Decision 21-02-028 February 11, 2021

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Establish Policies, Processes, and Rules to Ensure Reliable Electric Service in California in the Event of an Extreme Weather Event in 2021.	Rulemaking 20-11-003

DECISION DIRECTING PACIFIC GAS AND ELECTRIC COMPANY, SOUTHERN CALIFORNIA EDISON COMPANY, AND SAN DIEGO GAS & ELECTRIC COMPANY TO SEEK CONTRACTS FOR ADDITIONAL POWER CAPACITY FOR SUMMER 2021 RELIABILITY

Summary

This decision directs and authorizes Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company to contract for capacity that is available to serve peak and net peak demand in the summer of 2021 and seek approval for cost recovery in rates. This decision outlines the parameters and timelines these three large electric investor-owned utilities must adhere to in seeking approval from the Commission.

1. Background

In August 2020, a majority of the western United States encountered a prolonged extreme heat event. This led to a variety of circumstances that ultimately required the California Independent System Operator (CAISO) to

initiate rotating outages in its balancing authority area to prevent wide-spread service interruptions.

Following the rotating outages, on August 17, 2020, Governor Gavin Newsom directed the three primary entities responsible for ensuring the provision of safe, reliable electric service to California — California Energy Commission (CEC), CAISO, and California Public Utilities Commission (CPUC or Commission) — to publish a report identifying the root cause of the events leading to the outages.[1] Consistent with that directive, on October 6, 2020, the three state entities published a Preliminary Root Cause Analysis report.

The preliminary report identified several actions that will address the contributing factors that caused the August 2020 rotating outages. The actions identified in the preliminary report include "expedit[ing] the regulatory and procurement processes to develop additional resources that can be online by 2021."[2]

This decision orders Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E), collectively the large electric investor-owned utilities (IOUs), to seek contracts for capacity, available for the net peak demand in summer 2021, that conform with the parameters outlined in this decision and provides guidance on how these contracts may be brought to the Commission for consideration of approval.

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[1] http://www.caiso.com/Documents/Preliminary-Root-Cause-Analysis-Rotating-Outages-August-2020.pdf (Preliminary Root Cause Analysis).

[2] Preliminary Root Cause Analysis at 15.

1.1. Factual and Procedural Background

The Commission instituted this rulemaking on November 19, 2020. A prehearing conference was held remotely on December 15, 2020, and a scoping ruling was filed and served in this proceeding on December 18, 2020.

On December 11, 2020, the assigned Administrative Law Judge (ALJ) issued a ruling that identified the potential need for additional capacity to be procured by summer 2021 and sought comments from parties on the parameters the Commission could set on such procurement to deem it per se reasonable. On December 18, 2020, numerous parties to this proceeding filed comments in response to the December 11, 2020 ruling.[3]

On December 28, 2020, President Batjer issued an Assigned Commissioner Ruling (ACR) directing the large electric IOUs to seek contracts for capacity available for the peak and net peak demand in summer 2021 or summer 2022 and set parameters for that procurement and provided guidance on submitting the resulting contracts to the Commission for approval.

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[3] The following parties filed timely comments on December 18, 2020 in response to the December 11, 2020 ALJ ruling: PG&E, SCE, SDG&E, Cal Advocates, The Utility Reform Network, Google LLC, Leapfrog Power Inc., California Efficiency + Demand Management Council, Direct Access Customer Coalition, The Regents of the University of California, Alliance for Retail Energy Markets, California Large Energy Consumers Association, Small Business Utility Advocates, Vistra Corp, California Environmental Justice Alliance, Union of Concerned Scientists, GRID Alternatives, Sierra Club, OhmConnect Inc., Utility Consumers' Action Network, Protect Our Communities Foundation, Solar Energy Industries Association, Large-scale Solar Association, Vote Solar, Calpine Corporation, Independent Energy Producers Association, Bear Valley Electric Service Inc., PacifiCorp, Liberty Utilities (CalPeco Electric) LLC, California Biomass Energy Alliance, CAISO, California Energy Storage Alliance, Shell Energy North America (US) L.P., Voltus Inc., Enel X North America Inc., CPower, Center for Energy Efficiency and Renewable Technologies, CAlifornians for Renewable Energy, Thule Energy Storage, Green Power Institute, California Solar & Storage Association, Wellhead Electric Company Inc., Middle River Power LLC, Golden State Clean Energy LLC, and Peterson Power Systems Inc.

The Decision focuses on the actions that are of most urgently needed in order to practically deliver the intended benefit by summer 2021. While we believe swift action is needed to ensure intended benefits are provided for summer 2022, we believe this can be reasonably realized through consideration in a subsequent decision in this proceeding. In the meantime, IOUs should continue to engage with market participants regarding potential summer 2022 resources.

2. Issues Before the Commission

This Decision addresses the scoped issue of increasing supply during peak and net peak demand hours. Specifically, this Decision addresses expedited procurement that could be online by summer 2021. While this Decision does not address approaches for decreasing demand to improve reliability, these approaches are also being actively considered in this proceeding. An Administrative Law Judge Ruling was issued on December 18, 2020 requesting party proposals for approaches the Commission could adopt by April 2021 that could reduce net peak demand by summer 2021.

3. Party Comments on November 19, 2020 Order Instituting Rulemaking (OIR) and in response to the December 11, 2020 Ruling

Numerous parties supported the Commission moving forward with a procurement process to secure capacity resources for the summer of 2021.

The CAISO commented that it "strongly supports expedited reliability procurement of incremental physical resources that can address grid needs during the net demand peak period after the gross peak for summer 2021 and summer 2022." The CAISO indicated that the "Commission should order this

expedited procurement as soon as possible in order to allow load serving entities to contract for additional resources prior to summer 2021."[4]

Further, in response to the December 11, 2020 ruling, the CAISO indicated it "strongly supports the initial procurement types proposed in the Ruling with one modification explained in response to Question 3 below. Specifically, the CAISO supports consideration of: (1) incremental efficiency upgrades to existing power plants; (2) re-contracting for generation that is at-risk of retirement; (3) incremental energy storage capacity; and (4) imports backed by firm transmission rights and not recallable by the host balancing authority when system conditions are tight throughout the West."[5] It further goes on in response to question 3 to indicate that the Commission "should not completely discount resources that may achieve a slightly later [commercial online date] (COD)… the Commission and LSEs should also consider resources that can achieve a COD before September 2021."[6]

SCE provided the following insight regarding procurement for the summer of 2021. It is unlikely that expanded capacity will be able to come online by summer 2021 if these efforts do not start until a final decision is approved in this rulemaking in May 2021. Accordingly, the Commission should signal its support for [load serving entities] (LSEs) executing bilateral contracts for expansion of existing resources that can help maintain reliability in summer 2021 by delivering during peak and net peak demand periods (with an emphasis on the net peak), and that it is likely to approve IOU contracts for such expansion opportunities with approval on an expedited schedule. The Commission should

[4] CAISO comments on the OIR at 8-9.

[5] CAISO comments in response to December 11, 2020 ruling at 1.

[6] CAISO comments in response to December 11, 2020 ruling at 3.

also authorize pre-approval (to the extent not already covered by an IOU's Assembly Bill 57 Bundled Procurement Plan) or an expedited Tier 2 advice letter approval process for IOU bilateral contracts and work with the CAISO and other agencies to help expedite the permitting and interconnection processes for such resource expansions to the extent possible. The cost recovery mechanism for bilateral contracts to expand existing resources would depend on the procuring LSE and the type of procurement."[7]

Further, in response to the December 11, 2020 ruling, SCE indicated that it "strongly supports the Commission taking action to ensure reliable electric service if an extreme heat storm occurs in the summer of 2021… [R]educing demand by enabling more participation in demand response programs is more likely to be achievable in meaningful quantity prior to summer 2021. However, SCE also supports pursuing feasible and cost-effective options for increasing supply during times of system need in the summer of 2021 that can be implemented equitably from a procurement obligation and cost allocation standpoint… [W]hile SCE agrees that accelerated action is needed on any expedited procurement to achieve a summer 2021 deadline, the Commission should not order expedited procurement at the expense of more realistic and affordable opportunities to decrease demand through demand response programs."[8]

Independent Energy Producers commented that "if the Commission can act to authorize an all-source solicitation by the end of the year, other options for increasing capacity might be found."[9]

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[7] SCE comments on the OIR at 13-14.

[8] SCE comments in response to December 11, 2020 ruling at 1 and 2.

[9] Independent Energy Producers comments on the OIR at 2.

Some parties supported the proposal outlined in the December 11, 2020 ruling with some conditions, including the California Energy Storage Alliance, Golden State Clean Energy, PG&E, and Vistra.

For instance, the California Energy Storage Alliance indicated that "the Commission should consider temporary procurement approaches for existing gas generation facilities to help address the emergency reliability needs for Summer 2021 and only allow for long-term procurement and contracting for new incremental preferred resources, energy storage resources, or hybrid resources (*e.g.*, incremental storage addition to hybridize an existing gas generation facility), consistent with the clean resource adequacy (RA) requirements in Public Utilities Code Section 380."[10]

Additionally, PG&E indicated that it "generally supports the Commission's proposals but continues to believe that conducting additional analyses is a necessary and critical step to determine the near-term reliability needs for summer 2021… [T]he Commission should endeavor to develop a more complete understanding of the resources that may be available to reduce that potential shortfall, including resources not already under [an RA] contract, resources at risk of retiring, and new resources expected to come online prior to summer 2021 or summer 2022 as a result of the procurement order from Decision (D.) 19-11-016."[11]

Other parties remarked that the Commission should take a more cautious approach. These parties include the Joint direct access parties, Cal Advocates, the environmental justice parties, Middle River Power, Shell Energy North

[10] California Energy Storage Alliance comments in response to December 11, 2020 ruling at 2.

[11] PG&E comments in response to December 11, 2020 ruling at 3.

America, The Utility Reform Network (TURN), Californians for Renewable Energy, and the Utility Consumers' Action Network.

TURN comments in response to the December 11, 2020 ruling emphasized its view that the residual unit commitment (RUC) process at the CAISO experienced issues that contributed to need to shed load in the summer of 2020. TURN suggested that the CAISO's improvement of the RUC should remove much of the need for additional capacity procurement to occur to support the electric system during an extreme weather event that may occur in the summer of 2021.

Cal Advocates expressed concern in its comments in response to the December 11, 2020 ruling about the level of need for procurement to occur to support the electric system in 2021 or 2022 and offered its position on what the Commission should authorize in the circumstance of an Order that supports capacity procurement. Some of the points that Cal Advocates provided include that the Commission should focus on short-term contracting; the CAISO's capacity procurement mechanism should be used as a soft offer cap for a pricing benchmark; the Commission Order should direct no more than 550 megawatts (MW) of capacity procurement; and the Commission should require the involvement of an independent evaluator and procurement review group processes. Cal Advocates also suggested the Commission should authorize a Tier 3 advice letter review process for any contracts the large electric IOUs may seek approval for through this process.

A number of parties in response to the December 11, 2020 ruling, including Middle River Power, provided the view that the construction of new resources that can be online by the summer of 2021 is not practicable given the

complexities of sourcing, permitting, and construction. And in turn, reliability efforts focused on the summer of 2021 should focus on other resources.

4. Basis for Procurement Authorization

The summer 2020 rolling outages spotlighted reliability deficiencies in California's electricity system. The Preliminary Root Cause Analysis and the party comments to this proceeding have pointed to a number of causes for the outages, as well as an array of solutions. There is little disagreement that a problem exists and that there is a risk that outages could occur again in the summer of 2021. Considering the party comments and the incontrovertible fact of the occurrence of reliability problems in 2020, the Commission finds there is a practical need for action to be taken now to ensure resources are available by summer 2021.

Accordingly, this decision orders the State's large electric IOUs to immediately pursue contracts for incremental capacity. We note that this incremental capacity is being procured to provide additional capacity to serve CAISO load. We encourage CAISO to ensure that these resources do not support exports even if they are not designated as resource adequacy resources.

In taking this action the Commission is exercising its policy prerogative to pursue a variety of strategies to increase supply and reduce demand to avoid future outages. In this Decision, the Commission directs the IOUs to pursue one such strategy — incremental additional capacity procurement — on an accelerated timeframe, as such procurement can require long lead times. In future decisions in this proceeding, the Commission will address other strategies — such as demand-side measures — to ensure we have taken all feasible short-term actions to avoid reliability events in the coming summer.

Further, the Commission's action today to address reliability needs in 2021 is consistent with Integrated Resource Plan (IRP) Decision (D.) 19-11-016, which endorsed a "least regrets" approach to procurement, given the imminence of the 2021 system reliability needs anticipated at the time. In that decision the Commission acknowledged that "procurement of resources is not an exact science."[12] It recognized the difficulty inherent in identifying the optimal level of procurement, finding that the Commission must balance the risk of unnecessary ratepayer costs associated with over-procurement, against the risk of a shortage where too little capacity is procured.[13] Indeed, in reaching the determination that at least 3,300 MW of incremental system resource adequacy capacity and renewable integration resources would be needed by Summer 2021,[14] the Commission considered party analysis showing a potential system reliability shortfall as large as 5,500 MW in 2021.[15] The Commission ultimately directed LSEs to procure 3,300 MW of incremental capacity, chosen as a "least regrets" amount necessary to ensure system reliability, with "at least" 50-percent to come online by August of 2021.[16]

5. Procurement Parameters

The December 11, 2020 ruling sought comments from parties to indicate their position on what parameters and constraints the Commission could place on incremental capacity procurement to deem it per se reasonable. In consideration of those comments, this decision places the following

[12] D.19-11-016 at 33.

[13] *Id.* at 14-15.

[14] *Id.* at 70.

[15] *Id.* at 11.

[16] *Id.* at 80.

requirements, parameters, and constraints on procurement that results from this directive.

The large electric IOUs may seek approval and cost allocation mechanism (CAM)-based cost-recovery for procurement that conforms with the following parameters.

5.1. Procurement Type

- Resource must be deliverable during both the peak and net peak demand periods.
- For Commission consideration through a Tier 1 advice letter, a COD by June 1, 2021 is preferred but COD by September 1, 2021 will be considered.
- Potential resources may include utility-owned generation, with Commission consideration for utility owned generation projects with a COD in 2021 through a Tier 2 advice letter.
- Resource types that may be considered for procurement include:
    - Incremental capacity from existing power plants through efficiency upgrades, revised power purchase agreements, etc.
    - Contracting for generation that is at-risk of retirement.
    - Incremental energy storage capacity.
    - Firm forward imported energy.
- Resource adequacy only contracts or contracts that include tolling agreements may be proposed.

5.2. Procurement Process

- The large electric IOUs should initiate new bilateral negotiations and revisit offers from recent IRP requests for offers bid stacks.
- Consistent with current procurement requirements, an independent evaluator and the procurement review group (PRG)/CAM-PRG should be actively engaged in these procurement efforts.

- To the extent that comparable data exist, the procurement should be cost competitive with recently procured resources.

5.3. Procurement Cost Recovery and Ratemaking Treatment

- The large electric IOUs shall procure on behalf of all customers in their service territories with the costs and benefits allocated to all benefitting customers through the CAM.

6. Process for Commission Review

The large electric IOUs shall submit the contracts that conform with this decision for consideration as advice letter submittals no later than February 15, 2021. Along with the contracts, the advice letter submittals shall include the following additional summarized information to assist with evaluation.

- A summary of the resources being selected and a brief discussion of the procurement and selection method and criteria.
- Operational information of the resources contracted and a demonstration that the resource will be available during the peak and net peak demand hours in summer 2021.
- Pricing and net market value analysis along with a summary of the key contract terms.
- A completed analysis by the independent evaluator.
- A demonstration of cost competitiveness.
- A demonstration that the resource is incremental.
- A demonstration that the resource has a path to deliver its online date in summer 2021.

To assist the Commission with evaluation, pursuant to Section 7.3.1 of General Order 96-B, Tier 1 advice letters that are submitted to the Commission that result from this decision are effective no sooner than 5 days after

submission. The protest period for those Tier 1 advice letters shall be shortened to 10 days after submission. Additionally, the large electric IOUs are authorized to file Tier 2 advice letters advice letters making any tariff changes needed to adjust balancing accounts to implement this decision, with the effective date of the tariff modifications to be December 28, 2020, the date of the Assigned Commissioner's Ruling Directing the State's Three Largest Electric Investor-Owned Utilities to Seek Contracts for Additional Power Capacity to Be Available by the Summer of 2021 or 2022.

7. Comments on Proposed Decision

The proposed decision of ALJ Stevens 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 January 28, 2021 by Center for Energy Efficiency and Renewable Technology, Utility Consumers' Action Network, TURN, Cal Advocates, California Community Choice Association, Independent Energy Producers Association, California Large Energy Consumers Association, California Energy Storage Alliance, Shell Energy North America, Peterson Power Systems Inc., SCE, Californians for Renewable Energy, Protect Our Communities Foundation, Green Power Institute, Sierra Club and California Environmental Justice Alliance, Solar Energy Industries Association/Large-scale Solar Association/Vote Solar, SDG&E, and PG&E. Reply comments were filed on February 2, 2021 by Union of Concerned Scientists, Protect Our Communities Foundation, PG&E, SDG&E, Center for Energy Efficiency and Renewable Technologies, CAISO, LS Power, Direct Access Customer Coalition/The Regents of the University of California/Alliance for Retail Energy Markets, California

Environmental Justice Alliance/Sierra Club, SCE, Middle River Power, and Clean Coalition.

The Commission considered the comments and reply comments to the proposed decision.

Minor non-substantive modifications were made to express the intent of the decision.

Additionally, in response to comments the following changes have been made. In response to SDG&E's comments on the proposed decision and CAISO's reply comments on the proposed decision, firm forward imported energy contracting is included as an eligible procurement type. In response to PG&E's comments on the proposed decision we have clarified that incremental procurement under this rulemaking should serve internal CAISO load. In response to comments from SCE, we have shortened the comment period of the Tier 1 advice letters requesting approval of the procurement requested in this decision to 10 days and allowed the IOUs to file Tier 2 advice letters requesting tariff changes that are needed adjust balancing accounts to implement this decision.

In response to these comments, we express our preference for storage resources as well as shorter duration contracts and efficiency upgrades.

8. Assignment of Proceeding

Marybel Batjer is the assigned Commissioner and Brian Stevens is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. In August 2020, a majority of the western United States encountered a prolonged extreme heat event.

2. As a result of the prolonged heat event, the CAISO initiated rotating outages in its balancing authority area to prevent wide-spread service interruptions.

3. On October 6, 2020, the CPUC, CEC, and CAISO published a Preliminary Root Cause Analysis report that examined the cause of the August 2020 rotating outages.

4. The preliminary report identified several actions that will address the contributing factors that caused the August 2020 rotating outages. The actions identified in the preliminary report include expediting the regulatory and procurement processes to develop additional resources that can be online by summer 2021.

5. There is a need for incremental physical resources that can address grid needs during the system peak and net peak demand periods for summer 2021 and to prevent similar service interruptions to the August 2020 rotating outages.

6. Time is of the essence, and the Commission needs to expeditiously signal support of contracts for expansion of existing resources that can help maintain reliability in summer 2021 by delivering during peak and net peak demand periods.

7. In D.19-11-016, the Commission directed all LSEs serving load within the CAISO to procure 3,300 MW of incremental capacity at a minimum as a "least regrets" strategy and encouraged LSEs to exceed these minimum requirements to address what that decision referred to as "potential" system reliability challenges, that are now actual system reliability challenges.

8. The need for the capacity identified impacts all customers in the service territories of the large electric IOUs.

9. Utilization of the cost allocation mechanism would allow the large electric IOUs to procure on behalf of all customers in their service territories with the costs and benefits allocated to all benefitting customers.

10. The Commission may consider the approval of any expedited capacity procurement through advice letter submittals.

11. Both utility owned generation and third party owned generation may provide the capacity needed to meet the summer 2021 peak and net peak demand.

12. The following resource types may meet the emergency reliability capacity need for the summer of 2021: incremental capacity from existing power plants through efficiency upgrades including revised power purchase agreements, contracting for generation that is at-risk of retirement, incremental energy storage capacity, resource adequacy only contracts or contracts that include tolling agreements, and contracts for firm forward imported energy.

13. Consultation with the cost allocation mechanism and procurement review groups and the engagement of an independent evaluator would allow for reasonable oversight and increased transparency into the procurement processes that may result from this Decision.

14. Cost competitiveness is an important consideration in evaluating the approval of a new capacity contract.

15. A robust evaluation process by the Commission and interested parties could allow for oversight and transparency in the contracting process; this includes the provision of the necessary data and operational information of the proposed resources by the electric investor-owned utilities in a summarized and easily comprehensible form.

16. There may be a need for the large electric IOUs to adjust balancing accounts through tariff modifications to implement this decision with the effective date December 28, 2020, the date of the Assigned Commissioner's Ruling that directed the State's three large electric investor-owned utilities to seek contracts for additional power capacity to be available by the summer of 2021 or 2022. These tariff modifications may be sought by the submission of a Tier 2 advice letter to the Commission's Energy Division.

17. There are additional issues to resolve in this proceeding.

Conclusions of Law

1. PG&E, SCE, and SDG&E should contract for capacity that is available to serve peak and net peak load in the summer of 2021 and seek approval for cost recovery in rates.

2. In contracting for capacity that is available to serve peak and net peak load in the summer of 2021, PG&E, SCE, and SDG&E should adhere to the procurement parameters outlined in section 5 of this Decision.

3. PG&E, SCE, and SDG&E should adhere to the guidance provided in section 6 of this Decision to ensure that the Commission and interested parties may review and evaluate any contracts that are submitted to the Commission for consideration of approval.

4. To assist the Commission with evaluation, pursuant to Section 7.3.1 of General Order 96-B, Tier 1 advice letters that are submitted to the Commission that result from this order should be effective no sooner than 5 days after submission. The protest period for those Tier 1 advice letters should be shortened to 10 days after submission.

5. PG&E, SCE, and SDG&E should be authorized to file Tier 2 advice letters to make the tariff changes needed to adjust balancing accounts to

implement this decision, with the effective date of the tariff modifications to be December 28, 2020.

6. Rulemaking 20-11-003 should remain open.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company shall contract for capacity that is available to serve peak and net peak demand in the summer of 2021 and seek approval for cost recovery in rates.

2. In contracting for capacity that is available to serve peak and net peak demand in the summer of 2021, Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company shall adhere to the procurement parameters outlined in section 5 of this Decision.

3. Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company shall adhere to the guidance provided in section 6 of this Decision to ensure that the Commission and interested parties may review and evaluate any contracts that are submitted to the Commission for consideration of approval.

4. To assist the Commission with evaluation, pursuant to Section 7.3.1 of General Order 96-B, Tier 1 advice letters that are submitted to the Commission that result from this order shall be effective no sooner than 5 days after submission. The protest period for those Tier 1 advice letters shall be shortened to 10 days after submission.

5. Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company are authorized to file Tier 2 advice letters advice letters to make the tariff changes needed to adjust balancing

accounts to implement this decision, with the effective date of the tariff modifications to be December 28, 2020.

6. Rulemaking 20-11-003 remains open.

This order is effective today.

Dated February 11, 2021, at San Francisco, California.

MARYBEL BATJER
President
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
GENEVIEVE SHIROMA
Commissioners