

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Agenda ID # 20243
RESOLUTION E-5191
February 10, 2022

R E S O L U T I O N

Resolution E-5191. Request for Modification of Southern California Edison Company's Bundled Procurement Plan for Authority to Engage in Bilateral Transactions for Firm Energy to Meet Resource Adequacy Compliance Obligations in the Same or Prompt Compliance Year.

PROPOSED OUTCOME:

- This Resolution would approve Southern California Edison Company's (SCE) request to modify its 2014 Bundled Procurement Plan.

SAFETY CONSIDERATIONS:

- There is no anticipated impact on safety.

ESTIMATED COST:

- There are no costs associated with this resolution.

By Advice Letter 4464-E, Filed on April 8, 2021.

SUMMARY

In Advice Letter (AL) 4464-E, Southern California Edison Company ("Southern California Edison" or "SCE") requests a modification to its 2014 Bundled Procurement Plan ("2014 BPP"). Such a modification would enable SCE to engage in bilateral transactions for firm energy to meet its Resource Adequacy (RA) compliance obligations. This Resolution approves SCE's request in AL 4464-E without modification.

BACKGROUND

SCE filed AL 4464-E on April 8, 2021. Prior to the establishment of the Commission's Integrated Resource Planning (IRP) program, the Commission's Long-Term Procurement Plan (LTPP) proceedings generally operated on a two-year cycle with the investor-owned utilities (IOUs) submitting procurement plans projecting their respective procurement needs over a 10-year horizon and Bundled Procurement Plans (BPPs) authorizing procurement to meet those needs. The Commission's approval of the BPPs establishes up-front and achievable standards for procurement activities and cost recovery. Procuring in compliance with an approved BPP eliminates the need for an IOU to file for cost recovery via individual ALs with the Commission.

In Decision (D.)15-10-031, the Commission approved SCE's 2014 BPP. This allows SCE authority to execute transactions with a duration of less than five years for the 10-year planning period of January 1, 2015 through December 31, 2024. Under this decision, SCE has preapproved authority for transactions executed in compliance with its 2014 BPP. Revisions of individual IOUs' BPPs are within the scope of the current IRP Proceeding¹, Rulemaking (R.)20-05-003, however, a process for updating the BPPs has not yet been established under that proceeding. Resolution E-4828 reaffirmed the interim revision process of updating BPPs via the AL process, which was first established in D.04-12-048.

Under its 2014 BPP, SCE is currently authorized to transact RA capacity and Import Allocation Rights (IARs) bilaterally for the "longer term" (i.e., longer than

¹ R.16-02-007 Order Instituting Rulemaking to Develop an Electricity Integrated Resource Planning Framework and to Coordinate and Refine Long-Term Procurement Planning Requirements, Ordering Paragraph 3. "This is a successor proceeding to the Commission's procurement rulemaking, Rulemaking 13-12-010, with respect to long-term procurement plans and the record developed in that proceeding is fully available for consideration in this proceeding."

one quarter in duration and/or more than one quarter forward)² because these products are authorized as “non-standard products.”³ While imported firm (or “forward”) energy can be paired with IARs to meet RA compliance obligations, firm energy alone is not categorized as an authorized non-standard product, and therefore cannot be transacted for the “longer term” under SCE’s 2014 BPP, even for the purpose of RA compliance. Instead, SCE is limited to bilateral transactions for firm energy to terms of one calendar quarter or less and with delivery beginning less than or equal to one calendar quarter forward.⁴

In AL 4464-E, SCE claims that these limitations under the 2014 BPP “[place] SCE at a competitive disadvantage to contract for firm energy to meet RA needs in comparison to other entities that are not limited by the bilateral trading constraints of a BPP.” Because SCE must first submit an AL or risk cost recovery before engaging in a longer-term transaction for firm energy, potential transactions are jeopardized by the uncertainty around requisite approvals. SCE writes, “RA suppliers often prefer to transact with entities that do not have the same regulatory restrictions, thereby placing SCE and its customers at a competitive disadvantage.”

Additionally, SCE states that the RA market has become more illiquid due to limited in-state supply, the closure of several external supply sources⁵, and

² D.03-12-062 at 39. “Longer term” means longer than the 90-day term limit on bilateral transactions set by D.02-10-062 (at 34). D.04-12-048 (at 117) subsequently clarified that “90 days” means “three calendar months, or one quarter.”

³ SCE 2014 Bundled Procurement Plan at 54. “Non-standard products” are products that satisfy a particular operational or procurement requirement but are not liquidly traded through exchanges or brokers. SCE is able to procure non-standard products bilaterally, subject to adequate support, for terms longer than one quarter and/or with delivery beginning longer than one quarter forward.

⁴ SCE 2014 Bundled Procurement Plan at Sheet C-1.

⁵ SCE refers to Navajo Generating Station (2,250 MW) and Cholla Power Plant Unit 4 (395 MW) in Arizona as examples of external supply sources that have recently closed.

entities' reluctance or inability to release supply on the forward basis needed to meet California's RA requirements due to recent weather events.

SCE proposes to modify its 2014 BPP such that it is authorized to use negotiated bilateral contracts to purchase firm energy with delivery in the same or prompt compliance year for the purpose of satisfying SCE's RA obligations, provided it includes a statement in its Quarterly Compliance Report (QCR) filing to justify the need. According to SCE, this modification would mitigate its competitive disadvantage and assist SCE in meeting its System RA and Local RA compliance obligations.

NOTICE

Notice of Advice Letter 4464-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.

PROTESTS

Advice Letter 4464-E was not protested.

DISCUSSION

The Commission has reviewed AL 4464-E and finds that the proposed modification to SCE's 2014 BPP in AL 4464-E is reasonable. The proposed modification will assist with near-term reliability by allowing SCE greater flexibility, in an illiquid RA market, to transact for firm energy to meet RA compliance obligations for the longer term by obviating the need for advice letter approval to ensure cost recovery for such transactions and allowing it to procure approved products on an efficient time frame.

We agree with SCE that its 2014 BPP limits on contracting for firm energy more than one calendar quarter forward or for a term of more than one calendar quarter may place it at a competitive disadvantage to contract for firm energy relative to other entities not limited by BPP constraints. Unlike IOUs under the CPUC's jurisdiction, other Load Serving Entities (LSEs) such as Community

Choice Aggregators (CCAs) and Energy Service Providers (ESPs) are not subject to the same regulatory procurement restrictions for transacting firm energy to meet their RA obligations. We agree with SCE that this competitive disadvantage may negatively impact its customers, as there may be financial benefits to signing longer-term contracts. We also acknowledge that the RA market has evolved significantly to include far more participants since the 2014 BPPs were adopted. Specifically, at the time of the 2014 Year Ahead filings, there were two CCAs and 14 ESPs under the Commission's RA authority; in 2021, there were 23 CCAs and 12 ESPs.⁶

Additionally, we agree with SCE that the RA market has become more illiquid for the reasons stated in its AL filing. SCE explains that entities may be reluctant or unable to release supply on the forward basis needed to meet California's RA requirements due to "recent weather events." The Final Root Cause Analysis report prepared by the Commission, California Independent System Operator (CAISO), and California Energy Commission (CEC) supports this, noting that during the mid-August 2020 heat wave, which swept the entire western United States, the flow of net imports into the CAISO balancing authority area (BAA) was "drastically reduced."⁷ Finally, the past and future closures of large resources both external (e.g., Navajo Generating Station in 2019) and internal to the CAISO BAA (e.g., Diablo Canyon Power Plant in 2025) further contribute to RA market illiquidity. In a constrained market, it is critical that the IOUs are provided greater flexibility in procuring imports to meet reliability needs. Providing SCE the ability to negotiate bilateral contracts to purchase forward energy with delivery in the same or prompt compliance year will further enable it to satisfy its RA and reliability procurement obligations.

In conclusion, we find SCE's proposed 2014 BPP modification to authorize it to negotiate bilateral contracts to purchase firm energy with delivery in the same or prompt compliance year for the purpose of satisfying RA or reliability procurement obligations is reasonable.

⁶ Resource Adequacy filings.

⁷ Final Root Cause Analysis report on the Mid-August 2020 Extreme Heat Wave at 22.

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. Any comments are due within 20 days of the date of its mailing and publication on the Commission's website and in accordance with any instructions accompanying the notice. 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, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. In Decision (D.)15-10-031, the Commission approved Southern California Edison's (SCE) 2014 Bundled Procurement Plan ("2014 BPP"), which provides SCE preapproved authority for transactions executed in compliance with its 2014 BPP.
2. In D.04-12-048, the Commission enabled the Investor-Owned Utilities (IOUs) to update their Bundled Procurement Plans (BPPs) between biennial Long-Term Procurement Plan (LTPP) proceedings via advice letter. Resolution E-4828 reaffirmed this interim revision process.
3. Under SCE's 2014 BPP, SCE cannot bilaterally contract for firm (or "forward") energy longer than one quarter in duration and/or more than one quarter forward, because these products are not categorized as an authorized non-standard product.
4. Under SCE's 2014 BPP, prior to transacting firm energy for the longer term, SCE must first seek cost recovery approval from the Commission through the advice letter process, or transact without doing so and risk cost recovery.

5. Unlike IOUs under the Commission's jurisdiction, other Load Serving Entities (LSEs) such as Community Choice Aggregators (CCAs) and Energy Service Providers (ESPs) are not subject to the same BPP procurement restrictions for transacting firm energy to meet their RA obligations.
6. This competitive disadvantage may negatively affect SCE customers.
7. The Resource Adequacy (RA) market has both become more illiquid and evolved significantly since the adoption of SCE's 2014 BPP.
8. SCE's proposed revision to its 2014 BPP to authorize it to use negotiated bilateral contracts to purchase firm energy with delivery in the same or prompt compliance year for the purpose of satisfying its RA obligations, provided it includes a statement in its Quarterly Compliance Report (QCR) filing to justify the need, is reasonable.

THEREFORE IT IS ORDERED THAT:

1. The request of Southern California Edison to modify its 2014 Bundled Procurement Plan as requested in Advice Letter 4464-E 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 February 10, 2022; the following Commissioners voting favorably thereon:

Rachel Peterson
Executive Director