

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Item No# 19
Agenda ID# 19302
RESOLUTION E-5139
April 15, 2021

REDACTED RESOLUTION

Resolution E-5139. San Diego Gas & Electric Company's Request for Approval of Tranche 2 and 3 System Reliability Contracts Pursuant to Decision 19-11-016.

PROPOSED OUTCOME:

- This Resolution approves five contracts in Tranche 2 and 3 totaling 140 MW for incremental system reliability resources that San Diego Gas & Electric Company procured via a competitive solicitation, pursuant to Decision 19-11-016.

SAFETY CONSIDERATIONS:

- All contracts approved by this Resolution require sellers to develop safety plans and to demonstrate compliance with those plans. Projects must also comply with local authorities responsible for permitting and enforcement of the California building, fire, life safety, and electrical codes.

ESTIMATED COST:

- Contract costs are confidential at this time. The Commission finds that the selected contracts represent a net benefit to ratepayers over their terms.

By Advice Letter 3666-E, Filed on December 30, 2020.

SUMMARY

This Resolution approves five contracts totaling 140 MW for incremental system reliability resources that San Diego Gas & Electric Company procured through its System Reliability Request for Offers solicitation in 2020. San Diego Gas & Electric

Company undertook this procurement to meet its 2021 incremental procurement requirements pursuant to Decision 19-11-016 in the Integrated Resource Plan Rulemaking, 16-02-007. This Resolution approves the contracts without modification.

BACKGROUND

Decision (D.)19-11-016 in the Integrated Resource Plan Rulemaking, (R.)16-02-007, ordered San Diego Gas & Electric Company (SDG&E) to procure 292.9 megawatts (MW) of system resource adequacy (RA) capacity, at least 50% of which must come online by August 1, 2021 (Tranche 1), at least 75% by August 1, 2022 (Tranche 2), and the remaining 25% by August 1, 2023 (Tranche 3).¹ In the event that a Community Choice Aggregator (CCA) or Electric Service Provider (ESP) opted not to procure its total allocation, D.19-11-016 required the relevant investor-owned utility (IOU) to procure the remaining portion of the allocation.² The Commission directed the IOUs to conduct all-source solicitations that would consider “existing as well as new resources, demand-side resources, combined heat and power, and storage,” provided that selected resources were incremental to baseline resource assumptions included in the Preferred System Plan that the Commission adopted in D.19-04-040.³ Finally, the Commission required the IOUs to file Tier 3 advice letters (AL) for approval of contracts no later than January 1, 2021 and specified that the advice letters must include:

- a. Metrics used to compare bids received in the solicitation;
- b. Metrics used to compare utility-owned resource options, using Appendix A, Section 2c, of Decision 19-06-032 as a guide;
- c. Demonstration of incrementality to the baseline given in Ordering Paragraph 5 of this decision.⁴

On December 13, 2019, SDG&E initiated an all-source solicitation for Combined Heat and Power (CHP), conventional generation, demand response, energy efficiency, energy storage, and renewable generation to meet its procurement obligation under D.19-11-016.⁵ SDG&E evaluated and shortlisted offers based on

¹ D.19-11-016 at OP 3(a).

² *Ibid.* at OP 5.

³ *Ibid.* at OP 6 and OP 7.

⁴ *Ibid.* at OP 9.

⁵ AL 3666-E at p. 3.

net market value and other qualitative factors.⁶ On April 15, 2020, Administrative Law Judge Fitch issued a Ruling in R.16-02-007 that assigned SDG&E an additional 8.4 MW of procurement on behalf of CCAs and ESPs that had opted out of their requirements.⁷ This brought SDG&E's total procurement requirement to 301.3 MW, with at least 50% (150.65 MW) required to come online by August 1, 2021, and with at least 75% (225.98 MW) required to come on line by August 1, 2022, and 100% required to come on line by August 1, 2023. SDG&E provided shortlisted offers to its Procurement Review Group (PRG) and communicated its selected offers to the PRG on multiple occasions in 2020.⁸ SDG&E also consulted with its independent evaluator (IE) - PA Consulting - throughout the solicitation process, and AL 3666-E contains both public and confidential versions of the IE's report on the solicitation.⁹

On December 30, 2020, SDG&E filed Tier 3 AL 3666-E, which requests approval of five selected contracts from Tranche 2 and 3, totaling 140 MW, for a combined total of up to 304 MW towards the Tranche 1, 2 and 3 requirements established by D.19-11-016. The table below describes the contracts for which SDG&E seeks approval.

Project Name (Counterparty)	Technology	Size (MW)	Contract Type	Location	In or Adjacent to DAC?	Commercial Online Date	Term (Years)
Johanna Energy Center (Calpine)	Standalone Lithium Ion Battery	20	PPA	Orange County	Yes	8/1/22	10
North Johnson Energy Center (Wellhead)	Standalone Lithium Ion Battery	25	PPA	San Diego County	Yes	6/1/22	15
BCE Los Alamitos (Bright Canyon)	Hybrid Solar Photovoltaic with Lithium Ion Battery	10	PPA	Orange County	No	6/1/22	10
Ortega Grid (Able Grid)	Standalone Lithium Ion Battery	10	RA-only	Riverside County	Yes	6/1/22	10

⁶ *Ibid.* at p. 6.

⁷ Administrative Law Judge's Ruling Finalizing Load Forecasts and Greenhouse Gas Benchmarks for Individual 2020 Integrated Resource Plan Filings and Assigning Procurement Obligations Pursuant to Decision 19-11-016, April 15, 2020, available at <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M333/K160/333160852.PDF>.

⁸ AL 3666-E at p. 7.

⁹ *Ibid.* Appendix B and D.

Desert Peak Energy Storage II (Next Era)	Standalone Lithium Ion Battery	75	PPA	Riverside County	No	6/15/23	15
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Cost Recovery

SDG&E proposes to establish a new memorandum account to track costs, the Resource Adequacy Procurement Memorandum Account or RAPMA. SDG&E plans to use this account to track costs related to procurement undertaken to fulfill requirements of D.19-11-016. The account is intended to be temporary until a Modified CAM is finalized in R.20-05-003. “Once the Commission adopts a specific cost recovery mechanism for the modified CAM, the implementation of the rate could be approved through SDG&E’s Energy Resource Recovery Account (“ERRA”) Forecast proceeding, which would include a proposal for the disposition of any accrued balance in the memorandum account”.¹⁰

Safety

To address the potential safety risks with respect to the proposed battery energy storage projects, SDG&E used enhanced safety provisions within the Contracts as it has in SDG&E’s prior RFOs. The RA purchase agreement and the PPAs include safety provisions that require sellers to practice responsible safety management including decommissioning of facilities enforced by contractual terms and conditions based on standards for Acceptable Electrical Practices and all applicable laws and regulations.¹¹

Disadvantaged Communities and Proposed Project Locations

Senate Bill 350 (de León, Chapter 547, Stats. 2015) contains disadvantaged community goals that are cross-cutting and therefore integrated into all policy areas. As such, in evaluating SDG&E’s proposed projects, the Commission will analyze its impact on such communities.

Disadvantaged Communities (DAC) as defined by the California Environmental Protection Agency (CalEPA) as the top 25 percent overall scoring areas

¹⁰ *Ibid.* at p. 9.

¹¹ *Ibid.* at p. 9.

from CalEnviroScreen, as well as the top 5 percent pollution burdened census tracts as from CalEnviroScreen, but do not have an overall CalEnviroScreen score.¹²

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.

According to CalEPA's definition, Johanna Energy Center and North Johnson Energy Center are located Disadvantaged Communities. Ortega Grid is adjacent to Disadvantaged Communities.

NOTICE

Notice of AL 3666-E was made by publication in the Commission's Daily Calendar. SDG&E 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 3666-E was timely protested by the Public Advocates Office and by Protect Our Communities Foundation (PCF) on January 19, 2021. The Public Advocates Office protests AL 3666-E on several points. First, they identified several alleged deficiencies in SDG&E's bid evaluation methodology that could impact the selection of contracts.¹³ One issue is that SDG&E applies a [REDACTED] to the energy benefits derived from tolling contracts, with no modification of the cost of supplying those benefits, which may [REDACTED] RA-only contracts over tolling contracts. The second issue is that SDG&E [REDACTED]. The third issue is that SDG&E includes an

¹² CalEnviroScreen is a mapping tool that helps identify California communities that are most affected by multiple sources of pollution, and where people are disproportionately burdened by and especially vulnerable to the effects of various sources of pollution.

¹³ Public Advocates Office Protest at pp. 4-6.

“avoided curtailment” value in its bid evaluation methodology, which is unique to its procurement and [REDACTED].¹⁴ The Public Advocates Office also had concerns with SDG&E not valuing [REDACTED], which prevents the Commission from determining if the bid evaluation methodology is reasonable or the selected contracts have the greatest value to ratepayers.¹⁵ Although the Commission ordered SDG&E to make refinements to its bid evaluation methodology in Resolution E-5117, it did not become effective prior to SDG&E filing AL 3666-E. The Public Advocates Office recommends that the Commission direct SDG&E to revise its bid valuation methodology before applying it in future procurement and expeditiously undertake a targeted common resource valuation methodology (CRVM) development in Rulemaking (R.) 20-05-003.¹⁶

In addition, the Public Advocates Office argues the bid evaluation methodology applied in AL 3666-E “lacked transparency, resulting in an inability to determine whether SDG&E’s calculation of final net scores is reasonable.” The Public Advocates Office requests that the Commission require SDG&E to “provide greater detailed information on the bid metrics and justifications of bid selections in an intelligible format with clear explanations of energy attribute values, including inputs and assumptions, in the initial advice letter filings for IRP solicitations. Alternatively, it recommends that the Commission require that SDG&E file applications for approval of its procurement”.¹⁷

The Public Advocates Office also questions [REDACTED]

and asserts that the urgent need for procurement resulted in selection of contracts that have less value to ratepayers.¹⁸ The Public Advocates Office also requests “the Commission require SDG&E to provide the milestone date for the completion of the CAISO deliverability study for the Bright Canyon Energy project”, and “include multiple-use applications (MUA) provisions for all energy storage procurement whereby the energy storage resource owners are required to follow the MUA rules enumerated in D.18-01-003.”¹⁹

¹⁴ *Ibid.* at pp. 4-5.

¹⁵ *Ibid.* at p. 5.

¹⁶ *Ibid.* at p. 6.

¹⁷ *Ibid.* at pp. 6-7.

¹⁸ *Ibid.* at pp. 7-8.

¹⁹ *Ibid.* at pp. 8-9.

The Public Advocates Office also makes two recommendations which they request that the Commission consider in the new Integrated Resource Plan (IRP) proceeding.²⁰ First, the Public Advocates Office recommends that the Commission develop consistent evaluation methods for new resource procurement by the IOUs.²¹ Second, the Public Advocates Office recommends “the Commission move expeditiously to consider and adopt holistic procurement protocols. These protocols should include the coordination of solicitations, bid submissions, shortlist review, valuation, and contracting. Development of these protocols could be carried out along with the Commission’s consideration of the Procurement Approval section of the recent IRP procurement proposal from Commission staff.”²²

Finally, the Public Advocates Office again “recommends that the Commission require the IOUs to provide information on the net GHG and criteria pollutant impacts of new generation procurement in the IRP proceeding.”²³

PCF’s protest argues that SDG&E’s RFO excluded three-year contract options and violates D.19-11-016, and SDG&E’s bid evaluation included attributes other than system RA, which unreasonably increased contract prices and also violated D.19-11-016 as it only authorized the procurement of system RA. PCF also argues that “Resolution E-5117 and the Independent Evaluator detailed major flaws in SDG&E’s procurement process. The Commission should not approve contracts based on what it acknowledges as a flawed process.” In addition, PCF recommends delay in signing battery contracts for three years to potentially reduce the capacity price by half. Finally, PCF recommends that the Commission reject AL 3666-E and “order SDG&E to run another RFO that conforms to the requirements of Commission orders and state law.”²⁴

The Commission also received timely responses to AL 3666-E from the California Energy Storage Alliance (CESA) on January 19, 2021. CESA supports “expedited approval of the submitted contracts.” They assert that the proposed agreements meet the requirements of D.19-11-016 and note that the “IE report suggests a fair

²⁰ *Ibid.* at p. 10.

²¹ *Ibid.* at p. 10.

²² *Ibid.* at pp. 10-11.

²³ *Ibid.* at pp. 11-13.

²⁴ PCF Protest at p. 2.

outreach process and evaluation using the least-cost, best-fit (LCBF) methodology was conducted, where the IE affirmed the shortlist selection.”²⁵ CESA also notes that “Resolutions E-5100 and E-5101 set the precedent for review of SDG&E’s contracts for approval” and recommends “streamlined approval where appropriate.”

SDG&E timely responded to the protests of the Public Advocates Office and PCF on January 26, 2021. In response to the Public Advocates Office’s protests, SDG&E notes that Public Advocates Office raised the same concerns in connection with AL 3605-E, which SDG&E responded to in its comments to draft Resolution E-5117. SDG&E has taken note of the Commission’s direction in Resolution E-5117 to further refine its bid evaluation methodology going forward and to improve transparency. However, SDG&E argues that it can not alter the evaluation process used for resources in AL 3666-E because “resources submitted under AL 3065-E and AL 3666-E were part of the same RFO.” SDG&E argues that it would be unreasonable to deny AL 3666-E as the Resolution E-5117 provided directions after AL 3666-E was filed.²⁶ In response to Public Advocates Office’s request to provide additional information regarding the status of the interconnection for the Los Alamitos project, SDG&E provided information in a confidential appendix.²⁷ Lastly, in response to Public Advocates Office’s claim that SDG&E’s contracts with the proposed energy storage resources fail to comply with the Commission’s rules for multi-use applications established in D.18-01-003, SDG&E “notes that the focus of this all-source procurement was on grid reliability, i.e., resource adequacy capacity, rather than on the procurement of stand-alone storage”.²⁸ SDG&E agrees, however, to take note of Public Advocates Office’s concerns and will take them into account as appropriate.²⁹

In response to PCF’s protest, SDG&E states that PCF raises issues that are outside of the scope of the advice letter or lack merit. For example, PCF’s claim that SDG&E excluded existing generation from offering incremental capacity for contracts three years or longer is erroneous. SDG&E states that its “RFO protocols for conventional generation, battery energy storage and renewable energy all state

²⁵ CESA Response at pp. 2-3.

²⁶ SDG&E Reply to Protest at p. 2.

²⁷ *Ibid.* at p. 2.

²⁸ *Ibid.* at p. 3.

²⁹ *Ibid.* at p. 3.

that existing resources are eligible for contracts of three years or longer. However, no such resources submitted offers into the RFO.”³⁰

SDG&E did not reply to the responses of CESA.

DISCUSSION

The Commission has reviewed the Advice Letter, the responses, the protests, and the reply of SDG&E. We address specific concerns in the following discussion, though we find that SDG&E’s request in AL 3666-E is reasonable overall.

Bid Evaluation Methodology

The Public Advocates Office raises similar concerns regarding SDG&E’s bid evaluation methodology as they did in AL 3605-E. The Commission agrees that SDG&E’s evaluation of tolling verses RA-only agreements, ancillary services benefits, avoided curtailment criteria need to be revisited and refined for future procurement activities.

The Public Advocates Office also raised the issue that SDG&E did not value [REDACTED]. SDG&E can include [REDACTED] in their future bid evaluation methodology. So far, our analysis shows that counterparties can not sell [REDACTED].³¹

The Public Advocates Office also contends [REDACTED]

The Public Advocates Office also requests SDG&E to include multiple-use applications (MUA) provisions for all energy storage procurement. SDG&E acknowledges the Public Advocates Office’s concerns and agrees to take them into account as appropriate.

³⁰ *Ibid.* at p. 3.

³¹ 2018 RA Report, Available at [Microsoft Word - 2018 RA Report v.9 \(ca.gov\)](#)

Finally, the Public Advocates Office recommends that the Commission develop consistent bid evaluation methodology for new resource procurement across the IOUs and consider and adopt holistic procurement protocols in the IRP proceeding. SDG&E was not directed by the Commission to develop a consistent bid evaluation method across multiple IOUs as part of the instant procurement. These recommendations are therefore outside of the scope of this advice letter and should be raised in the IRP or other appropriate proceeding, and therefore are not adopted here.³²

PCF states that SDG&E's bid evaluation included attributes other than system RA, which unreasonably increased contract prices. This argument is without merit as some of these attributes are bundled and excluding certain attributes would not fully and accurately value the products. PCF also recommends that SDG&E delay the procurement of energy storage resources for lower price in the future. This is contrary to the order of D.19-11-016, where SDG&E is required to procure a specific amount of incremental system RA to be on line by 2021, 2022, and 2023. Finally, PCF recommends that the Commission order SDG&E to run a new RFO. This is not feasible given the timeline specified in D.19-11-016. Although SDG&E needs to refine its bid evaluation methodology in the future, SDG&E's proposed contracts merit Commission approval as recommended by the Independent Evaluator.

Consideration of GHG Emissions

The Public Advocates Office raised the concern regarding the GHG profiles of storage resources in AL 3605-E as well. We reiterate that in D.19-11-016, we found that "all new resources should all be from preferred sources, or hybrid technologies, and not fossil-fuel-only sources."³³ The entire portfolio for which SDG&E seeks approval in AL 3666-E consists of standalone storage resources and storage resources co-located with other preferred resources. Whereas GHG

³² See General Order 96-B, General Rule 5.1, which provides "[t]he advice letter process provides a quick and simplified review of the types of utility requests that are expected neither to be controversial nor to raise important policy questions. The advice letter process does not provide for an evidentiary hearing; a matter that requires an evidentiary hearing may be considered in a formal proceeding."

³³ D.19-11-016 at p. 44.

profiles are a critical consideration for Integrated Resource Plan procurement overall, it is apparent that SDG&E's procurement in AL 3666-E meets the "resource type" requirements of D.19-11-016 because the storage resources are "not fossil-fuel-only" sources. We again find that additional GHG analysis is not a prerequisite for approval of AL 3666-E.

General Compliance with D.19-11-016

We note that the IE determined that SDG&E's procurement process was reasonable and appropriate overall and that the IE found each of the contracts for which SDG&E seeks approval to be reasonable.³⁴ Based on our review, we find that the solicitation process and agreements described in Advice Letter 3666-E comply with the requirements of D.19-11-016 overall, including reasonableness, permitting, and safety considerations.

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. Please note that comments are due 20 days from the mailing date of this resolution. Section 311(g)(2) provides that this 30-day review period and 20-day comment period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day review and 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 on March 10, 2021.

The Public Advocates Office and CESA timely provided comments on the Draft Resolution on April 1, 2021 and March 31, 2021, respectively. The Public Advocates Office requests that the Commission modify the Draft Resolution to correct an error regarding the definition of preferred resources and remove the language that energy storage is a preferred resource.³⁵ The Public Advocates Office also requests the Commission "correct an error in the characterization of MUA rules adopted by the Commission in D.18-01-003, correct an error in the application of General Order 96-B, and require SDG&E to include MUA

³⁴ AL 3666-E, Appendices B and D.

³⁵ The Public Advocates Office comments, at pp. 1-4.

requirements in contracts for procurement pursuant to D.19-11-016".³⁶ CESA supports the approval of SDG&E's five contracts in AL 3666-E.³⁷

The draft resolution was revised to address the Public Advocates Office's requests on preferred resources definition and MUA provisions.

FINDINGS

1. SDG&E's bid evaluation methodology needs to be refined and has been addressed in Resolution E-5117.
2. Additional greenhouse gas analysis is not a prerequisite for approval of AL 3666-E because SDG&E's procurement in AL 3666-E meets the requirements of D.19-11-016 with regard to approved technologies.
3. Procurement and administrative costs associated with the procurement agreements are reasonable and shall be recovered through SDG&E's proposed cost recovery mechanism until the Commission adopts the Modified CAM described in D.19-11-016, or other cost recovery mechanism(s).
4. The solicitation process and agreements described in Advice Letter 3666-E comply with the requirements of D.19-11-016 overall.

THEREFORE IT IS ORDERED THAT:

1. The five proposed projects and associated contracts resulting from San Diego Gas & Electric Company's 2020 Tranche 2 and 3 System Reliability Request for Offers, as described in Advice Letter 3666-E, are approved.
2. San Diego Gas & Electric Company is authorized to establish a new memorandum account to track and record any costs associated with the contracts approved by this Resolution that are not currently recovered in rates - including contract payments and administrative expenses incurred on behalf of load serving entities that opted out of their D.19-11-016

³⁶ The Public Advocates Office comments, at p. 1.

³⁷ CESA comments, at pp. 1-2.

procurement requirements - as proposed in Advice Letter 3666-E. Eventual recovery of these costs will be determined based upon the Commission's adoption of a Modified Cost Allocation Mechanism or other cost recovery mechanism(s).

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 April 15, 2021; the following Commissioners voting favorably thereon:

RACHEL PETERSON
Executive Director