

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Agenda ID: 20465
RESOLUTION E-5199
APRIL 21, 2022

R E S O L U T I O N

Resolution E-5199. Southern California Edison Amendments to Power Purchase Agreements with AES Alamos Energy, LLC and AES Huntington Beach Energy, LLC.

PROPOSED OUTCOME:

- Approves amendments to two power purchase agreements between Southern California Edison and AES Alamos Energy, LLC and AES Huntington Beach Energy, LLC for an additional 49.5 MW of capacity.

SAFETY CONSIDERATIONS:

- There is no direct impact on safety.

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 4663-E, Filed on December 10, 2021.

SUMMARY

Southern California Edison Company ("SCE") requests approval of amendments to power purchase agreements ("PPAs") with AES Alamos, LLC and AES Huntington Beach, LLC. Together the amendments provide an additional 49.5 megawatts ("MW") of additional capacity and approximately 16.5 MW of energy and ancillary services at no additional cost for delivery periods during which the sellers exercise the put option contained in the AES PPAs.

The AES Alamitos and AES Huntington Beach projects are combined cycle power plants which achieved commercial operation in February 2020. Prior to the start of the delivery terms of the AES PPAs in May and June, 2020, the sellers conducted required capacity testing. These tests determined that 49.5 MW of additional capacity was available from the projects. The purpose of the amendments is to ensure that SCE has access to all of the capacity from the AES Alamitos and AES Huntington Beach projects to meet reliability needs on behalf of all benefiting customers by amending the PPAs to account for the additional capacity.

BACKGROUND

On November 3, 2014, as part of SCE's 2013 Local Capacity Requirements Request for Offers solicitation, SCE entered into two separate 20-year PPAs with AES Alamitos and AES Huntington Beach for the capacity from two proposed clean and efficient combined cycle gas turbine ("CCGT") projects, utilizing air cooled condensers for cooling, that the sellers intended to construct to replace two of the AES once-through cooling ("OTC") generating stations located on the same sites. Both projects were deemed Western LA Basin Projects, as defined in Decision ("D.")13-02-015, because they are located within the Western Los Angeles basin sub-area.

In D.15-11-041, the Commission approved the AES PPAs and determined that the costs of the contracts should be borne by all benefitting customers using the Cost Allocation Mechanism ("CAM") because the generation would help meet local or system area reliability needs for the benefit of all customers in SCE's service area.

The AES Huntington Beach Project and AES Alamitos Project both achieved commercial operation in February 2020, but the respective AES PPA delivery terms did not begin until May 1, 2020 and June 1, 2020. Prior to the start of the delivery terms under the AES PPAs, the sellers conducted required capacity testing in accordance with the AES PPAs. Based on this testing, the sellers determined that the AES Huntington Beach and AES Alamitos Projects could supply 673.8 MW and 674.7 MW, respectively, which is 24.8 MW and 24.7 MW,

respectively, of capacity above the AES PPAs previously contracted-for capacity. No additions, modifications, or enhancements to the projects were necessary for the sellers to offer the additional capacity for the remainder of the delivery terms under the AES PPAs.

Because both projects' actual available capacity exceeded the stated contract capacity in the AES PPAs, SCE was concerned that the additional capacity would be stranded if SCE and the sellers did not reach an agreement for the additional capacity because AES would not have any incentive to provide the additional capacity absent payment. The potential for stranded capacity was especially concerning due to the recent system emergency events of 2020 and the urgent need for capacity for the system. SCE also continues to have a need for additional RA capacity continuing well beyond 2023. SCE therefore concluded that prudent contract management warranted SCE purchasing the additional capacity to maximize the value of the AES PPAs and ensure that the additional capacity was made available to the system during potentially emergency conditions.

On December 31, 2020, SCE entered into a letter agreement with each of the sellers pursuant to which the parties agreed to a temporary arrangement for the purchase and sale of the additional capacity while the parties negotiated the amendments. The amendments incorporate the key terms of the letter agreements, including making the purchase and sale of the additional capacity retroactive to January 1, 2021, the effective date of the Letter Agreements.

SCE states that the amendments are reasonable because they ensure that additional needed RA capacity will be available to help California meet ongoing short-term and expected long term reliability needs, without the need for upgrades or modifications to the existing projects and at a good value to customers and that SCE has exercised prudent contract management in taking advantage of the increased available capacity to ensure that urgently needed reliability capacity was and will continue to be available to the grid.

In D.15-11-041, the Commission approved SCE's proposed cost allocation methodology associated with the underlying AES PPAs. As the purpose of the Amendments is to add capacity to the underlying AES PPAs to avoid that additional capacity from being stranded, SCE states that the cost recovery

mechanism for the underlying AES PPAs should be applied to the additional capacity that is the subject of the Amendments. Therefore, consistent with D.15-11-041, SCE has recorded the costs and benefits already accrued for the Amendments, since January 1, 2021, in the Local Capacity Requirements Products Balancing Account ("LCRPBA") via the NSG Sub-Account, for which all costs and benefits of the underlying AES PPAs have already been recorded. SCE seeks approval from the Commission to record the additional costs and benefits related to the Amendments in the LCRPBA/NSG Sub-Account for cost recovery through CAM.

NOTICE

Notice of AL 4663-E was made by publication in the Commission's Daily Calendar. Southern California Edison 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 4663-E was protested.

SCE's Advice Letter 4663-E was timely protested by the California Environmental Justice Alliance and the Sierra Club ("CEJA/SC") on December 17, 2021. CEJA/SC state that SCE is requesting approval of contracts for new and additional polluting gas capacity through 2040 which is beyond any need identified in Emergency Reliability or the Integrated Resource Planning ("IRP") proceeding. Further CEJA/SC state that the proposed contracts are counter to California's commitment to decarbonization and clean energy resources.

CEJA/SC also state that SCE has failed to provide information about the air quality impacts of these contracts on surrounding communities such as how contracting for new, additional capacity will increase the potential of dispatch of the facilities and how the increased fossil fuel capacity will impact the efficiency and operations of the plants.

SCE timely responded to the protest of CEJA/SC, on January 6, 2022. SCE states that CEJA/SC appear to misunderstand the purpose and effect of the

amendments which are primarily to capture the benefits of already-existing capacity by aligning the as-built and tested contract capacity of the resources with the contractual obligations of the AES PPAs. SCE states that in this instance it is prudent and reasonable to avoid stranding capacity from existing, more efficient, natural gas resources, thereby potentially decreasing the need to purchase incremental capacity in the future.

Additionally, SCE states that AES amendments do not conflict with the Commission's decisions in the Emergency Reliability or Integrated Resource Planning proceedings or violate California air quality and climate laws as this procurement was not filed pursuant to D.21-03-056, D.21-12-015,4 or any IRP decision. Rather, the AES amendments support the Emergency Reliability Decisions since California urgently requires additional Resource Adequacy capacity and the amendments capture existing, additional capacity that would likely otherwise have been stranded due to terms of PPAs executed over seven years ago.

DISCUSSION

The Commission has reviewed the Advice Letter and protest and finds that SCE's request for approval of the AES amendments is reasonable.

The costs of the PPA amendments are reasonable. The costs for the additional capacity, which are confidential at this time, compare favorably to prevailing market prices.

The capacity meets an identified resource adequacy need. Additionally, the amendments ensure that existing capacity at the Alamitos and Huntington Beach generators will be available to help California meet ongoing short-term and expected long-term reliability needs, without the need for upgrades or modifications to the existing projects. This is particularly relevant given the urgent need for additional capacity in California. We agree with SCE, that CEJA/SC misunderstood the purpose and effect of the amendments. The AES amendments are contracting for existing capacity for power plants that are currently operational and will therefore have no incremental impact on emissions or plant operations. The amendments merely align the contracted capacity value with the generators' actual measured capabilities.

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. On December 10, 2021, Southern California Edison (SCE) submitted Advice Letter 4663-E seeking Commission approval of Amendment No. 8 to the AES Alamos Energy, LLC Power Purchase Agreement and Amendment No. 8 to the AES Huntington Beach Energy, LLC Power Purchase Agreement.
2. The Commission has reviewed SCE's advice letter filing and the PPA amendments contained therein and finds that the request for approval of the transactions is reasonable.
3. The prices of the capacity are reasonable and cost-effective compared to similar transactions and represent a benefit to customers.
4. Amendment No. 8 to the AES Alamos Power Purchase Agreement and the AES Huntington Beach Power Purchase Agreement are both reasonable and prudent for all purposes, including, but not limited to, recovery in rates of payments made and to be made pursuant to Amendment No. 8 of both the AES Alamos Power Purchase Agreement and AES Huntington Beach Power Purchase Agreement, subject only to

further review with respect to the prudence of SCE's administration of the AES Power Purchase Agreements.

5. The proposed cost recovery is reasonable. Effective as of January 1, 2021, SCE is authorized to allocate the benefits and costs of the additional capacity that is the subject of Amendment No. 8 of the AES Power Purchase Agreements in the LCRPBA/NSG Sub-Account (i.e., CAM), which replicates the manner authorized to allocate the benefits and costs of the AES Power Purchase Agreements, as approved in D.15-11-041.

THEREFORE IT IS ORDERED THAT:

1. The request of Southern California Edison that the Commission approve Amendment No. 8 to the AES Alamos Power Purchase Agreement and Amendment No. 8 to the AES Huntington Beach Power Purchase Agreement is granted without modification.
2. Southern California Edison's entry into Amendment No. 8 to the AES Alamos Power Purchase Agreement and Amendment No. 8 to the AES Huntington Beach Power Purchase Agreement are both reasonable and prudent for all purposes, including, but not limited to, recovery in rates of payments made and to be made pursuant to Amendment No. 8 of both the AES Alamos Power Purchase Agreement and AES Huntington Beach Power Purchase Agreement, subject only to further review with respect to the prudence of SCE's administration of the AES Power Purchase Agreements.
3. Southern California Edison's cost recovery proposal 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 April 21, 2022; the following Commissioners voting favorably thereon:

Rachel Peterson
Executive Director