

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

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RESOLUTION E-5193
February 10, 2022

R E S O L U T I O N

Resolution E-5193. San Diego Gas & Electric Company request for approval of three Utility Owned Energy Storage Contracts and related costs pursuant to Decision (D.) 21-12-015.

PROPOSED OUTCOME:

- This Resolution approves San Diego Gas & Electric Company's three Utility Owned Energy Storage contracts and related costs for a total of 161 megawatts (MW) of incremental capacity.
- This Resolution finds that the Energy Storage Projects do not require a Certificate of Public Convenience and Necessity or Permit to Construct to be issued from the Commission.

SAFETY CONSIDERATIONS:

- The three Utility Owned Energy Storage contracts contain detailed safety provisions provided in Exhibit D (Safety and Site Security Requirements), and provided throughout the contract technical specifications in Exhibit A-2.

ESTIMATED COST:

- The estimated total cost of these contracts is \$ 399.2 million.

By Advice Letter 3913-E, Filed on December 14, 2021.

SUMMARY

This Resolution approves three utility-owned energy storage contracts for 161 megawatts ("MW") of incremental capacity that San Diego Gas & Electric Company ("SDG&E") procured to address 2023 summer reliability. These contracts include two Engineering, Procurement, and Construction ("EPC") contracts; one with Mitsubishi Power America, Inc. ("Mitsubishi") for 10 MW, and one with Fluence Energy, LLC ("Fluence") for 20 MW, and a Build, Own, and Transfer ("BOT") agreement with Consolidated Edison Development, Inc. ("ConEdDev") for 131 MW. This Resolution approves the requested relief in Advice Letter ("AL") 3913-E.

BACKGROUND

In Decision ("D.") 21-02-028, the Commission authorized the investor-owned utilities ("IOUs") to contract for capacity available to serve peak and net peak demand in the summer of 2021 on behalf of all benefitting customers, including incremental energy storage capacity.¹ The Commission also determined that potential resources may include utility-owned generation, and authorized the IOUs to submit utility-owned generation for summer 2021 through a Tier 2 AL.²

In March 2021, the Commission issued D.21-03-056 which authorized the IOUs to continue their procurement efforts on behalf of all benefitting customers by targeting an effective increase in the planning reserve margin ("PRM") from 15 to 17.5-19 percent for the summers of 2021 and 2022 and to exceed their respective targets by as much as an additional 50 percent for incremental supply-side generation and in-front-of-the-meter storage resources.³ The Commission expressed a continuing preference for storage contracts.⁴

On July 30, 2021, Governor Newsom issued a Proclamation of State of Emergency ("Emergency Proclamation") due to the increasing effects of climate change and their impact on the state's electric system. The Emergency

¹ D. 21-02-028 at 11, 14, OP 1.

² *Id.* at 11.

³ D.21-03-056 at OP1, 13-14 Attachment 1 at 20-22.

⁴ *Id.* at OP1, Attachment 1 at 22.

Proclamation requests that the Commission “work with the State's load serving entities on accelerating plans for the construction, procurement, and rapid deployment of new clean energy and storage projects to mitigate the risk of capacity shortages and increase the availability of carbon-free energy at all times of day.”⁵ It also requests that the Commission expedite its actions, “to the maximum extent necessary to meet the purposes and directives of this proclamation, including by expanding and expediting approval of demand response programs and storage and clean energy projects, to ensure that California has a safe and reliable electricity supply through October 31, 2021, to reduce strain on the energy infrastructure, and to ensure increased clean energy capacity by October 31, 2022.”⁶ The Commission undertook Phase 2 of the emergency reliability proceeding R.20-11-003 in response to this directive. On August 10, 2021, the Assigned Commissioner issued a scoping memo providing the scope and schedule of Phase 2, finding that “an expedited process is essential to ensure there is adequate supply and demand management to achieve electrical system reliability in 2022 and 2023.”⁷

On December 6, 2021, the Commission issued a Phase 2 decision, D.21-12-015, adopting several supply and demand-side requirements intended to ensure there is adequate electric power in the event of extreme weather conditions during the summers of 2022 and 2023.⁸ Specifically, the Commission determined a need for contingency resources in the range of 2,000 to 3,000 MW to meet an effective PRM of 20-22.5%.⁹ The Commission allocated the procurement responsibility for the additional contingency resources to the three large IOUs on a proportional load share basis; SDG&E's share of the procurement range is 200-300 MW.¹⁰

The Commission also established specific requirements for the procurement of additional supply-resources in D.21-12-015, including:

⁵ Emergency Proclamation, Paragraph 2. [CAP14-20210730130249](#).

⁶ *Id.* at paragraph 13.

⁷ Assigned Commissioner's Amended Scoping Memo and Ruling for Phase 2 at 3.

⁸ D.21-12-015 at 2.

⁹ *Id.* at 12.

¹⁰ *Id.* OP 3.

- Resources must be available during both the peak and net peak demand periods.
- Commercial Online Dates (“COD”) by June 1, 2022, are preferred but resources with CODs by August 1, 2023, will be considered.
- New resources that have not yet reached full capacity deliverability status but are capable of providing energy/grid reliability benefits during the peak and net-peak periods will also be considered.
- Potential resources may include utility-owned storage, with Commission consideration of such projects through a Tier 2 AL.¹¹

On December 14, 2021, SDG&E submitted AL 3913-E requesting approval of two EPC contracts with Mitsubishi and Fluence, and one BOT contract with ConEdDev for a total of 161 MW of utility-owned energy storage projects. All three projects would be built on SDG&E-owned sites and operated to provide incremental capacity available to serve peak and net peak demand to meet summer 2023 reliability needs. The EPC contracts will be managed directly by SDG&E via the contractors throughout the construction, and the BOT contract will be delivered to SDG&E as a completed project but managed directly by ConEdDev throughout the project development.

The Commercial Operation Date is January 31, 2023 for the Pala-Gomez Creek Energy Storage Project (“Pala-Gomez”), January 29, 2023 for the Melrose Energy Storage Project (“Melrose”), and December 31, 2022 for the Westside Canal Energy Storage Project (“Westside Canal”). The projects are to be sited near three substations: Pala-Gomez is to be located at an existing SDG&E battery storage yard adjacent to the Pala Substation in Pala, California. Melrose is to be located within SDG&E substation property, directly adjacent to SDG&E’s Melrose Substation in Vista, California. Westside Canal loops into the existing Campo Verde-Imperial Irrigation District (“IID”) gen-tie line and transmission interconnect (230 kV) to SDG&E’s Imperial Valley Substation.

¹¹ *Id.* at 100, OP 76.

The three projects are summarized in the table below:

Project / Location	Technology	Counterparty	Megawatts (MW)	Duration	Contract Type	Commercial Operation Date	Contract Term
Pala-Gomez Creek / Pala, CA	Lithium-Ion Energy Storage	Mitsubishi	10	6 hours	EPC	01/31/23	10 years
Melrose / Vista, CA	Lithium-Ion Energy Storage	Fluence	20	4 hours	EPC	01/29/23	10 years
Westside Canal / Imperial Valley, CA	Lithium-Ion Energy Storage	ConEdDev	131	4 hours	BOT	12/31/2022	10 years

The estimated total cost of the projects is \$399.2 million.¹²

SDG&E's Advanced Clean Technologies ("ACT") function¹³ conducted bilateral negotiations for the proposed EPC and BOT contracts that were overseen by an independent evaluator ("IE"). SDG&E states that it compared both the capital and operations and maintenance ("O&M") costs of the proposed projects against one another, against prior approved utility-owned projects, and against relevant market data, and retained an IE to assist with the cost competitiveness analysis.¹⁴

All the proposed projects are and have been in the interconnection queue. Below is a summary of each of the project's current interconnection status and next steps as it relates to each of the project's interconnection.

1. Pala-Gomez Creek Energy Storage Project -The Pala-Gomez Creek Energy Storage Project's wholesale distribution access tariff ("WDAT") interconnection queue number is W188. The project has a System Impact Study ("SIS") and is currently in the CAISO's Cluster 14 Deliverability Assessment, with results expected in March 2022. The SIS noted that the addition of the project did not result in adverse impacts or operating concerns to the transmission system, so it is expected that the project will

¹² SDG&E AL 3913-E at 8-11, 16.

¹³ ACT operates as SDG&E's Utility Development Team (UDT).

¹⁴ SDG&E AL 3913-E, at 5, 7.

be able to deliver during SDG&E's peak and net peak periods. The project will execute a Small Generator Interconnection Agreement ("SGIA") with SDG&E in February 2022.

2. Melrose Energy Storage Project -The Melrose Energy Storage Project's WDAT interconnection queue numbers are W122 and W123. The project has a SIS for each interconnection queue number and has draft SGIA's. The Melrose Energy Storage Project has full capacity deliverability status via the CAISO Transmission Planning ("TP") Deliverability Allocation process. The project will execute a SGIA with SDG&E in February 2022.
3. Westside Canal Energy Storage Project -The Westside Canal Energy Storage Project's CAISO interconnection queue number is Q1531 (Bateria Del Sur), and will acquire deliverability (i.e., full capacity deliverability status) from another project via a Material Modification Amendment ("MMA") and associated deliverability transfer request. The MMA process is currently underway and once concluded, Q1531 will have 131 MW of deliverability. Once the MMA is approved, the project will request a large generator interconnection agreement ("LGIA") with slightly accelerated synchronization and COD dates. It is expected the project will execute a LGIA in February 2022.¹⁵

Regarding cost recovery, SDG&E proposes that the associated costs of the Westside Canal and Melrose projects be recovered through the Cost Allocation Mechanism ("CAM") consistent OP 11 of the Phase 2 Decision, which orders that the net costs associated with the supply side procurement shall be passed through to all benefitting customers, consistent with the CAM. SDG&E states that these two projects will have FCDS.

SDG&E proposes that the associated costs of the Pala project, which is still pending FCDS, will be recovered through distribution rates until the project reaches FCDS. Once the project has achieved FCDS in the CAISO wholesale market, SDG&E will allocate the remaining costs and benefits of the resource

¹⁵ *Id.* at 14.

through the CAM.¹⁶ SDG&E states that this would be consistent with the cost allocation mechanism approved by the Commission for resources that would first interconnect to non-CAISO controlled facilities and operate as a distribution asset, because the Commission noted that “collecting the costs of this procurement through distribution rates until the resource is fully deliverable to CAISO markets is consistent with principles of CAM treatment.” Additionally, SDG&E requests recovery of the costs associated with the services provided by the independent evaluator PA Consulting totaling \$33,426.¹⁷

SDG&E states that the Commission's General Order ("GO") 131-D governs the permitting of certain electrical facilities including the purchase and installation of turnkey electrical facilities by an IOU, as applicable to Pala-Gomez Creek Energy Storage Project and Melrose Energy Storage Project. Under G.O. 131-D, a certificate of public convenience and necessity ("CPCN") is required for generation facilities over 50 megawatts and, unless the project falls within one of the exemptions specified in Section III(A) of GO 131-D, major transmission line facilities over 200 kilovolts ("kV"). A permit to construct ("PTC") is required for power line facilities between 50 and 200 kV, new substations over 50 kV, or "upgraded" substations, as defined, except for projects covered by one of the exemptions specified in Section III(B), which are generally required to provide notice of exempt construction ("NOC") and submit an advice letter with the Commission. SDG&E also notes that the Pacific Gas and Electric ("PG&E") utility-owned energy storage ("UOS") project at Moss Landing was allowed to go forward without a Certificate of Public Convenience and Necessity ("CPCN") or Permit to Construct ("PTC") and requests similar treatment of the EPC and BOT contracts.¹⁸

In terms of permitting status for the Westside Canal Energy Storage Project, the Imperial County Board of Supervisors unanimously approved the following discretionary actions for the Westside Canal Energy Storage Project:

¹⁶ *Id.* at 17-18.

¹⁷ *Id.* at 16.

¹⁸ *Id.* at 12-13.

- Adoption of a Water Supply Assessment;
- Certification of the Final Environmental Impact Report;
- Adoption of the Mitigation Monitoring and Reporting Program;
- Approval of the Development Agreement;
- Adoption of a General Plan Amendment;
- Approval of a Zone Change; and
- Approval of a Conditional Use Permit.

Additionally, the Bureau of Land Management (“BLM”) approved a Temporary Use Permit for a construction access route over BLM-administered public lands to enable access to the Westside Canal Energy Storage Project while permanent access facilities are being constructed. All remaining permits and agreements necessary to provide permanent access to the site and enable construction of the Westside Canal Energy Storage Project are under review by the appropriate agencies and are expected to be complete by the end of January 2022.¹⁹

SDG&E requests that the following relief be approved by the Commission:

1. The proposed Projects are reasonable and comply with the requirement set forth in the Phase 2 Decision.
2. The contracts are approved and count towards SDG&E’s procurement need identified in the Phase 2 Decision.
3. SDG&E is authorized to recover the costs of the Pala-Gomez, Melrose and Westside Canal projects via the CAM for the period commencing with the resource online date through the end of 2023. Beginning in 2024, after the emergency period has concluded, the resources will continue to serve the region and Resource Adequacy (“RA”) benefits associated with the Melrose and Westside Canal projects, and the Pala-Gomez project when it achieves FCDS, will be allocated to benefiting customers for the period in which costs are shared, while costs continue to be recovered via the CAM.²⁰

¹⁹ *Id.* at 13.

²⁰ *Id.* at 2., SDG&E Reply to Protest at 7.

NOTICE

Notice of AL 3919-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 General Rule 4 of GO 96-B.

PROTESTS

SDG&E's Advice Letter 3913-E was timely protested by California Community Choice Association ("CalCCA") on December 23, 2021, and by the Public Advocates Office ("Cal Advocates") on December 24, 2021.

CalCCA states that it does not object to the Commission's approval of SDG&E's UOS projects but seeks clarification on how the Commission intends to oversee the operation of the UOS and allocate the benefits of the projects. Specifically, CalCCA states that the Commission should clarify how the benefits of the dispatch of UOS resources not yet participating in the wholesale market will be credited against procurement costs in the CAM.²¹ Crediting these benefits should be consistent with SCE's proposed UOS procurement in AL 4617-E.²²

Cal Advocates recommends that the Commission require SDG&E to: provide a net market value analysis for the proposed UOS procurement as required by D.21-12-015 to demonstrate that the proposed UOS projects are cost-competitive compared with recent energy storage procurement based on the net market value analysis; provide energy benefit data so the Commission can determine whether procurement costs are just and reasonable; provide operational information to demonstrate that the distribution-connected Pala-Gomez Creek project will provide reliability benefits during peak and net-peak load periods of summer 2023 without having FCDS; and mitigate the UOS projects' bill impacts by recalculating the revenue requirements to be consistent with a 20-year useful life and to seek cost recovery accordingly.²³

²¹ CalCCA Protest at 1.

²² *Id.* at 3.

²³ Cal Advocates Protest at 1-2.

SDG&E REPLY TO PROTESTS

On December 28, 2021, SDG&E timely responded to the protest of CalCCA and Cal Advocates.

In response to Cal Advocates' protest for SDG&E to provide a net market value analysis to demonstrate competitiveness, SDG&E states that it performed a cost comparison analysis against the recently approved UOS projects in SCE AL 4617-E and the Kearny Energy Storage project approved via Resolution E-5117. SDG&E states that it evaluated the total revenue requirements against both the capacity and energy offered by the proposed projects over a 20-year duration in comparison with the recently approved projects. In addition, SDG&E evaluated the proposed projects against a recently conducted request for proposals ("RFP") by SDG&E's ACT team for utility-owned energy storage with online dates between August 2023 and June 2026 in response to the Mid-Term Reliability ("MTR") procurement directed by the Commission in D.21-06-035. In this analysis, SDG&E performed a discounted cost against discounted energy analysis to determine if the proposed projects were competitive with MTR bids. SDG&E also conducted a net market value analysis quantifying the cost and benefits of the proposed projects. The analysis calculated the net present value ("NPV") of the benefit streams over a 20-year period and the total revenue requirements of each project. The analyses show that SDG&E's proposed projects are cost competitive. SDG&E also provided energy benefit data in its response.²⁴ All the above analysis was provided in Confidential Appendix A-C of SDG&E's response.

In response to Cal Advocates' protest for SDG&E to provide operational data for Pala-Gomez to demonstrate reliability benefits, SDG&E states that D.21-12-015 does not require proposed resources to be fully deliverable, just that they are able to "provide peak and net peak grid reliability benefits in summer 2022 or 2023." In terms of interconnection, SDG&E has provided information from the System Impact Study ("SIS") which did not "identify any adverse impacts or operating concerns to the transmission system." In terms of scheduling/dispatch of the project, if Pala-Gomez does not receive FCDS prior to commercial

²⁴ SDG&E Reply to Protest at 2-4.

operation, it will nevertheless be interconnected to and participate in the CAISO market as an “energy-only” resource and provide energy and ancillary services through CAISO market participation and dispatch. The project will be bid into the CAISO market under a least-cost dispatch methodology, and the CAISO market will determine the type and timing of energy service needed. SDG&E as the scheduling coordinator can also self-schedule the asset to charge during the morning to mid-afternoon hours and then discharge the asset during peak and net peak periods. The project can provide a deep cycle (i.e., full charge and discharge) on a daily basis, or up to twice a day, but with an annual limit of 365 cycles per year. Because the project will participate in the CAISO market and can be self-scheduled, it will provide reliability benefits during peak and net peak periods as required by D.21-12-015.²⁵

In response to Cal Advocates’ protest for SDG&E to recalculate the revenue requirements to be consistent with a 20-year useful life and recover cost accordingly, SDG&E states that it calculated the revenue requirements consistent with SDG&E’s approved 2019 General Rate Case (“GRC”) in D.19-09-051. SDG&E states that this advice letter is not the appropriate venue to change the depreciable life of energy storage assets and suggests that the matter could be considered in SDG&E’s upcoming GRC filing in May 2022.²⁶

Lastly, in response to Cal Advocates’ recommendation that the Commission delay the approval of SDG&E AL 3913-E and require SDG&E to cure deficiencies in the AL, SDG&E states that the Commission identified concerns about potential delays in D.21-12-015 in Finding of Fact 37, “[t]he procurement ordered here has a longer lead time than the 2021 contingency procurement ordered in Phase 1.” SDG&E states that it is well-documented that current market conditions indicate significant supply chain constraints and unavailability of battery cells and modules. Any delay may risk the projects meeting their online dates. Further, SDG&E is targeting the resources to come on-line prior to summer 2023 to ensure the projects have time to fully operate in the market prior to the summer months and resolve any operational issues that may exist initially.²⁷

²⁵ *Id.* at 4-5.

²⁶ *Id.* at 5.

²⁷ *Id.* at 5-6.

In response to CalCCA's protest for SDG&E to clarify how benefits of reduced load prior to the resource participating in the wholesale market will be allocated, SDG&E states that without FCDS, projects are still able to participate in the CAISO market as an "energy-only" resource and provide energy and ancillary services through CAISO market participation and dispatch. Given that decisions in R.20-11-003 have allowed for CAM cost-recovery, even for resources that may not be fully deliverable, SDG&E clarifies its request for authorization to recover the costs of all the proposed UOS projects using CAM cost recovery, and not to recover rates via distribution rates. SDG&E states that the Pala-Gomez project will be interconnected to and participating in the CAISO market, unlike SCE's approved UOS projects that will not be CAISO interconnected. Therefore, SCE's approach of crediting energy benefits is not applicable to SDG&E's proposed projects.²⁸

SDG&E further clarifies that any CAISO market revenues (i.e., benefits) the Pala-Gomez Creek project receives will be used to offset the costs of the project thereby reducing the overall project cost impacts to all benefitting customers consistent with D.21-12-015.

DISCUSSION

The Commission has reviewed AL 3913-E, the protests, and the reply of SDG&E. We consider issues raised by the protestants to AL 3913-E in the following discussion. However, we find that SDG&E's request in AL 3913-E is reasonable overall.

Consistency with Commission decisions, D.21-02-028, D.21-03-056, and D.21-12-015

We find that SDG&E's AL 3913-E filing is consistent with Commission decisions, D.21-02-028, D.21-03-056, and D.21-12-015 (collectively, the "Decisions"). As directed in the Decisions, SDG&E has filed a Tier 2 AL seeking approval of its EPC contracts with Mitsubishi and Fluence, and BOT contract with ConEdDev.

²⁸ *Id.* at 6-7.

The EPC and BOT contracts are for a total of 161 MW of incremental storage capacity expected to be online by December 31, 2022, January 29, 2023, and January 31, 2023, that can dispatch to meet peak and net peak demand.

Further, AL 3913-E includes the following elements as required by the Decisions:

- Discussion of the procurement process and resources selected;
- Operational information on the resources selected;
- Pricing and net market value analysis and summary of key contract terms;
- Independent evaluator report;
- Showing of cost competitiveness to extent comparable data exist; and
- A demonstration that the resource has a path to deliver its online date.

Procurement Methodology, Evaluation, and Cost Reasonableness

Melrose and Westside Canal originally bid into SDG&E's 2021-2023 Integrated Resource Plan ("IRP") Reliability solicitation. Melrose was submitted to the Commission approval but was denied in Resolution E-5117 on the grounds that the project could not meet the specified on-line date requirement. Westside Canal was shortlisted but was withdrawn due to the inability to acquire the necessary FCDS in time to meet the on-line date. Pala-Gomez was the result of efforts by SDG&E to identify potential future energy storage sites that can leverage existing infrastructure. SDG&E conducted bilateral negotiations in conjunction with all three UOS projects.

SDG&E retained PA Consulting Group as the IE for its emergency reliability ownership efforts. PA Consulting conducted its own independent evaluation, joined, and contributed to numerous conference calls and negotiation sessions, and reviewed email traffic and other documents exchanged by SDG&E and project counterparties. The IE also participated in the CAM procurement review group meeting. The IE analysis is included in SDG&E's AL 3913-E Confidential Appendix A. The IE used both publicly available information and data from a recent SDG&E Request for Offer ("RFO") in February 2020 to confirm the reasonableness of the cost levels for these contracts.²⁹ The IE compiled EPC cost

²⁹ SDG&E AL 3913-E, Public Appendix A at 28.

data for lithium-ion battery energy storage systems (“BESS”) from several public sources.³⁰ The IE finds that Westside Canal BOT contract price is higher than the average publicly available cost information. However, the IE notes that part of the higher cost is likely due to the fact that the public available project cost information only included EPC contracts. In addition, the IE notes that due to increase in demand and the current supply chain issues due to COVID and other factors, the market has experienced an increase in capital cost for BESS projects over the last year or so. The public data that the IE used do not reflect this recent price increase.³¹ The IE also finds that Melrose and Pala-Gomez contract prices are reasonable given the recent upward pressure on prices.³²

SDG&E states that it compared both the capital and O&M costs of the current proposed energy storage projects against one another, against prior approved utility-owned projects, and against relevant market data.³³

We have reviewed SDG&E’s price comparison analyses and the IE report which contain price comparisons to publicly available energy storage cost information as well as prior SDG&E RFOs. On balance, we concur with the IE that the costs of the EPC and BOT contracts are generally reasonable given the high demand for BESS projects and supply chain issues due to COVID and other factors that are driving an increase in BESS capital costs. We find that SDG&E has performed the required net market value and cost competitiveness analysis required by D.21-12-015 and demonstrated that the three proposed UOS projects are cost competitive.

Given the expedited development timeline, we direct SDG&E to regularly update the CAM PRG on project milestones during development as well as on operations once the projects are online.

Cost Recovery

³⁰ *Id.* at 26. Resources include Energy Information Administration, Pacific Northwest National Laboratory, National Renewable Energy Laboratory, Wood Mackenzie, and Lazard.

³¹ *Id.* at 27.

³² *Id.* at 28.

³³ SDG&E AL 3913-E at 7.

In D.21-02-028 and D.21-03-056, the Commission directed the IOUs to continue procurement efforts to meet or exceed the effective 17.5 percent planning reserve margin with a preference for new storage contracts, including UOS, with costs to be recovered through CAM. D.21-02-028 specified the parameters of CAM-based cost recovery for conforming procurement.³⁴ SDG&E's request and clarification to recover the costs of the proposed UOS projects via CAM is reasonable because it meets the procurement requirements specified in D.21-02-28, namely incremental energy storage capacity. In addition, D.21-12-015 affirmed cost recovery through CAM once a resource is connected to the transmission system and deliverable to CAISO.

“Consistent with the principles of the Cost Allocation Mechanism (CAM) authority this Commission granted in Decision 21-02-028, once a resource authorized in this decision is connected to the transmission system and deliverable to California Independent System Operator markets, Investor-Owned Utilities shall no longer collect costs for the resources through distribution rates, and instead shall account for the net capacity costs and benefits through the CAM mechanism.” (OP 79)

D.21-12-015 also extended the CAM authority granted in D.21-02-28 and D.21-03-56 to summer 2023 procurement.

“The Cost Allocation Mechanism (CAM) authority granted in Decision (D.) 21-02-028 and D.21-03-056 is extended to the summer 2023 procurement ordered in this decision. If an Investor-Owned Utility (IOU) uses such procurement to meet its bundled service Resource Adequacy (RA) requirements, it shall not recover the costs of the resource through CAM, but rather from bundled service customers. After the emergency procurement period, during which an IOU procures incremental reliability resources on behalf of all customers, ends, the IOU shall allocate RA benefits of any resources

³⁴ D.21-02-028 at 11.

whose contracts extend beyond the emergency procurement period consistent with their approved cost recovery mechanism.” (OP 86)

SDG&E’s proposed UOS projects will be interconnected and participate in CAISO’s market, even prior to achieving FCDS. We agree with SDG&E that the Commission authorizes it to recover the cost of the proposed UOS projects via CAM and because Pala-Gomez will be interconnected to and participating in the CAISO market, it is a different scenario than SCE’s approved UOS projects, which will not be CAISO interconnected for a certain period.

Operational Data for Pala Gomez

We agree with SDG&E that although Pala-Gomez will not achieve FCDS prior to commercial operation, it will participate in the CAISO market and has the ability to charge and discharge, therefore contribute to reliability during peak and net peak periods. Cal Advocates did not specify the type of operational data it is requesting. SDG&E has provided the cycling information for the Pala-Gomez project.

Depreciable Life of Energy Storage

We agree with SDG&E that changes to depreciation parameters should be considered in SDG&E’s GRC proceeding, not in an advice letter.

Permitting

The Governor's July 30, 2021, Emergency Proclamation declared a State of Emergency due to risks to electricity reliability posed by extreme heat, drought, and fire.³⁵ In the Proclamation, the Governor requested that the Commission work with load serving entities to rapidly deploy new clean energy and storage projects.³⁶ Additionally, the Order addresses expedited permitting of projects

³⁵ Governor's Emergency Proclamation, July 30, 2021, at 1.

³⁶ *Id.* at Order 13.

and states that “these emergency circumstances may be deemed an unforeseen emergency situation.”³⁷

In response in part to the Emergency Proclamation, we adopted several Supply-and demand-side requirements to ensure electricity reliability for the summers of 2022 and 2023 should another extreme weather event occur.³⁸ Relevant to the discussion here, we found that, “[i]f an extreme weather event were to occur, there is a need for contingency resources in the summers of 2022-2023 in the range of 2,000 MW to 3,000 MW.”³⁹ We also pointed to numerous uncertainties that weigh in favor of this contingency procurement, including “heightened risks associated with climate change, extreme heatwaves, dry hydro conditions, potential West-wide capacity shortages, supply chain issues with procurement underway, and project contract failures”⁴⁰ Given these uncertainties, it is critical that we act now to secure adequate resources for 2023. This procurement is required to reduce the risk of further outages and safeguard the health and safety of Californians.

While we disagree with SDG&E that PG&E’s Moss Landing project should serve as a precedent in this decision, we agree that this is an emergency situation and that the exemption for emergency projects under GO 131-D apply. As SDG&E signed the EPC and BOT contracts in direct response to Commission decisions to expedite procurement to ensure reliability in the face of extreme weather events, we find that the emergency provisions in CEQA do apply.

We agree with SDG&E that the UOS projects are exempt from GO 131-D compliance pursuant to GO 131-D, Section III.B.1.h, which governs the construction of projects by investor-owned utilities that are statutorily or categorically exempt pursuant to Section 15260 et seq. of the Guidelines adopted to implement CEQA, Title 14 of the California Code of Regulations Section 15000 et seq. Specifically, we find that the UOS projects are subject to Section 15269(c)

³⁷ *Id.*

³⁸ D.21-12-015 at 2.

³⁹ *Id.* at FOF 10.

⁴⁰ *Id.* at FOF 17.

of the Guidelines, which exempts “actions necessary to prevent or mitigate an emergency.” As such, SDG&E is not required to secure a Certificate of Public Convenience and Necessity, Permit to Construct, or notice of exempt construction from the Commission. However, the Commission is not setting precedent for future storage projects with regard to GO 131-D. These are exceptional circumstances and the process approved here is reliant upon the ability of the projects to prevent an emergency.

MTR Eligibility

D.21-12-015 states that “[i]f an IOU elects to continue to charge all customers in its service territory for the ongoing costs of UOS resources after 2023, the resource will not count toward the IRP MTR requirements for the LSEs in the utility’s service territory.” Further, the decision states that “[w]hile these resources will not count towards existing IRP MTR procurement obligations, they will likely become part of the baseline used to calculate future reliability needs. In this way the resources will either reduce future IRP procurement requirements or otherwise lower the amount of procurement required.”⁴¹ Since all customers in SDG&E's service territory will be charged for the UOS for the life of the projects, they are not eligible to count towards IRP MTR requirements.

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.

⁴¹ D.21-12-015 at 108-9.

The 30-day review and 20-day comment period for the draft of this resolution is neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments on <Month><Day>, 2022.

FINDINGS

1. Commission decisions D.21-02-028 and D.21-03-056 directed the IOUs to contract for incremental capacity available to serve peak and net peak demand during the summers of 2021 and 2022 on behalf of all benefitting customers and expressed a preference for storage resources. The Commission determined that potential resources may include utility-owned generation and authorized the IOUs to submit utility-owned generation projects through a Tier 2 Advice Letter.
2. On July 30, 2021, Governor Newsom proclaimed a state of emergency in California due to the increasing effects of climate change and their impact on the state's electric system.
3. The Emergency Proclamation requests that the Commission "work with the State's load serving entities on accelerating plans for the construction, procurement, and rapid deployment of new clean energy and storage projects to mitigate the risk of capacity shortages and increase the availability of carbon-free energy at all times of day."
4. Commission decision D.21-12-015 adopted several supply and demand-side requirements intended to ensure that there is adequate electric power in the event of extreme weather conditions during the summers of 2022 and 2023.
5. SDG&E's methodology to evaluate bilateral energy storage procurement is reasonable.
6. The cost of the utility owned energy storage contracts is reasonable given the recent increase in prices due to high demand for energy storage systems.
7. SDG&E's request to recover the costs of the utility owned energy storage projects through the Cost Allocation Mechanism is reasonable.
8. It is reasonable to allow SDG&E to recover costs of the independent evaluator up to \$33,426.
9. It is reasonable for SDG&E to regularly update the Cost Allocation Mechanism Procurement Review Group on project milestones during development as well as on operations once the projects are online.

10. The utility owned energy storage projects are governed by Commission General Order 131-D as it relates to permitting electric facilities in California.
11. The development of the utility owned energy storage projects are necessary to maintain electricity service which is essential to the public health, safety, and welfare and are, therefore, statutorily exempt from the requirements of the California Environmental Quality Act pursuant to Section 15269, Title 14 of the California Code of Regulations (CEQA Guidelines). As such, section III.B.1.h of GO 131-D exempts the projects from the requirement to file an application with the Commission requesting authority to construct.
12. A Certificate of Public Convenience and Necessity, Permit to Construct, or notice of exempt construction from the Commission is not required for the Utility-Owned Storage Projects identified in SDG&E AL 3913-E.

THEREFORE IT IS ORDERED THAT:

1. The request of SDG&E to approve the utility-owned energy storage contracts as requested in Advice Letter 3913-E is approved.
2. The total cost (capital, operations, and construction) of \$399.2 million is reasonable given recent increase in cost for lithium-ion battery energy storage systems.
3. SDG&E is authorized to recover the costs of the utility-owned energy storage contracts via the Cost Allocation Mechanism.
4. SDG&E is authorized to recover the independent evaluator costs up to \$33,426.

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