b.[[18]](#footnote-19)

# 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 CPUC. 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 20-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the CPUC's agenda no earlier than 30 days from today.

# Confidentiality

SCE requests confidential treatment of Confidential Appendices A through C to this Advice Letter and has filed the requisite Confidentiality Declarations with its filing as Attachment D. The disclosure of this information is subject to the confidentiality protections specified in D.06-06-066 as modified by D.07-05-032.

# Findings

1. On May 8, 2020, 2020, Southern California Edison (SCE) submitted Advice Letter 4209-E seeking California Public Utilities Commission (CPUC or Commission) approval of the AES Alamitos Power Purchase Agreement (PPA).
2. Alamitos Units 3, 4 & 5, included in the AES Alamitos PPA, are subject to the State Water Resources Control Board’s (SWRCB) Once-Through-Cooling (OTC) policy.
3. Decision (D.)12-04-046 prohibits the Investor Owned Utilities (IOUs) from signing contracts with OTC units that extend beyond their approved OTC compliance dates, even if those deadlines are later extended.
4. D.19-11-016 waived the D.12-04-046 prohibition against the IOUs contracting with OTC units beyond their compliance deadlines, for the OTC units for which the CPUC recommended OTC compliance deadline extensions.
5. In D.19-11-016 the Commission recommended the extension of OTC compliance deadlines for Alamitos Units 3, 4 & 5, for a period of up to three years.
6. The AES Alamitos PPA will not go into effect if the SWRCB does not extend the OTC compliance deadline to allow the units to continue to operate before the delivery term of the AES Alamitos PPA begins.
7. The AES Alamitos PPA term is limited to the time period that the SWRCB allows AES Alamitos Units 3, 4 and 5 to continue to operate.
8. SCE is required to file a Tier 3 Advice Letter seeking CPUC approval for procurement with OTC units.
9. The AES Alamitos PPA is in compliance with the directives of
D.19-11-016 Ordering Paragraph 2.
10. Alamitos Generating Station is located in a census track that does not have a statewide CalEnviroScreen ranking because the census tract does not contain a residential population.
11. The bordering census tract reflects a CalEnviro screening of 65th -70th percentile slightly below the 75th percentile cut off for disadvantage community status.
12. The AES Alamitos PPA meets a demonstrated residual system, local and flexible capacity need for 2021 through 2023 that will assist SCE in meeting its Resource Adequacy requirements.
13. The CPUC has reviewed SCE’s advice letter filing and the AES Alamitos PPA contained therein and finds that the request for approval of the AES Alamitos PPA is reasonable.
14. SCE conducted a Request for Offer (RFO) to meet its 2020-2024 RA requirements.
15. SCE used an Independent Evaluator to oversee the RFO solicitation process as required under D.08-11-008.
16. The cost for the AES Alamitos PPA is reasonable and in the best interest of ratepayers.
17. The proposed cost recovery is reasonable.
18. SCE is authorized to allocate the benefits and costs of the AES Alamitos PPA to its bundled service customers and applicable departing load customers.
19. The AES Alamitos PPA, and SCE’s entry into the PPA, is reasonable and prudent for all purposes, including, but not limited to, recovery in rates of payments made pursuant to the confirms, subject only to further review with respect to reasonableness of SCE’s administration of the confirms.

# THEREFORE it is ordered that:

1. The request of Southern California Edison that the California Public Utilities Commission (CPUC) approve the AES Alamitos PPA is granted without modifications.
2. Southern California Edison’s cost recovery proposal is approved.

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 August 27, 2020 the following Commissioners voting favorably thereon:

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 ALICE STEBBINS

 Executive Director

1. Unit 3 - 332 MW, Unit 4 - 335 MW, Unit 5 – 498 MW [↑](#footnote-ref-2)
2. The OTC policy came into effect on October 1, 2010. [↑](#footnote-ref-3)
3. SWRCB website- <https://www.waterboards.ca.gov/water_issues/programs/ocean/cwa316/>. [↑](#footnote-ref-4)
4. California Energy Commission’s Tracking Progress, Once-Through Cooling Phase-Out (last updated in April 2019) at 5, available at:

<https://www.energy.ca.gov/sites/default/files/2019-12/once_through_cooling_ada.pdf>. [↑](#footnote-ref-5)
5. D.12-04-046 at 25. [↑](#footnote-ref-6)
6. D.19-11-016 at FOF 5. [↑](#footnote-ref-7)
7. D.19-11-016 at OP 1. [↑](#footnote-ref-8)
8. D.19-11-016 at OP 2. [↑](#footnote-ref-9)
9. D.19-11-016 at 48. [↑](#footnote-ref-10)
10. SCE Advice Letter 4209-E at 3. [↑](#footnote-ref-11)
11. SCE Advice Letter 4209-E at 4. [↑](#footnote-ref-12)
12. SCE Advice Letter 4209-E at 8. [↑](#footnote-ref-13)
13. See SCE’s Preliminary Statement Part WW, Section 2.a. and 2.b.

Each PABA eligible resource is assigned a resource vintage based on the calendar year the resource contract was executed. Departing load includes customers who are responsible for the 2020 subaccount of the PABA. [↑](#footnote-ref-14)
14. SCE Advice Letter 4209-E at 8. [↑](#footnote-ref-15)
15. D.02-08-071, p. 7-8. [↑](#footnote-ref-16)
16. <https://library.sce.com/content/dam/sce-doclib/documents/energy-procurement/prg/2019/121219_PRGMeetingInformation.pdf>. [↑](#footnote-ref-17)
17. AL 4209-E Public Appendix C at 23. [↑](#footnote-ref-18)
18. SCE Preliminary Statement WW- <https://library.sce.com/content/dam/sce-doclib/public/regulatory/tariff/electric/preliminary-statements/ELECTRIC_PRELIM_WW.pdf>. [↑](#footnote-ref-19)