

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Item # 11 (Rev. 1)
Agenda ID# 20558
RESOLUTION E-5205
May 19, 2022

R E S O L U T I O N

Resolution E-5205 Submission of Southern California Edison Company's
Midterm Reliability Energy Storage Contracts for Review and Approval
Pursuant to Decision 21-06-035

PROPOSED OUTCOME:

- This Resolution approves Southern California Edison's five energy storage contracts and related costs for a total of 497 megawatts of nameplate capacity expected to come online by August 1, 2023 or June 1, 2024.

SAFETY CONSIDERATIONS:

- Southern California Edison'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 22-23 of SCE Advice Letter 6477-E.

ESTIMATED COST:

- Contract costs are confidential at this time.

By Advice Letter 4739-E, Filed on March 4, 2022.

SUMMARY

This Resolution approves five energy storage contracts (the "Fast Track Contracts") for 497 megawatts (MW) of nameplate capacity, expected to provide 462 MW of incremental September net qualifying capacity (NQC),¹ that Southern California Edison

¹ September NQC was determined by utilizing the "Incremental ELCC Study for Mid-term Reliability Procurement" by E3 and Astrape.

(SCE) procured to address 2023 and 2024 mid-term reliability. These contracts include four resource adequacy (RA) only contracts and one RA with Put Option contract (i.e., RA contracts where the seller also has the option to put the dispatch rights to SCE). This Resolution approves all of the relief requested in Advice Letter (AL) 4739-E, except for the request that Commission not enforce the 3 MW mid-term reliability (MTR) requirement associated with Baldwin Park's load until 2024.

BACKGROUND

Mid-Term Reliability Decision

On June 30, 2021, the Commission issued Decision (D.) 21-06-035 to address the mid-term reliability needs of the electricity system within the California Independent System Operator's (CAISO's) operating system by requiring at least 11,500 MW of additional NQC to be procured by load-serving entities (LSEs) subject to the Commission's integrated resource planning (IRP) authority. The capacity requirements were specified for each year, beginning with 2,000 MW by 2023, an additional 6,000 MW by 2024, an additional 1,500 MW by 2025, and an additional 2,000 MW by 2026.² As documented in Table 6 of D.21-06-035, SCE's total share of the procurement requirement is 3,948 MW with 687 MW to be online by August 1, 2023; 2,060 MW by June 1, 2024; 515 MW by June 1, 2025; and 687 MW of long lead time (LLT) resources to be online by 2026, and this total includes a minimum of 858 MW of zero emitting capacity by 2025.

Regarding the type of generation to be procured under the MTR order, the decision notes that "[w]e are specifically ordering that the resources from Diablo Canyon be replaced with at least 2,500 MW of zero-emitting generation, generation paired with storage, or demand response resources. We also expect that all of the resources procured pursuant to this order will be zero-emitting, unless they otherwise qualify under the renewables portfolio standard eligibility requirements."³

D.21-06-035 also requires that all contracts with resources (including imports), used to satisfy the MTR requirements shall have a minimum duration of 10 years. D.21-06-035 also provides that the Investor-Owned Utilities (IOUs) are required to seek cost

² D.21-06-035 at 2, OP 1.

³ *Id* at 2.

recovery for most of their MTR procurement capacity, with the exception of pumped storage or utility-owned resources, through Tier 3 advice letters.⁴

Additionally, D.21-06-035 allows for the IOUs to file Tier 2 ALs to seek adjustment their capacity requirements in the MTR order “in the event of the failure of another load-serving entity (LSE) within its service territory or, upon mutual agreement with another LSE, to adjust their respective capacity allocations, so long as the total capacity requirements in this order remain the same.”⁵

SCE’s Mid-Term Reliability Procurement Process

On July 30, 2022, SCE launched its Midterm Reliability Request for Offers (MTRRFO) soliciting third-party offers based on the MTR Decision for the years 2023-2026. The following table documents SCE’s MTRRFO schedule.

| Date | RFO Event |
|-------------------|--------------------------------------------------------|
| July 30, 2021 | RFO Launch |
| August 4, 2021 | Bidders’ Conference |
| August 13, 2021 | Offer Submittal for Fast Track |
| August 13, 2021 | Indicative Offer Submittal for Standard Track |
| October 15, 2021 | Shortlisting Notification for Fast and Standard Tracks |
| December 10, 2021 | End of Contract Execution Period for Fast Track |
| March 4, 2022 | Final Offer Submittal for Standard Track |
| April 29, 2022 | Contract Execution for Standard Track |

To participate in the MTRRFO, projects were required to be zero-emitting resources including standalone renewable resources able to generate during the CAISO defined net peak hours, renewable generation paired with energy storage, or standalone energy storage.⁶ To be eligible for the Diablo Canyon replacement category, resources also had to be:

⁴ *Id* OP 13.

⁵ *Id* at OP 4.

⁶ SCE AL 4739-E at 6.

- a zero-emitting generation resource or a generation resource paired with storage, or a demand response resource (standalone storage not permitted);
- available every day from 5 p.m. to 10 p.m. (the beginning of hour ending 1800 through the end of hour ending 2200), Pacific Time, at a minimum;
- able to deliver at least 5 megawatt-hours of energy during each of these daily periods for every megawatt of incremental capacity claimed. (e.g., must be a resource capable of delivering for 5 consecutive hours).

SCE's solicitation included RA-only and RA with put option contracts. SCE also expressed a preference for preferred and energy storage resources located in disadvantaged communities (DACs) and expressed a preference for larger projects, co-located and hybrid projects.

SCE utilized two tracks in the MTRRFO:

1. Fast Track - for projects coming online August 1, 2023 and selected June 1, 2024 projects, and
2. Standard Track-for projects to fulfill the balance of the June 1, 2024 needs.

On March 4, 2022, SCE submitted AL 4739-E requesting approval of the Fast Track Contracts for a total of 497 MW (nameplate) of energy storage projects to help meet its mid-term reliability procurement requirements ordered in D.21-06-035 for August 1, 2023, and June 1, 2024. SCE seeks expeditious approval of AL 4739-E, by no later than May 19, 2022, because one of the subject contracts is contingent upon final, non-appealable Commission approval by July 1, 2022. SCE notes that delayed Commission approval could increase financial and operational risk and jeopardize an August 1, 2023 online date.

The Fast Track Contracts, are for development of new or expansion of existing stand-alone in-front-of-the meter (IFOM) energy storage projects. They include four RA-only contracts and one RA with put option contract (i.e., RA contracts

where the seller also has the option to put the dispatch rights to SCE). These projects are summarized in the table below:

| Counterparty / Project Name | Technology Type | Contract Type | Nameplate Capacity (MW) | ELCC Value for MTR Compliance (MW) | Online Date | Term of Agreement (Years) | Located in DAC ⁷ |
|-----------------------------------------|--------------------|------------------|-------------------------------|------------------------------------------------|----------------|---------------------------------|-----------------------------------|
| AES (Alamitos BESS II) | Energy Storage | RA w Put | 82 MW | 79 MW | 8/1/2023 | 20 | Yes |
| Calpine (Santa Ana III) | Energy Storage | RA Only | 40 MW | 39 MW | 8/1/2023 | 15 | Yes |
| LS Power (Gateway) | Energy Storage | RA Only | 75 MW | 72 MW | 8/1/2023 | 15 | No |
| Tenaska/Falcon Energy (Condor) | Energy Storage | RA Only | 200 MW | 181 MW | 6/1/2024 | 15 | Yes |
| Tenaska/Falcon Energy (Peregrine) | Energy Storage | RA Only | 100 MW | 91 MW | 6/1/2024 | 15 | Yes |

The five energy storage contracts were selected as a result of the Fast Track of SCE's MTRRFO competitive procurement process.

SCE notes that it utilized least-cost-best-fit (LCBF) principles in the evaluation process for the MTRRFO. This methodology takes into account both quantitative and qualitative attributes associated with offers to arrive at the best value and most cost-effective solution for customers that meet the identified incremental RA needs.

SCE also utilizes a net present value (NPV) method in performing its quantitative assessment of offers. A net present value methodology entails forecasting (1) the project benefits and costs over the life of the offer; (2) applying time value of money (3) estimating the net present value as the present value of the benefits minus the present value of the cost; and (4) normalizing the ranking of each offer by an NPV metric (RA kW-month). SCE also assesses the nonquantifiable characteristics of each offer by performing an analysis of the qualitative attributes of each project during both the shortlist and final selection processes.

⁷ "DAC" is a designation for Disadvantaged Community.

SCE engaged Sedway Consulting Inc. (Sedway Consulting) as the Independent Evaluator (IE) to oversee the MTRRFO. SCE notes that Sedway Consulting was involved in the review of RFO documents, reviewed SCE's offer valuation process and conducted its own independent evaluation, participated in numerous conference calls and negotiations sessions and reviewed email exchanges and other documents exchanged by SCE and bidders. Sedway Consulting also participated in the Procurement Review Group (PRG) communications. The IE Report is included as Confidential/Public Attachment D.

SCE explains that it is currently in the final stages of negotiations with counterparties to fulfill SCE's balance of its MTR requirements for 2023 and 2024 and will submit subsequent advice letter(s) for approval of additional contracts executed to meet the remainder of its 2023 and 2024 requirements.

Cost Recovery

SCE proposes to allocate the costs associated with the Fast Track Contracts to applicable customers,⁸ using the Portfolio Allocation Balancing Account (PABA) in accordance with Advice 4589-E.⁹ Pursuant to Advice Letter 4589-E, costs and benefits associated with procurement complying with D.21-06-035 will be recovered from applicable customers through the 2021 vintage sub-account of the PABA and include incremental administrative costs.¹⁰

Safety

The five Fast Track agreements for which SCE seeks approval require the seller to operate the energy storage facility in accordance with "Prudent Electrical Practices."¹¹ 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 the seller has a written plan for the safe construction and operation of the project in accordance with Prudent Electrical Practices.¹²

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⁸ Includes bundled service customers and departing load customers with 2021 vintage cost responsibility.

⁹ AL 4589 approved tariff revisions related to MTR procurement cost due to transfer of Western Community Energy customers.

¹⁰ Such costs include, but are not limited to Independent Evaluator Costs.

¹¹ See AL 4739-E at 22, Section 6.01(a) of SCE's Technology Neutral Pro Forma Contract.

¹² AL 4739-E at 22.

In AL 4739-E, SCE also notifies the Commission that due to the termination of Baldwin Park's CCA program, BPROUD, which resulted in the mass involuntary return of all BPROUD's customers to SCE's procurement service in February 2022, SCE has agreed with Baldwin Park to adjust SCE's capacity allocations to assume BPROUD's 15 MW of MTR capacity allocations. SCE is using AL 4739- E as a means to notify the Commission as opposed to filing a separate Tier 2 AL. SCE believes this notification is consistent with Ordering Paragraph (OP) 4 the D.21-06-035. SCE also requests that the 3 MW increase in SCE's 2023 capacity allocation, associated with transfer of BPROUD's allocation, should not be enforceable against SCE until 2024.

Incremental to Baseline

In D.21-06-035, the Commission required that LSEs procure resources that are incremental to the baseline list to satisfy the procurement requirements. SCE argues that Fast Track Contracts are new projects that are incremental. SCE notes, however, that one of the projects, the LS Power Gateway project, was erroneously listed on the baseline list of resources at 250 MW. This listed amount represents the maximum interconnection capability and not the capacity under contract, as of June 30, 2020. SCE argues that the correct value should have been listed as 62.5 MW as opposed to 250 MW.

The portion of the LS Power Gateway project SCE is seeking approval for in this advice letter is for the portion of the project that remains undeveloped and is incremental to the baseline and eligible to meet MTR requirements as represented by LS Power in its contract.

On March 18, 2022 Energy Division issued a revised baseline list¹³ as delegated by D.21-06-035. The baseline list was updated to reflect Gateway Energy storage as a 250 MW 1 hour storage duration resource (which is equivalent to a 62.5 MW 4 hour duration resource) as opposed to 250 MW 4 hour duration project.

¹³ https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/integrated-resource-plan-and-long-term-procurement-plan-irp-ltpp/d2106035_baseline_gen_list_20220318.xlsx

Advice Letter Request

In AL 4739-E, SCE requests that the Commission adopt a resolution no later than May 19, 2022. SCE specifically requests that the resolution contain the following:

1. Approval of the Fast Track Contracts in their entirety;
2. A finding that the Fast Track Contracts are consistent with the Decision;
3. A finding that the Fast Track Contracts, [are for a total of] 462 MW expected incremental RA capacity;
4. A finding that the Fast Track Contracts, and SCE's entry into them, is reasonable and prudent for all purposes, and that any payments to be made by SCE pursuant to the Fast Track Contracts are recoverable in full by SCE through the PABA, subject only to SCE's prudent administration of the Fast Track Contracts;
5. A finding that 87 MW of LS Power's facility is eligible to count towards the MTR requirements (pre application of incremental ELCC) and Energy Division should publish an updated baseline to show 62.5 MW rather than 250 MW for the LS Power facility;
6. Authorization for SCE to allocate the benefits and costs of the Fast Track Contracts to all applicable customers as described herein via the PABA;
7. Authorization for SCE to adjust its capacity allocations pursuant to OP 4 of the Decision to assume Baldwin Park's total 15 MW of MTR capacity allocations because of the termination of Baldwin Park's CCA program, BPROUD, in February of 2022;
8. A finding that the 3 MW increase to SCE's MTR capacity allocation in 2023 for Baldwin Park's 2023 capacity allocation under the Decision shall not be enforceable against SCE until 2024; and
9. Any other and further relief as the Commission finds just and reasonable.

NOTICE

Notice of AL 4739-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of the AL was mailed and distributed in accordance with General Rule 4 of Commission General Order 96-B.

PROTESTS

SCE's Advice Letter 4739-E was not protested by any party.

DISCUSSION

The Commission has reviewed AL 4739-E and finds that SCE's request in AL 4739-E is reasonable.

Consistency with Commission decision, D.21-06-035

We find that SCE's AL 4739-E filing is consistent with Commission decision, D.21-06-035. As directed in D.12-06-035, SCE filed a Tier 3 AL seeking approval of its Fast Track Contracts. The Fast Track Contracts are for 497 MW of nameplate capacity (462 MW of expected incremental September NQC), expected to be online by 2023 and 2024 which will help SCE satisfy a portion of the total MTR procurement requirements.

As required in D.21-06-035, the five projects are for standalone 4 hour energy storage procurement which is consistent with the 2023 and 2024 requirements described in Table 5 of D.21-06-035. The Fast Track Contracts also satisfy the requirement that they be for a delivery term of 10 years or more.

Procurement Methodology, Evaluation, and Cost Reasonableness

SCE issued its MTRRFO on July 30, 2021, to solicit offers to procure incremental resources with an expected online date of August 1, 2023, and June 1, 2024, to count towards SCE's MTR procurement requirements.

SCE retained Sedway Consulting as the IE for its mid-term reliability solicitation efforts. Sedway Consulting reviewed the RFO documents, participated in communications between SCE and the participants, reviewed SCE's evaluation process, participated in communications with the PRG, and conducted its own independent evaluation of the offers. Sedway Consulting concluded that:

SCE administered its shortlisting and final offer evaluation and selection processes fairly and procured the best resources/contracts for addressing its MTR needs. In its assessment, Sedway Consulting employed the same general principles as were described in the design fairness discussion; in addition, the fact that Sedway Consulting performed a fully separate, independent evaluation allowed it to develop its own ranking and confirm that SCE was fairly and appropriately evaluating all offers and employing an appropriate and fair selection process.¹⁴

¹⁴ AL 4739-E, Attachment D, Independent Evaluator Report at 19.

SCE consulted the PRG regularly throughout the MTRRFO process. Specifically, it consulted the PRG regarding the MTRRFO launch on July 28, 2021. It also consulted the PRG on August 26, 2021 and October 28, 2021 regarding its shortlisting and process. Finally, SCE consulted the PRG regarding recommended contract execution on December 3, 2021, December 17, 2021, and January 13, 2022.

We have reviewed SCE's bid evaluation analysis and the IE report. We concur with the IE that SCE procured the best resources for addressing the MTR needs. We find that SCE has conducted a robust, competitive solicitation with reasonable bid evaluation methodology and appropriately consulted the PRG throughout the MTRRFO process. The cost of the Fast Track contracts are reasonable based on the robust competitive solicitation and bid evaluation methodology.

Cost Recovery

D.21-06-035 authorized cost recovery of the MTR procurement via PCIA:

To the extent that any resources procured in response to this order are subject to allocation using the power charge indifference adjustment (PCIA), the date of that adjustment shall be vintaged by the date of this order. Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company shall each file Tier 2 advice letters to update their balancing accounts to address the PCIA treatment as a result of this order.¹⁵

SCE submitted Advice Letter 4589-E on October 14, 2021 to account for the MTR procurement requirements and cost recovery associated with the transfer of Western Community Energy Customers' load to SCE's bundled service. Pursuant to Energy Division's acceptance of Advice Letter 4589-E,¹⁶ costs and benefits associated with procurement complying with D.21-06-035 will be recovered from applicable customers through the 2021 vintage sub-account of the PABA and include incremental administrative costs.¹⁷

We find that SCE's proposed cost recovery of the Fast Track Contracts is consistent with D.21-06-035 OP 12 and Energy Division's acceptance of AL 4589-E.

¹⁵ D.21-06-035 at OP 12.

¹⁶ AL 4589-E became effective on October 16, 2021.

¹⁷ Includes, but is not limited to, Independent Evaluator Costs.

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 Fast Track 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.

SCE notes that consistent with Public Utilities Code Section 454.52(a)(1)(I)'s requirement to minimize localized air pollutants and other GHG emissions, with early priority on DACs, it expressed a preference in its MTRRFO for preferred and energy storage resources located in DACs. Four of the Fast Track contracts are for energy storage projects located in DACs – AES Alamitos BESS II, Calpine-Santa Ana III, Tenaska-Condor, Tenaska-Peregrine.

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In D.21-06-035, the Commission ordered:

Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company may each file a Tier 2 advice letter to adjust the capacity requirements given in Table 6 in this order in the event of the failure of another load-serving entity (LSE) within its service territory or, upon mutual agreement with another LSE, to adjust their respective capacity allocations, so long as the total capacity requirements in this order remain the same.¹⁸

SCE provided notification in AL 4739-E that its mid-term reliability requirements would be increased by 15 MW, to account for the termination of Baldwin Park's CCA Program, consistent with OP 4 of D.21-06-035.

¹⁸ D.21-06-035 at OP 4

Regarding SCE requests for the Commission to not enforce the 3 MW 2023 MTR requirement associated with the Baldwin Park's load until 2024, we are not able to grant this request as part of this Resolution. D.21-06-035 did not provide that MTR compliance relief be requested through the Advice Letter process, particularly for revised compliance obligations associated with involuntary load migration return. The decision did, however, provide:

[a]ssessment of any penalties should follow the process outlined in Resolution M-4846 and may take into consideration good faith efforts to procure the required capacity.¹⁹

Relief for 2023 MTR obligations associated with Baldwin Park's load returning to SCE, may be included as part of the IRP compliance process, if it is determined to be appropriate, or according to any other process provided by the Commission's Rules of Practice and Procedure, General Orders or rules.

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 is neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments on April 14, 2022.

On May 4, 2022, the California Energy Storage Alliance (CESA) filed timely comments in support of Draft Resolution E-5204. No other party filed comments.

FINDINGS

1. Commission decision D.21-06-035 directed Load Serving Entities to procure 11,500 megawatts (MW) of incremental September net qualifying capacity under the Commission's integrated resource planning purview over the course of four years,

¹⁹ D.21-06-035 at Conclusion of Law (COL) 27

with 2,000 MW to be online by August 1, 2023, an additional 6,000 MW online by June 1, 2024, an additional 1,500 MW online by June 1, 2025, and an additional 2,000 MW online by June 1, 2026.

2. Commission decision D.21-06-035 ordered the three large IOUs to file Tier 3 Advice Letters to request cost recovery for any procurement conducted as a result of the decision, except if the procurement is associated with a pumped storage resource or a utility-owned resource, for which full applications are required.
3. SCE's methodology to evaluate the bids in the competitive solicitation is reasonable.
4. The cost of the Fast Track Contracts are reasonable based on the robust competitive solicitation and bid evaluation methodology.
5. SCE's request to allocate the benefits and costs of the Fast Track Contracts to all applicable customers via the 2021 vintage sub-account of PABA, including incremental administrative costs, is reasonable.
6. SCE's proposed cost recovery of the Fast Track Contracts is reasonable and consistent with D.21-06-035 OP 12 and Energy Division's acceptance of AL 4589-E.
7. Energy Division revised the MTR baseline list on March 18, 2022 to reflect Gateway Energy Storage as a 250 MW 1 hour duration resource as opposed to a 250 MW 4 hour duration resource.
8. SCE request to increase its mid-term reliability requirements by 15 MW, to account for the termination of Baldwin Parks CCA Program, in February 2022 is consistent with Ordering Paragraph 4 of D.21-06-035.
9. D.21-06-035 did not provide that MTR compliance relief may be requested through the Advice Letter process, particularly for revised compliance obligations associated with involuntary load migration return.
10. Compliance relief for 2023 MTR obligations associated with Baldwin Park's load returning to SCE, may be included as part of the IRP compliance process, if it is determined to be appropriate, or according to any other process provided by the Commission's Rules of Practice and Procedure, General Orders or rules.

THEREFORE IT IS ORDERED that:

1. Southern California Edison's request for approval of Fast Track Contracts and related costs for a total of 497 megawatts of nameplate capacity, expected to come online by August 1, 2023 or June 1, 2024, is approved.
2. Southern California Edison's proposed cost recovery, to allocate the benefits and costs of the Fast Track Contracts to all applicable customers via the 2021 vintage sub-account of PABA, including incremental administrative costs, is approved.
3. Southern California Edison's request to adjust its mid-term reliability requirements by 15 MW, to account for the termination of Baldwin Parks Community Choice Aggregator Program, 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 May 19, 2022; the following Commissioners voting favorably thereon:

Rachel Peterson
Executive Director