

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

[Item #12 \(Rev. 1\)](#)

Agenda ID # 20922

RESOLUTION E-5231

OCTOBER 6, 2022

ENERGY DIVISION

R E S O L U T I O N

Resolution E-5231. Pacific Gas and Electric Company Amendments to System Reliability Contracts with Nexus Renewables and NextEra North Central Valley.

PROPOSED OUTCOME:

- Approves Pacific Gas and Electric Company Amendments to System Reliability Contracts with Nexus Renewables and NextEra North Central Valley.

SAFETY CONSIDERATIONS:

- There are no safety considerations associated with this resolution.

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 6658-E, Filed on July 20, 2022

SUMMARY

This resolution approves Pacific Gas and Electric Company (PG&E) amendments to two system reliability contracts for capacity procured to meet requirements of Decision (D.)19-11-009. The contract with Nexus Renewables U.S. Inc. is amended to reduce the capacity of the project from 27 megawatts (MW) to 10 MW and delay the online date by one year to August 1, 2023. The contract price of the NextEra Energy Resources Development [agreement](#) is increased, with no delay in the project development schedule.

BACKGROUND

D.19-11-016 in the Integrated Resource Plan Rulemaking, (R.)16-02-007, ordered PG&E to procure 716.9 MW of system resource adequacy (RA) capacity, at least 50% of which was required to come online by August 1, 2021, 75% by August 1, 2022, and 100% by August 1, 2023. In the event that a Community Choice Aggregator (CCA) or Electric Service Provider (ESP) opted not to procure its total allocation, D.19-11-016 required the relevant investor-owned utility (IOU) to procure the remaining portion of the allocation. The Commission directed the IOUs to conduct all-source solicitations that would consider “existing as well as new resources, demand-side resources, combined heat and power, and storage,” provided that selected resources were incremental to baseline resource assumptions included in the Preferred System Plan that the Commission adopted in D.19-04-040.

PG&E’s total procurement requirement was 765.1 MW, including 716.9 MW corresponding to bundled customers and 48.2 MW corresponding to customers of load serving entities (LSEs) operating within the PG&E service territory that opted out of their D.19-11-016 procurement requirements. Thus, PG&E’s total procurement requirement was at least 382.55 MW by August 1, 2021, at least 573.83 MW by August 1, 2022, and 716.9 MW by August 1, 2023.

On February 28, 2020, PG&E initiated a solicitation that resulted in seven contracts for roughly 423 MW of incremental capacity, which the Commission subsequently approved in Resolution E-5100. On July 10, 2020, PG&E issued Phase 2 of the solicitation, which resulted in six contracts for 387 MW of incremental capacity, 194 MW of which would achieve commercial operation by August 1, 2022, and 193 MW of which would achieve commercial operation by August 1, 2023. These contracts were approved in Resolution E-5140 on April 15, 2021.

On July 20, 2022, PG&E filed Tier 3 AL 6658-E requesting approval of amendments to two of the contracts originally approved in Resolution E-5140. The original transactions are:

Counterparty (Project Name)	Technology	Size (MW)	Location	Contract Type	Initial Delivery Date	Term (Years)
Nexus Renewables U.S. Inc. (AMCOR)	Standalone Lithium Ion Battery	27	Fairfield, Solano County, CA	BTM LTRAA	8/1/2022	15
NextEra Energy Resources Development (North Central Valley)	Standalone Lithium Ion Battery	132	Linden, San Joaquin County, CA	LTRAA with ES	8/1/2023	15

After the contracts were executed, both parties approached PG&E describing market conditions which resulted in their being unable to complete the projects pursuant to the terms and conditions of the contracts. Both parties requested amendments to their contracts to allow them to complete the projects and contribute to system reliability.

The amendment to the agreement with Nexus Renewables U.S. Inc. (Nexus) amends the agreement to change the initial delivery date from August 1, 2022 to August 1, 2023 and reduces the project capacity from 27 MW to 10 MW. The amendment does not change the price terms of the Nexus agreement.

The amendment to the agreement with NextEra Energy Resources Development (NextEra) amends the agreement to increase the agreement price, with no delay in the project development schedule. PG&E states that since the NextEra agreement was executed in 2020, there has been industry-wide inflationary pressure on project costs and that NextEra requested a price increase in order for the project to remain viable. The main drivers cited for the increased costs include:

- Battery prices have risen significantly due to dramatic increases in commodity prices for lithium carbonate and metals used in lithium-ion batteries. This impacts both initial construction cost and ongoing augmentation costs to maintain capacity;
- Continued supply chain constraints;
- Balance of systems costs have been increasing due to high inflation affecting materials and labor costs; and
- Cost of capital has been increasing as the Federal Reserve has been raising interest rates to combat inflation.

PG&E states that it has negotiated aggressively with NextEra with respect to the price increase, and has conducted due diligence on the proposed price increase, assessing what kind of mitigation actions the counterparty has taken and how much of the

burden is being passed to the utility. In addition, PG&E has issued its midterm reliability request for offer (MTR RFO) – Phase 2 and the proposed price increase is competitive with the current market prices and quantity of MWs available in the RFO. According to PG&E, absent the price increase, the counterparty would not be able to build the project, and the project would default and terminate.

PG&E notified the Procurement Review Group (PRG) and the Cost Allocation Mechanism (CAM) PRG group of the Nexus amendment on May 18, 2022. PG&E notified the CAM PRG of the NextEra amendment on June 29, 2022.

NOTICE

Notice of AL 6658-E was made by publication in the Commission’s Daily Calendar. Pacific Gas and Electric Company 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 6658-E was not protested.

DISCUSSION

The Commission has reviewed the Advice Letter and Confidential Appendices and finds the contract amendments to be reasonable in light of the supply chain challenges and inflationary pressure facing the developers.

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 September 1, 2022. No party submitted comments on the Commission's agenda no earlier than 30 days from today~~ [draft resolution.](#)

FINDINGS

1. Pacific Gas and Electric Company's total procurement requirement ordered in D.19-11-016 was 765.1 MW, including 716.9 MW corresponding to bundled customers and 48.2 MW corresponding to customers of load serving entities operating within the PG&E service territory that opted out of their procurement requirements.
2. The Commission approved contracts for roughly 423 MW of incremental capacity in Resolution E-5100 and contracts for 387 MW of incremental capacity in Resolution E-5140 to meet D.19-11-016 requirements.
3. The amendments to Pacific Gas and Electric Company's System Reliability contracts with Nexus Renewables U.S. Inc. and NextEra Energy Resources Development are reasonable given the in light of the supply chain challenges and inflationary pressure facing the developers.

THEREFORE IT IS ORDERED THAT:

1. The request of the Pacific Gas and Electric Company to amend its System Reliability Contracts with Nexus Renewables U.S. Inc. and NextEra Energy Resources Development as requested in Advice Letter 6658-E is approved.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 6, 2022; the following Commissioners voting favorably thereon:

Rachel Peterson
Executive Director