

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**Agenda ID #20803
RESOLUTION E-5225
August 25, 2022**

R E S O L U T I O N

Resolution E-5225. Submission of Southern California Edison Company's Midterm Reliability Energy Storage Contract for Review and Approval Pursuant to Decision 21-06-035.

PROPOSED OUTCOME:

- This Resolution approves Southern California Edison's standalone energy storage contract and related costs for a total of 75 megawatts of nameplate capacity expected to come online by August 1, 2023.

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." See Section 6.01(a) of SCE's Technology Neutral Pro Forma Contract.
- SCE's Technology Neutral Pro Forma Contract also includes 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.

ESTIMATED COST:

- Contract costs are confidential at this time.

By Advice Letter 4800-E, Filed on May 19, 2022.

SUMMARY

This Resolution approves one energy storage contract (the "Midterm Reliability or "MTR" Contract") for 75 megawatts (MW) of nameplate capacity, expected to provide 72 MW of incremental September net qualifying capacity ("NQC"),¹ that Southern California Edison ("SCE") procured to satisfy a portion of its 2023 mid-term reliability requirements.

The MTR Contract is for a new stand-alone, in-front-of-the-meter ("IFOM") energy storage project and is a resource adequacy ("RA") with put option contract, i.e., an RA contract where the seller also has the option to put the energy dispatch rights to SCE. This Resolution approves all of the relief requested in Advice Letter ("AL") 4800-E.

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 reflected as 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. Due to the deregistration of the two community choice aggregators ("CCAs"), Western Community Energy ("WCE") and the City of Baldwin Park, SCE's total procurement requirements have increased to 4,052 MW with 705 MW online by August 1, 2023, 2,114 MW by June 1, 2024, 529 MW by June 1, 2025, and 705 MW of LLT resources by 2026.³

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

² D.21-06-035 at 2, OP 1.

³ See SCE Advice Letter 4589-E; SCE Advice Letter 4739-E.

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.”⁴

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 and provides that the Investor-Owned Utilities (IOUs) are required to seek cost recovery for most of their MTR procurement capacity, with the exception of pumped storage or utility-owned resources, through Tier 3 advice letters.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 initial MTRRFO schedule as published at the RFO launch.

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

⁴ *Id* at 2.

⁵ *Id* OP 13.

storage.⁶ To be eligible for the Diablo Canyon replacement category, resources also had to be:

- 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 18:00 through the end of hour ending 22:00), Pacific Time, at a minimum;
- able to deliver at least 5 megawatt-hours of energy during each of these daily periods for every MW of incremental capacity claimed. (e.g., must be a resource capable of delivering for 5 consecutive hours).

SCE's initial 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, and 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.

SCE notes that after review of the Fast Track and Standard Track offers and with the knowledge that other LSEs were also pursuing procurement, it pursued an Ultra Fast process within the Fast Track to allow immediate negotiations of attractively priced offers. SCE notes that on August 27, 2021, after consulting with the Procurement Review Group (PRG), it notified counterparties that were shortlisted as part of the Ultra Fast process.

On October 29, 2021, SCE also notified Fast Track bidders of their shortlist status and additional eligibility requirements to remain on the shortlist and proceed with negotiations. This was followed by a webinar on MRTRFO pro forma contract updates, held on November 19, 2021.

Given that a reasonable amount of time had elapsed since initial offers were submitted, on January 28, 2022, SCE sent a notice to the 2024 bidders asking them to confirm their initial offers. If the initial bid was not able to be confirmed, SCE allowed bidders to

⁶ SCE AL 4739-E at 6.

refresh the offer. SCE also released a new product term sheet, Financially Settled Toll, and allowed bidders to submit new 2024 offers for this product.

On March 4, 2022, SCE submitted its first MTR procurement advice letter, Advice 4739-E, seeking approval of five energy storage contracts (for a total of 497 MW of nameplate capacity) executed to satisfy a portion of its 2023 and 2024 MTR procurement requirements. On May 19, 2022, the Commission approved Resolution E-5205 approving SCE’s five energy storage contracts and approving all of the relief requested in Advice 4739-E, except for the request that Commission not enforce the 3 MW 2023 MTR procurement requirement associated with City of Baldwin Park’s load until 2024.

On May 19, 2022, SCE submitted AL 4800-E requesting approval of the MTR Contract, entered into as a result of the Fast Track of SCE’s Midterm MTRRFO for a total of 75 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. SCE seeks expeditious approval of AL 4800-E, by no later than August 25, 2022. SCE notes that the terms of the contract are conditioned on the occurrence of CPUC approval and in order to satisfy that condition, SCE requests that the Commission adopt a resolution no later than August 25, 2022. SCE also notes that “SCE and the seller need the certainty of the Commission’s review and cost recovery approval for the MTR Contract as soon as possible to maximize the likelihood of the seller meeting its August 1, 2023 online date.”⁷

The MTR Contract is a new stand-alone in-front-of-the meter (IFOM) energy storage project 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
NextEra (Desert Peak Energy Storage II, LLC)	Energy Storage	RA w/Put	75	72	8/1/2023	15	No

⁷ AL 4800-E at 2.

The energy storage contract was 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 utilized a net present value (NPV) method in performing its quantitative assessment of offers. An NPV 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 costs; and (4) normalizing the ranking of each offer by an NPV metric. The NPV metric used in the MTRRFO is NPV per MTR compliance 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.

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 negotiation sessions and reviewed email exchanges and other documents exchanged by SCE and bidders. Sedway Consulting also participated in the 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 MTR Contract to applicable customers,⁸ using the Portfolio Allocation Balancing Account (PABA) in accordance

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

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 MTR Contract for which SCE seeks approval requires 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

Advice Letter Request

In AL 4800-E, SCE requests that the Commission adopt a resolution no later than August 25, 2022. SCE specifically requests that the resolution contain the following:

1. Approval of the MTR Contract in its entirety;
2. A finding that the MTR Contract is consistent with the Decision;
3. A finding that the MTR Contract is for a total of 72 MW of expected incremental September NQC for purposes of MTR compliance;
4. A finding that the MTR Contract, and SCE's entry into it, is reasonable and prudent for all purposes, and that any payments to be made by SCE pursuant to the MTR Contract are recoverable in full by SCE through the PABA, subject only to SCE's prudent administration of the MTR Contract;
5. Authorization for SCE to allocate the benefits and costs of the MTR Contract to all applicable customers as described herein via the PABA; and
6. Any other and further relief as the Commission finds just and reasonable.

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 4800-E at 17, Section 6.01(a) of SCE's Technology Neutral Pro Forma Contract.

¹² AL 4800-E at 18-19, Section 4.01(d) of SCE's Technology Neutral Pro Forma Contract.

NOTICE

Notice of AL 4800-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 4800-E was not protested by any party.

DISCUSSION

The Commission has reviewed AL 4800-E and finds that SCE's request in AL 4800-E is reasonable.

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

We find that SCE's AL 4800-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 MTR Contract. The MTR Contract is for 75 MW of nameplate capacity (72 MW of expected incremental September NQC), expected to be online by August 1, 2023 and will help SCE satisfy a portion of the total MTR procurement requirements.

As required in D.21-06-035, the contract is for a 4 hour standalone energy storage project which is consistent with the requirements described in Table 5 of D.21-06-035. The MTR Contract also satisfies the 10 year or more delivery requirement.

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 its 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 asserts that the MTR Contract should be approved by the CPUC:

Sedway Consulting concludes that the above second Tranche contract merits CPUC approval – as well as the set of contracts submitted with SCE’s first Tranche – because the contracts’ economics and their general terms and conditions represent the best resources available from a competitive solicitation. Sedway Consulting’s parallel evaluation yielded results that confirmed the appropriateness of the selection of these contracts....

Sedway Consulting believes that SCE has conducted a fair and rigorous solicitation for resources/contracts that will help it meet its MTR Fast Track authorized capacity needs and concurs with SCE’s request for the CPUC’s approval of the above contracts.¹³

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 MTR contract is 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 the power charge indifference adjustment (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

¹³ AL 4800-E, Attachment D, Independent Evaluator Report at 32.

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.¹⁴

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,¹⁵ 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.¹⁶

We find that SCE's proposed cost recovery of the MTR Contract is consistent with D.21-06-035 Ordering Paragraph ("OP") 12 and Energy Division's acceptance of AL 4589-E.

Disadvantaged Community Designations

Senate Bill 350 (de León, Chapter 547, Stats. 2015) describes disadvantaged community goals that are cross-cutting and therefore will be integrated into all policy areas. Thus, in evaluating SCE's MTR Contract, the Commission will analyze the impacts on such communities.

The California Environmental Protection Agency (CalEPA) is responsible for identifying disadvantaged communities (DACs) for purposes of the Cap-and-Trade program funding. CalEPA has designated disadvantaged communities as:

- census tracts receiving the highest 25% of overall scores in CalEnviroScreen 4.0
- census tracts lacking overall scores in CalEnviroScreen 4.0 due to data gaps but receiving the highest 5% of CalEnviroScreen 4.0 cumulative pollution burden scores

¹⁴ D.21-06-035 at OP 12.

¹⁵ AL 4589-E became effective on October 16, 2021.

¹⁶ Includes, but is not limited to, Independent Evaluator costs.

- census tracts identified under the 2017 DAC designation (i.e., tracts qualifying as DAC under CalEnviroScreen 3.0) areas under the control of federally recognized Tribes¹⁷

The CalEnviroScreen 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. The MTR Contract is not located in a DAC.

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 July 20, 2022.

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, 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.

¹⁷ https://calepa.ca.gov/wp-content/uploads/sites/6/2022/05/Updated-Disadvantaged-Communities-Designation-DAC-May-2022-Eng.a.hp_-1.pdf

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 MTR Contract is reasonable based on the robust competitive solicitation and bid evaluation methodology.
5. SCE's request to allocate the benefits and costs of the MTR Contract 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 MTR Contract is reasonable and consistent with D.21-06-035 OP 12 and Energy Division's acceptance of AL 4589-E.

THEREFORE IT IS ORDERED THAT:

1. Southern California Edison's request for approval of MTR Contract and related costs for a total of 75 megawatts of nameplate capacity, expected to come online by August 1, 2023 is approved.
2. Southern California Edison's proposed cost recovery, to allocate the benefits and costs of the MTR Contract to all applicable customers via the 2021 vintage sub-account of PABA, including incremental administrative costs, 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 August 25, 2022; the following Commissioners voting favorably thereon:

Rachel Peterson
Executive Director