

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Item No: 8 (Rev.1)
Agenda ID# 19365
RESOLUTION E-5142
May 6, 2021

R E S O L U T I O N

Resolution E-5142. Southern California Edison Company's Request for Review and Approval of System Reliability Standard Track Contracts Pursuant to Decision 19-11-016.

PROPOSED OUTCOME:

- This Resolution approves five contracts for incremental system reliability resources that Southern California Edison Company procured via a competitive solicitation, pursuant to Decision 19-11-016.

SAFETY CONSIDERATIONS:

- SCE's Pro Forma Energy Storage Agreement requires the Seller to operate the energy storage facility in accordance with "Prudent Electrical Practices." An expansive list of safety provisions is found on pages 29-30 of SCE Advice Letter 4373-E.

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 4373-E, Filed on December 18, 2020.

SUMMARY

This Resolution approves five contracts for incremental system reliability resources that Southern California Edison Company procured through the

Standard Track of its System Reliability Request for Offers solicitation in 2020. Southern California Edison Company undertook this procurement to meet its 2022 and 2023 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 Southern California Electric Company (SCE) to procure 1,184.7 megawatts (MW) of system resource adequacy (RA) capacity, at least 50% of which must come online by August 1, 2021, 75% by August 1, 2022, and 100% by August 1, 2023.¹ 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;

¹ D.19-11-016 at OP 3(o).

² Ibid. at OP 5.

³ Ibid. at OP 6 and OP 7.

- c. Demonstration of incrementality to the baseline given in Ordering Paragraph 5 of this decision.⁴

SCE's total procurement requirement is 1,241.3 MW, including 1,184.7 MW corresponding to bundled customers and 56.6 MW corresponding to customers of load serving entities (LSEs) operating within the SCE service territory that opted out of their D.19-11-016 procurement requirements.⁵ Thus, SCE must procure at least 620.65 MW by August 1, 2021, at least 930.98 MW by August 1, 2022, and 1,241.3 MW by August 1, 2023.

On September 19, 2019, SCE initiated a System Reliability Request for Offers (SRRFO) which utilized a Fast Track for projects to come online by August 1, 2021 and a Standard Track for projects to come online by August 1, 2022 and August 1, 2023. The Fast Track solicitation resulted in seven contracts for roughly 677.6 MW of incremental capacity, which the Commission subsequently approved in Resolution E-5101.

SCE consulted with its Procurement Review Group (PRG) regarding the launch of the SRRFO on September 18, 2019. Once it received notice that it would be procuring on behalf of other LSEs that opted out of self-procuring, SCE consulted with its cost allocation mechanism (CAM) PRG group which includes the members of SCE's PRG and Direct Access representatives. SCE consulted with the CAM PRG on its Standard Track final selection recommendations on September 22, 2020 and on one of the selected Standard Track Contracts on October 21, 2020.⁶ SCE also consulted with its independent evaluator (IE) – Sedway Consulting – throughout the solicitation process, and AL 4373-E contains both public and confidential versions of the IE's report on the solicitation.⁷

⁴ Ibid. at OP 9.

⁵ AL 4373-E at 6-7.

⁶ Ibid. at 21.

⁷ Ibid. at 21.

Southern California Edison Company AL 4373-E/SB6

On December 18, 2020, SCE filed Tier 3 AL 4373-E, which requests approval of five selected Standard Track contracts. Two contracts are in-front of the meter (IFOM) energy storage tolling agreements, one contract is IFOM energy storage for resource adequacy (RA) plus Put Option, and two contracts are for behind-the-meter (BTM) energy storage-demand response. The projects represent 590 MW of incremental capacity, 260 MW of which would achieve commercial operation by August 1, 2022, and 330 MW of which would achieve commercial operation by August 1, 2023. In combination with the 677.6 MW of 2021 incremental capacity that the Commission approved in Resolution E-5101, the procurement in AL 4373-E would result in 937.6 MW of incremental capacity coming online by 2022 and 1,267.6 MW coming online by 2023, exceeding SCE's respective requirements for those years.⁸ The table below describes the contracts for which SCE seeks approval.

Seller/Project	Technology Type	Capacity (MW)	Location and DAC Designation ⁹	Contract Type	Initial Delivery Date	Contract Term
Sonoran West Solar Holdings, LLC/ Crimson	IFOM Lithium-Ion Battery	200	Blythe, CA (not in DAC)	RA with Put Options	8/1/2022	14 years 10 months
Silver Peak Solar, LLC/Eldorado Valley	IFOM Lithium-Ion Battery	60	Boulder City, NV (DAC adjacent)	Toll	8/1/2022	10 years
Desert Peak Energy Storage I, LLC/Desert Peak	IFOM Lithium-Ion Battery	325	Palm Springs, CA (not in DAC)	Toll	8/1/2023	14 years 10 months
Sunrun Inc.	BTM Energy Storage- Demand Response	4.5	SCE Territory (not in DAC)	Demand Response	8/1/2023	10 years
Sunrun Inc. DAC Contract	BTM Energy Storage- Demand Response	0.5	SCE Territory (in DACs)	Demand Response	8/1/2023	10 years

⁸ Ibid. at 7.

⁹ "DAC" is a designation for Disadvantaged Community. See the discussion below for additional information.

Cost Recovery

SCE proposes to allocate the costs associated with the Standard Track Contracts to applicable customers¹⁰ on a non-bypassable basis using a Modified Cost Allocation Mechanism (“Modified CAM”). Costs incurred on behalf of SCE bundled customers would be recovered through the Energy Resource Recovery Account (ERRA) proceeding, subject to SCE’s prudent administration of the Standard Track Contracts.

SCE proposes to continue tracking costs and benefits associated with procurement undertaken pursuant to D.19-11-016 – including procurement costs, costs of the IE, and incremental administrative costs associated with the SRRFO procurement on behalf of CCAs and ESPs that opted out of their D.19-11-016 requirements – through the System Reliability Procurement Memorandum Account (SRPMA) that the Commission approved in Resolution E-5101, until the Commission adopts a Modified CAM.¹¹

Safety

The five Standard Track agreements for which SCE seeks approval require the seller to “operate the energy storage facility in accordance with “Prudent Electrical Practices.””¹² The contracts also include a provision providing that, prior to commencement of any construction activities on the project site, the seller must provide to SCE a report from an independent engineer certifying that

¹⁰ “Applicable customers” include bundled service customers and the customers of LSEs in SCE’s TAC area who elected not to self-provide their procurement or who were determined to be deficient in self-providing their own procurement.

¹¹ AL 4373-E at 28.

¹² Ibid. at 29.

the seller has a written plan for the safe construction and operation of the project in accordance with Prudent Electrical Practices.¹³

Disadvantaged Community (DAC) Designations

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 SCE's StandardTrack Procurement contracts, the Commission will analyze the impacts 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.

The Silver Peak project is located in Nevada adjacent to a California DAC, as identified according to the CalEnviroScreen 3.0. In addition, the Sunrun DAC project will target customers located in DACs within SCE territory. Siting Energy Storage resources in or near DACs has the potential to reduce local dependence on energy production that increases air pollution.

NOTICE

Notice of AL 4373-E was made by publication in the Commission'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.

¹³ Ibid. at 29

PROTESTS

Advice Letter 4373-E was timely protested by the Public Advocates Office (“Cal Advocates”) on January 7, 2021. In addition, the California Energy Storage Alliance (CESA) timely responded to AL 4373-E on January 7, 2021.

Cal Advocates recommends that the Commission require SCE to negotiate a tolling agreement in lieu of the RA plus Put Option contract selected for the Crimson project, arguing that “SCE’s proposed methodology for valuing debt equivalence (DE) appears arbitrary and supports favoring shareholder interests at the expense of maximizing ratepayer benefits.”¹⁴ Cal Advocates makes certain confidential observations regarding SCE’s methodology for comparing the benefits of tolling agreements to the RA plus Put Option contract structure and notes that SCE modified three of the contracts approved in Resolution E-5101 to provide more value for ratepayers.¹⁵

Additionally, Cal Advocates argues that the IOUs should be required to develop consistent valuation methodologies in the IRP proceeding. Cal Advocates expresses particular concern that SCE’s valuation methodology does not account for Local RA benefits and that ancillary services benefits are overvalued.¹⁶

Cal Advocates also states that SCE has failed to demonstrate that the capacity contribution of the two Sunrun contracts is fully incremental to the baseline resources assumed for the Year 2022 in accordance with the requirements of D.19-11-016. Cal Advocates requests that the Commission direct SCE to revise the capacity of the 2023 Sunrun contracts so that they “correspond only to the capacity that SCE can demonstrate is incremental to the capacity already provided by existing or anticipated utility funded projects during RA Availability Assessment Hours.”¹⁷

¹⁴ Cal Advocates Protest at 4.

¹⁵ Ibid. at 4-6.

¹⁶ Ibid. at 7-11.

¹⁷ Ibid. at 11-13.

Cal Advocates also recommends that the Commission direct SCE to provide an estimate of the net impacts of GHG emission and criteria pollutants resulting from the procurement of the proposed projects stating that this information is needed to determine whether the proposed agreements are consistent with the State's energy and climate goals and the GHG requirements under SB 350, SB 100 and D.18-02-018.

In its response to AL 4373-E, CESA argues that the proposed contracts meet the requirements of D.19-11-016 with regard to incrementality, contract length, and sufficient detail regarding the bid evaluation methodology.¹⁸ CESA also argues that the Commission should follow the precedent set in Resolutions E-5100 and E-5101, namely by finding that GHG analysis is not required to approve the contracts and that treatment of debt equivalence is outside of the scope of approving Resolution.¹⁹ CESA notes that the IE report suggests "a robust and fair outreach process and rigorous evaluation using the least cost, best-fit methodology" and notes that SCE was responsive to recommendations made by the IE during the solicitation and bid evaluation process.²⁰ Finally, CESA urges the Commission to follow an expedited approval process, with a Draft Resolution in February 2021 and a Final Resolution in March 2021.²¹ CESA notes that "the Commission should not repeat the experience for the regulatory review and approval of 2021 contracts, which left only 11 months for developers to bring projects online – an untenable situation with immense risks."²²

SCE timely replied to the protest of Cal Advocates on January 14, 2021. SCE asserts its consideration of debt equivalence was appropriate and consistent with treatment of debt equivalence for contracts previously approved by the

¹⁸ CESA Response at 2.

¹⁹ Ibid. at 3.

²⁰ Ibid. at 4.

²¹ Ibid. at 4.

²² Ibid. at 5.

Commission in SCE's SRRFO Fast Track and the Commission should therefore reject Cal Advocate's recommendation that it require SCE to negotiate a tolling agreement in lieu of an RA with Put Option contract for the Crimson project.

SCE also asserts that it properly accounted for local RA value and ancillary services benefits and appropriately determined that the capacity of the Sunrun contracts is incremental. Lastly, SCE states it expressed a preference for procuring preferred and energy storage resources, and specifically for resources located in DACs. All resources procured are non-emitting IFOM energy storage or BTM energy-storage backed DR. As such, SCE states that it has satisfied all requirements of D.19-11-016 and has no obligation to demonstrate that the proposed projects will decrease GHG emissions and criteria pollutants.

DISCUSSION

The Commission has reviewed the Advice Letter, the response, the protest, and the reply of SCE. We find that SCE's request in AL 4373-E is reasonable and deny the protest of Cal Advocates.

Data on Bid Evaluation Methodology

SCE provided the IE report (Attachment D) and the quantitative evaluation results of its bid evaluation (Attachment C) along with AL 4373-E. We note that the IE determined that SCE's procurement process was rigorous and fair overall and "that no product, bidder, or technology was inappropriately favored, all bidders were provided consistent information, and evaluation techniques were applied consistently."²³ We find no evidence that SCE's valuation of local RA and ancillary services benefits was inappropriate or affected the final selection of projects.

Debt Equivalence Treatment in Bid Evaluations

²³ AL 4373-E, Attachment D at 16.

Cal Advocates protested the Advice Letter on the grounds that SCE's ranking of resources for the short list relied on assigning a 100% DE factor to tolling agreements. As we stated in Resolution E-5101, we "recognize SCE's responsibility to evaluate realistic costs of contracts that it proposes to enter into. SCE argues that traditional tolling agreements will cause changes to their overall balance sheets that will impact capital costs. It is appropriate for SCE to try to minimize costs, and to consider all real costs when doing so."²⁴ Additionally, we stated that, "because of the unique and new nature of tolling agreements with energy storage resources and the individual contracts in question, future treatment and valuation of such procurement options may not always be able to use this modified tolling agreement."²⁵ SCE has evaluated the Standard Track contracts consistent with the evaluation of the Fast Track contracts approved in Resolution E-5101 and we find that our logic for approving the Fast Track agreements has not changed. We appreciate SCE's efforts to consider all potential contract structures and find it reasonable that SCE has selected an RA with Put Option for the Crimson project and tolling agreements for the other two IFOM Energy Storage projects.

Incrementality of Demand Response Contracts

In D.19-11-016, the Commission provided that incrementality of demand-side resources shall be demonstrated by using the principles adopted by the Commission in D.16-12-036 as a starting point. Cal Advocates makes confidential arguments that SCE has failed to demonstrate that the Sunrun capacity is fully incremental stating that the capacity value should be reduced to the incremental value. SCE responds that it has assessed the incrementality of the demand-side projects consistent with the principles and determined the Sunrun projects to be fully incremental. We find that SCE's assessment process was reasonable in determining that the Sunrun capacity was incremental since these are new storage installations that will be providing guaranteed load reduction during the availability assessment hours consistent with Commission direction regarding

²⁴ Resolution E-5101 at 12.

²⁵ Ibid. at 13.

the Distribution Investment Deferral Framework which requires the IOUs to treat an SGIP BTM resource as wholly incremental if the existing resource adds on dispatchable energy storage or simply provides a new dispatchable service otherwise not provided under the resource's current tariff. Additionally, since SCE is the scheduling coordinator, the capacity will be bid economically into the CAISO market allowing CAISO to dispatch the resource when it is needed for reliability. We also note that the IE concurred with this assessment. We direct SCE to monitor these contracts to ensure that the customers targeted are in fact providing new load reduction incremental to any expected load reduction associated with utility programs and to file a Tier 1 Advice Letter demonstrating that the underlying customers are providing incremental capacity by August 1, 2023 when the resource comes online.

GHG Reduction Requirements

Cal Advocates requests that SCE be compelled to demonstrate that its procured resources will lead to a reduction in GHG and local air pollutant emissions. SCE responds that D.19-11-016 does not require this, but only that SCE demonstrate compliance with section 454.52(a)(1)(I), which requires that SCE minimize local pollutants and GHG emissions. SCE further contends that they have met this criterion by procuring non-emitting resources and expressing a preference for energy storage over gas fired generation.

Energy Storage resources do not contribute directly to GHG, criteria pollutants, or local air pollution. The actual change in emissions due to energy storage charging is a complex issue that will not be controllable by or visible to the individual energy storage resource. Energy storage resources can store inexpensive power, often generated by zero marginal cost renewable generation, and release it at later times when prices are higher. Those higher prices are often set by gas fired generation. The State and the Commission have implemented many policies to increase the functionality and development of the storage fleet in order to facilitate this movement of clean energy to displace polluting generating resources. SCE's decision to choose contracts that follow this path is prudent and we do not grant Cal Advocates' request on this subject.

Cost Recovery

We find that it is appropriate for SCE to continue tracking costs and benefits associated with procurement undertaken pursuant to D.19-11-016 – including costs associated with the retail customers of LSEs that opted out of their D.19-11-016 requirements – through the SRPMA on an interim basis, until we approve a Modified CAM mechanism or other cost recovery mechanism(s). We also find that it is appropriate for SCE to continue recovering costs incurred on behalf of its bundled customers through the Energy Resource Recovery Account (ERRA) proceeding, subject to SCE’s prudent administration of the Standard Track Contracts. These processes are consistent with what we approved in Resolution E-5101.

General Compliance with D.19-11-016

D.19-11-016 does not specify particular safety requirements. As in Resolution E-5101, however, we acknowledge the safety provisions that SCE has included in its solicitation processes and in the proposed agreements. We continue to expect that in implementing these provisions, SCE and counterparties will include all appropriate measures necessary to prevent the spread of COVID-19, especially those required by the California Department of Industrial Relations’ Division of Occupational Safety and Health (Cal/OSHA). We also note that the energy storage projects are (or will be) permitted by local Authority-Having Jurisdictions (AHJ)²⁶ and will be compliant with AHJ codes that address safety requirements.

Again, we note that the IE determined that SCE’s procurement process was reasonable and appropriate and that the IE found each of the contracts for which SCE seeks approval to be reasonable. Based on our review, we find that the solicitation process and agreements described in Advice Letter 4373-E comply overall with the requirements of D.19-11-016 overall.

²⁶ “Authority-Having Jurisdictions” are the local authorities responsible for permitting and enforcement of the California building, fire, life safety, and electrical codes.

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. 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 April 1, 2021. SCE, Cal Advocates, and CESA submitted comments on the draft resolution on April 21, 2021. CESA supported adoption of the draft resolution without delay. SCE expressed agreement with the Draft Resolution's findings and conclusions, but requested correction of Finding 3 and Paragraph 4 to reflect cost recovery from both bundled customers and customers of opt-out LSEs and the total MW of procurement required by August 1, 2022. These edits have been incorporated into the text.

Cal Advocates raises several issues. First, they state that the Draft Resolution errs in stating that SCE used the same methodology in evaluating the Fast Track and Standard Track contracts with regard to treatment of Debt Equivalence and that the Debt Equivalence Factor should not have been allowed. While the methodology may not have been identical, the valuation of debt equivalence, including the Factor used was similar and the outcome of our decision to approve the Recurrent Crimson contract remains the same.

Second, Cal Advocates argues that Draft Resolution errs in its decision to consider the Sunrun contract fully incremental and by failing to include a finding on the material issue of incrementality. The justification for incrementality has been expanded and a finding has been added to the Draft Resolution in response.

FINDINGS

1. Southern California Edison Company provided its independent evaluator report and the quantitative evaluation results of its bid evaluation along with Advice Letter 4373-E. The information Southern California Edison Company

provided in Advice Letter 4373-E meets the requirement of D.19-11-016 that the investor-owned utilities describe metrics used to compare bids in their solicitations. Furthermore, this information is sufficiently detailed to enable an assessment of the reasonableness of Southern California Edison Company's evaluation methodology.

2. The Standard Track Contracts, totaling 590 MW of expected incremental resource adequacy capacity, will count towards satisfying the procurement requirements of Southern California Edison Company and the load serving entities in SCE's service territory that opted out of self-providing their procurement pursuant to Ordering Paragraph 3 of D.19-11-016.
3. It is appropriate for Southern California Edison Company to continue tracking costs and benefits associated with procurement undertaken pursuant to D.19-11-016 – including costs associated with the retail customers of load serving entities that opted out of their D.19-11-016 requirements – through the System Reliability Procurement Memorandum Account on an interim basis, until we approve a Modified CAM mechanism or other cost recovery mechanism(s). It is also appropriate for Southern California Edison Company to continue recovering costs through the through the Energy Resource Recovery Account (ERRA) proceeding, subject to the Commission's review of SCE's prudent administration of the contracts.
4. The solicitation process and agreements described in Advice Letter 4373-E comply with the requirements of D.19-11-016 overall.

THEREFORE IT IS ORDERED THAT:

1. The five contracts, including three in-front-of-the-meter storage projects and two behind-the-meter storage-demand response projects, resulting from Southern California Edison Company's 2020 System Reliability Request for Offers – Standard Track, as described in Advice Letter 4373-E, are approved.

2. Southern California Edison Company is authorized to continue tracking all costs and benefits associated with procurement undertaken pursuant to D.19-11-016 – including contract payments, independent evaluator expenses, and administrative expenses incurred on behalf of load serving entities that opted out of the D.19-11-016 procurement requirements – through the System Reliability Procurement Memorandum Account, as proposed in Advice Letter 4373-E. Costs and benefits of the Standard Track Contracts may be recorded effective as of the launch of the System Reliability Request for Offers on September 19, 2019.
3. Eventual recovery of these costs will be determined based on the Commission’s adoption and implementation of a Modified CAM mechanism or other cost recovery mechanism(s).
4. The Standard Track Contracts and Southern California Edison Company’s entry into them is reasonable and prudent for all purposes and Southern California Edison is authorized to recover contract payments and administrative expenses through the Energy Resource Recovery Account (ERRA) proceeding, subject to the Commission’s review of SCE’s prudent administration of the contracts.
5. SCE shall file a Tier 1 Advice letter by August 1, 2023 demonstrating that the underlying customers of the Sunrun contract are providing incremental capacity by August 1, 2023 when the resource comes online

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 May 6, 2021; the following Commissioners voting favorably thereon:

RACHEL PETERSON
Executive Director