

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**Agenda ID #21091
RESOLUTION E-5243
December 1, 2022**

R E S O L U T I O N

Resolution E-5243. Pacific Gas and Electric Company Amendments to Mid-Term Reliability Contracts.

PROPOSED OUTCOME:

- Approves Pacific Gas and Electric Company Amendments to Four Mid-Term Reliability Contracts.

SAFETY CONSIDERATIONS:

- There are no safety considerations associated with this resolution.

ESTIMATED COST:

- Contract costs are confidential at this time.

By Advice Letter 6711-E, Filed on September 23, 2022

SUMMARY

This resolution approves Pacific Gas and Electric Company (PG&E) amendments to four contracts for capacity procured to meet mid-term reliability (MTR) requirements of Decision (D.) 21-06-035. The contract price of the four contracts is increased. Additionally, the Canyon Country, Beaumont, and Inland Empire contracts have been amended to delay the initial delivery dates to June 1, 2024 (from October 1, 2023, August 1, 2023, and April 1, 2024, respectively). The Inland Empire project capacity has also been reduced from 100 MW to 50 MW.

BACKGROUND

On June 30, 2021, the Commission issued D.21-06-035, to address the mid-term reliability needs of the electricity system within the California Independent System

Operator Corporation's (CAISO) operating system beginning in 2023 due to the pending retirement of the Diablo Canyon Power Plant and the planned retirement of once-through-cooling (OTC) thermal plants in Southern California. In D.21-06-035, the Commission requires incremental procurement of 11,500 MW of additional resources, of which PG&E is responsible for 2,302 MW for its bundled service customer portion.

Further, the procurement required by D.21-06-035 is expected to deliver at least 2,000 MW to be online by August 1, 2023, an additional 6,000 MW by June 1, 2024, an additional 1,500 MW by June 1, 2025, and an additional 2,000 MW by June 1, 2026. In addition, D.21-06-035 requires that at least 2,500 MW of the resources procured by the LSEs collectively, between 2023 and 2025, be from zero-emission resources that generate electricity, or generation resources paired with storage, or demand response, to replace the current supply of energy from the Diablo Canyon Power Plant and ensure there is no resultant increase in GHG emissions upon its retirement.

In accordance with D. 21-06-035, PG&E executed nine agreements for a total of 1,598.7 MW of nameplate capacity. PG&E sought approval of those contracts on January 1, 2022, which the Commission approved in Resolution E-5202 on April 21, 2022.

PG&E states that after the contracts were executed, the counterparties to the contracts approached PG&E expressing concerns regarding unprecedented changed market conditions which render the projects uneconomical. The main drivers cited for the price increases include:

- Significant increases in battery prices due to dramatic increases in commodity prices for lithium carbonate and metals used in manufacturing lithium-ion batteries; this impacts both initial construction cost and ongoing augmentation costs to maintain capacity;
- Continued supply chain constraints;
- Increasing balance of systems costs due to high inflation affecting materials and labor costs; and
- Increasing cost of capital as the Federal Reserve has been raising interest rates to combat inflation.

The counterparties have indicated that they are unable to complete the projects pursuant to the terms and conditions of the contracts and have requested amendments to their contracts to avoid default and allow them to complete the projects which, when developed, will contribute to system reliability.

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PG&E states that it has negotiated aggressively with the counterparties 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's customers. In addition, PG&E has issued its Midterm Reliability Request for Offers (MTR RFO) – Phase 2 and the proposed price increases are competitive with the current market prices and quantity of MW available in the MTR RFO.

In addition, prior to final agreement on the price increase negotiations another industrywide event occurred that impacted pricing – the Inflation Reduction Act (IRA) enacted by the United States Congress on August 16, 2022. The IRA provided for an investment tax credit (ITC) for standalone energy storage projects. The ITC acts to lower the capital cost of equipment and, therefore, the overall project costs. The resulting contract price adjustment contained in the contract amendments represents such ITC benefit sharing among the utility and the counterparties to the agreements.

In addition to the price adjustments, the Canyon Country, Beaumont, and Inland Empire contracts have been amended to delay the initial delivery dates to June 1, 2024 (from October 1, 2023, August 1, 2023, and April 1, 2024, respectively). The Inland Empire project capacity has also been reduced from 100 MW to 50 MW. Finally, PG&E has included provisions to clarify that the projects are able to discharge for eight consecutive hours. Including this provision enables PG&E to retain flexibility in which procurement category the resources will count and enable meeting goals at least cost.

The amended contracts are as follows:

Counterparty (Project Name)	Technology	Size (MW)	Contract Type	Initial Delivery Date	Term (Years)
Terra-Gen Canyon Country ESS I, LLC (Canyon Country)	Standalone Lithium Ion Battery	80	LTRAA with ES	6/1/2024	15
Terra-Gen Beaumont ESS I, LLC (Beaumont)	Standalone Lithium Ion Battery	100	LTRAA with ES	6/1/2024	15
Poblano Energy Storage, LLC (Inland Empire)	Standalone Lithium Ion Battery	50	LTRAA with ES	6/1/2024	15
Nighthawk Energy Storage, LLC (Nighthawk Storage)	Standalone Lithium Ion Battery	300	LTRAA with ES	6/1/2024	15

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PG&E notified the Procurement Review Group (PRG) of the amendment on June 29, 2022.

NOTICE

Notice of AL 6711-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 6711-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 changed market conditions which render the projects uneconomical. We find the price adjustments to be reasonable since they are competitive with offers PG&E received in its Phase 2 MTR RFO. Additionally, this capacity is needed for system reliability, and, therefore, it is appropriate to take steps to avoid default of projects currently under development.

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. Pacific Gas and Electric Company's total mid-term reliability procurement requirement ordered in D.21-06-035 is 2,302 MW for its bundled service customer portion.
2. The Commission approved contracts for 1,598.7 MW of incremental capacity in Resolution E-5202 to meet D. 21-06-035 requirements.
3. The amendments to Pacific Gas and Electric Company's mid-term reliability contracts for the Canyon Country, Beaumont, Poblano, and Nighthawk energy storage projects are reasonable in light of the changed market conditions which render the projects uneconomical.

THEREFORE IT IS ORDERED THAT:

1. The request of the Pacific Gas and Electric Company to amend its mid-term reliability contracts as requested in Advice Letter 6711-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 December 1, 2022; the following Commissioners voting favorably thereon:

Rachel Peterson
Executive Director