

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Item #19 (Rev. 1)
Agenda ID # 21234
RESOLUTION E-5251
January 12, 2023

R E S O L U T I O N

Resolution E-5251. Southern California Edison Company's Mid-term Reliability Energy Storage Contracts Submitted Pursuant to Decision 21-06-035

PROPOSED OUTCOME:

- This Resolution approves four Southern California Edison's Company's ("SCE") Mid-term reliability energy storage contracts and related costs for a total of 619 megawatts of nameplate capacity expected to come online August 1, 2023, or June 1, 2024.

SAFETY CONSIDERATIONS:

- SCE's Technology Neutral Pro Forma Contract 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 ("AL") 4885-E, Filed on October 28, 2022.

SUMMARY

This Resolution approves four mid-term reliability (“MTR”) energy storage contracts (the MTR Contracts) for 619 megawatts (“MW”) of nameplate capacity, expected to provide 565.2 MW of incremental September net qualifying capacity (“NQC”),¹ that SCE procured to satisfy a portion of its 2023 and 2024 MTR requirements. These contracts include two resource adequacy (“RA”) only contracts and two RA with put option contracts (i.e., RA contracts where the seller also has the option to put the dispatch rights to SCE). The MTR Contracts are for new in-front-of-the meter (“IFOM”) energy storage projects.

BACKGROUND

Mid-Term Reliability Decision

On June 24, 2021, the Commission adopted 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 (referred to herein as the “MTR Decision”). The capacity requirements were specified by year, beginning with 2,000 MW of additional NQC by August 1, 2023; 6,000 MW in by June 1, 2024; 1,500 MW by June 1, 2025; and 2,000 MW by June 1, 2026.²

Regarding the type of generation to be procured under the MTR Decision, the Commission 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

¹ September NQC was determined by utilizing the “Incremental ELCC Study for Mid-term Reliability Procurement” by E3 and Astrape. The ELCC factors vary by Tranche/compliance year and technology type.

² D.21-06-035 OP 1.

³ *Id* at 2.

The MTR Decision provides that the “zero-emitting” capacity shall have the following characteristics:

- (a) Be from a generation resource, a generation resource paired with storage (physically or contractually), or a demand response resource;
- (b) Be 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; and
- (c) Be able to deliver at least 5 megawatt-hours of energy during each of these daily periods for every megawatt of incremental capacity claimed.”⁴

As documented in Table 6 of the MTR Decision, 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 2026.⁵ These totals include a minimum of 858 MW of zero-emitting capacity by 2025. Due to the deregistration of two community choice aggregators, Western Community Energy 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 2026.⁶

The MTR Decision also 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 ALs.⁷

SCE’s Mid-Term Reliability Procurement Process

On July 30, 2021, SCE launched its Midterm Reliability Request for Offers (“MTRRFO”), soliciting third-party offers based on the MTR Decision for deliveries starting in the years 2023-2024. The following table documents SCE’s initial MTRRFO schedule as published at the RFO launch.

⁴ D.21-06-035 OP 6.

⁵ D.21-06-035, pp. 56-58.

⁶ See SCE Advice Letter 4589-E; SCE Advice Letter 4739-E.

⁷ D.21-06-035, OP 13.

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.⁸ 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; and
- 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.

SCE utilized two tracks in the MTRRFO:

1. Fast Track. Projects coming online by August 1, 2023, and select projects with June 1, 2024, online dates.
2. Standard Track. Projects that will fulfill the balance of the June 1, 2024, MTR requirements.⁹

⁸ SCE AL 4885-E at 6.

⁹ SCE AL 4885-E at p.5.

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

On January 28, 2022, given the amount of time that had elapsed since initial offers were submitted, SCE sent a notice to the 2024 bidders asking them to confirm their initial offers. If bidders did not confirm their initial bids, SCE allowed the bidders to refresh their offers. SCE also released a new product term sheet, Financially Settled Toll, and allowed bidders to submit new 2024 offers for this product.

Mid-term Reliability Procurement Requests

On March 4, 2022, SCE submitted its first MTR procurement advice letter, AL 4739-E, seeking approval for 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 issued Resolution E-5205, which approved SCE's five energy storage contracts and all of the other requested relief in AL 4739-E, except for the request that the 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 an MTR energy storage contract negotiated as part of the MTRRFO Fast Track process, for a total of 75 MW in nameplate capacity to be used to help satisfy its August 1, 2023, MTR procurement requirements. On August 25, 2022, the Commission issued Resolution E-5225, approving AL 4800-E.

On August 17, 2022, SCE submitted AL 4850-E requesting approval of the MTR contracts entered into as a result of the Fast Track and Standard Track of SCE's MTRRFO, including the form and substance of the Silver Peak PV Contract.¹⁰ The MTR contracts, totaling 474 MW of nameplate capacity, are expected to provide 433 to 445 MW of incremental September NQC to be used to satisfy a portion of SCE's MTR requirements for August 1, 2023 or June 1, 2024. On November 4, 2022, the Commission issued Resolution E-5234, approving AL 4850-E.

¹⁰ On September 1, 2022, SCE filed a confidential substitute sheet correcting a few minor errors in its original filing.

On October 28, 2022, SCE submitted AL 4885-E requesting approval of four additional MTR contracts entered into as a result of the Fast Track and Standard Track of SCE’s MTRRFO. These projects are summarized in the table below.

Counterparty / Project Name	Technology Type	Contract Type	Expected Delivery Period	Name Plate Capacity	September NQC as Contract ELCC Value for MTR Compliance (1)
Calpine (Nova I)	Energy Storage	RA With Put	6/1/2024 – 5/31/2039	230 MW	208.6MW
Calpine (Nova II)	Energy Storage	RA With Put	6/1/2024 – 5/31/2039	230MW	208.6MW
Next Era (Proxima RA Storage)	Energy Storage	RA Only	6/1/2024-5/31/2039	90 MW	82 MW
WPower (Stanton)	Energy Storage	RA Only	8/1/2023-7/30/2033	69 MW	66 MW
4 Contracts Total	Energy Storage	Various	Various	619 MW Nameplate	565.2 MW

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 calculated the quantitative components of each conforming offer utilizing a net present value (“NPV”) method. Its 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 MTRRFO documents, reviewed SCE’s offer valuation process, 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. Sedway Consulting provided a report on the MTRRFO, (the “IE Report”), which is included as Confidential/Public Attachment D.

Consistency with Commission Decisions

SCE states that the Fast Track and Standard Track of SCE’s MTRRFO and the contracts signed from that procurement meet the requirements of the MTR Decision. The MTRRFO solicited zero-emitting or RPS-eligible resources to procure incremental system RA capacity to provide September NQC as required by the decision. The MTR Contracts provide 565.2 MW of expected incremental September NQC to be online by August 1, 2023, or June 1, 2024, using the methodology in the ELCC report.

In accordance with OP 14 of D.20-08-046, contracts with 15-year terms include a representation and warranty that the seller has considered long-term climate change risks to the project and will provide SCE a copy of its Plan.

Cost Recovery

SCE proposes to allocate the costs associated with the MTR Contracts to applicable customers,¹¹ using the Portfolio Allocation Balancing Account (“PABA”) in accordance with Advice Letter 4589-E.¹² In accordance with Advice Letter 4589-E, costs and benefits associated with procurement complying with the MTR Decision will be recovered from applicable customers through the 2021 vintage sub-account of the PABA and include incremental administrative costs.¹³

¹¹ Includes bundled service customers and departing load customers with 2021 vintage cost responsibility.

¹² AL 4589 approved tariff revisions related to MTR procurement cost due to transfer of Western Community Energy customers.

¹³ Such costs include, but are not limited to, Independent Evaluator costs.

Safety

The MTR Contracts for which SCE seeks approval requires the seller to operate the energy storage facility in accordance with “Prudent Electrical Practices.”¹⁴ 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.¹⁵

Advice Letter Request

In AL 4885-E, SCE requests that the Commission adopt a resolution no later than January 12, 2023. SCE specifically requests that the resolution contain the following:

1. Approval of the MTR Contracts in their entirety;
2. A finding that the MTR Contracts are consistent with the MTR Decision;
3. A finding that the MTR Contracts are for a total of 562.2 MW of expected incremental September NQC for purposes of MTR compliance;
4. A finding that the MTR 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 MTR Contracts are recoverable in full by SCE through the PABA, subject only to SCE's prudent administration of the MTR Contracts;
5. Authorization for SCE to allocate the benefits and costs of the MTR Contracts, to all applicable customers as described herein via the PABA; and
6. Any other and further relief as the Commission finds just and reasonable.

¹⁴ AL 4885-E at 20 describes Prudent Electrical Practices as, “those practices, methods and acts that would be implemented and followed by prudent operators of electric energy storage facilities in the Western United States, similar to the Project, during the relevant time period, which practices, methods and acts, in the exercise of prudent and responsible professional judgment in the light of the facts known or that should reasonably have been known at the time the decision was made, could reasonably have been expected to accomplish the desired result consistent with good business practices, reliability and safety”); Section 6.01(a) of SCE's Technology Neutral Pro Forma Contract, also in Exhibit A of AL 4885-E.

¹⁵ *Ibid* at 20.

NOTICE

Notice of AL 4885-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 4885-E was timely protested by the Public Advocates Office ("Cal Advocates") on November 17, 2022.

Cost of the RA-only WPower (Stanton) Contract

Cal Advocates argues that the SCE may be overpaying for the RA-only WPower (Stanton) contract starting delivery in August 2023. They point out that global shipment issues and increased supply costs are two factors that have led to increased prices for RA-only contracts since the start of 2022 affecting both Integrated Resource Plan (IRP) and RA procurement costs. They note that the MTR decision requires load serving entities (LSEs) to procure September system NQC but orders no specific procurement of local capacity. Therefore, while the WPower project is in the LA Basin local capacity sub-area, its location is immaterial to requirements of the MTR decision.

CalAdvocates states that the Commission should order SCE to solicit a revised 10-year contract with an online date of June 1, 2024, for the WPower project and direct SCE to file a supplemental advice letter comparing the value of the WPower contract for delivery in 2023 with a contract for delivery starting in 2024 plus the additional cost of one month of September 2023 RA replacement, or bridge, capacity. CalAdvocates argues that if the price of a 10-year contract with a 2024 online date plus one month of September 2023 bridge capacity is significantly lower than the currently proposed 10-year contract with an online date of August 1, 2023, then it is in the interest of ratepayers that SCE wait a year before entering into a long-term contract for the WPower project and fulfill their 2023 MTR obligation with bridge capacity.

CalAdvocates points out that the Commission's MTR Decision¹⁶ allows LSEs to contract bridge capacity in the event of any delay of a resource coming online when contracted to meet a capacity requirement in the decision. If ratepayers would benefit from waiting another year, CalAdvocates argues, the Commission should allow SCE to

¹⁶ D.21-06-35, OP 10 cited by CalAdvocates Protest at p.6.

temporarily fill the 66 MW of September NQC capacity for 2023 with another resource for one month of September 2023 RA capacity. The Commission should allow SCE to contract for bridge capacity for September 2023 even if the WPower project were not delayed but were contracted to begin delivery in 2024.

CalAdvocates states that, procedurally, the Commission could authorize the use of bridge capacity via an upcoming proposed decision in the IRP proceeding on near-term procurement actions, which, they argue, would avoid the need for utilities to enter long-term contracts that are not cost effective. They request that in the proposed decision on near-term actions, the Commission limit the allowance of bridge capacity for deficient procurement due to high-priced contracts for 2023 and only to the investor-owned utilities (IOUs).

SCE timely replied to the CalAdvocate's protest on November 28, 2022.

In response, SCE states that, as explained in Advice 4885-E, the MTR Contracts are the least cost, best-fit resources offered to meet SCE's 2023 and 2024 MTR procurement requirements. SCE also points out that CalAdvocates does not dispute this fact and does not provide any evidence that SCE has better alternatives to satisfy its 2023 MTR needs.¹⁷

SCE argues that CalAdvocates' proposed alternative to approval of the WPower Contract – a potential 2024 WPower Contract with one month of September 2023 RA bridge capacity – is not compliant with the MTR Decision's requirements. SCE calls Cal Advocates' suggestion that SCE could potentially find other bridge capacity or import capacity in a separate solicitation to achieve its 2023 MTR procurement requirement "pure speculation" and claims that trying to find additional qualifying bridge capacity would also take additional time that would put the WPower Contract at risk of providing 2023 deliveries.¹⁸

SCE cites the MTR Decision that, "it is permissible to allow LSEs, in their long-term contracts, to cover the risk of a delay in a project online date with developers offering other capacity as a 'bridge' until the contracted-for resource can come online."¹⁹ SCE states that it understands the MTR Decision to require the bridge capacity to cover the entire period of delay from when the resource is expected to come online to the actual

¹⁷ SCE Response, p. 3.

¹⁸ SCE Response, p. 4.

¹⁹ D.21-06-035, p. 70 cited in SCE's Reply, p. 4.

delayed online date and not just for the month of September 2023. SCE also cites D.22-02-004 which, regarding the use of bridge capacity, clarifies that, “it is permissible for a load-serving entity to utilize capacity or take energy deliveries from the same contractual counterparty from other owned resources to show compliance with the online date requirements.”²⁰

Finally, SCE points out that Cal Advocates acknowledges that its proposal would require a change in Commission decisions and argues that it is not appropriate to delay or reject approval of the investor-owned utilities’ MTR contracts based on potential future changes to the MTR procurement requirements.

DISCUSSION

The Commission has reviewed AL 4885-E and finds that SCE’s request for approval and cost recovery for the WPower project and three other MTR contracts presented in AL 4885-E is reasonable.

CalAdvocates raises concerns about the cost of SCE’s contract with WPower for 69 MW (Nameplate) of RA Only Storage to be delivered starting August 1, 2023. It requests that the Commission direct SCE to solicit a revised 10-year RA-only contract with an online date of June 1, 2024, for the WPower project and file a supplemental advice letter that compares the value of the WPower contract for delivery in 2023 with a contract for delivery starting in 2024 plus the cost of one month of September 2023 bridge capacity. It further asks that the Commission allow bridge capacity to be used to address high 2023 contract prices, and not just in the case that an already contracted project is experiencing delays, authorizing this change via an upcoming proposed decision in the IRP proceeding on near-term procurement actions.

In response SCE argues that its contract with WPower, and other MTR Contracts, were all selected using approved least cost, best-fit methodology. It argues that the alternative proposed by CalAdvocates does not comply with the MTR Decision’s requirements and that the suggestion that SCE could find bridge capacity or import capacity in a separate solicitation is speculative. It further argues that the MTR Decision only authorizes LSEs to contract bridge capacity from the developer offering a long-term contract and only for the entire period of the delay, not for a single month.

²⁰ D.22-02-004 at OP 10 cited in SCE Reply, p. 5 (emphasis added by SCE).

While the Commission is concerned that IOUs do not overpay for MTR procurement, we find that SCE adhered with the least cost, best-fit selection criteria in choosing the resources contracted to meet its 2023 and 2024 MTR procurement obligations, especially in light of the importance of bringing new resources online to meet our orders. While such practices may lead the utilities to sign contracts with higher or lower prices, absent evidence to the contrary these price differences reflect market conditions at the time of contracting.

CalAdvocates argues that a lower price might be obtained if SCE delays the online date of the contract from 2023 to 2024 and fills its 2023 obligation with a month of “bridging” RA in September 2023. As SCE points out, this idea would require multiple changes to existing Commission rules. First, SCE understands D.21-06-035 to require that LSEs who use bridge capacity cover the entire period of delay from when the resource is expected to come online. We concur with this interpretation. D.21-06-035 also states that bridge capacity be used to cover delays in a project’s online date. CalAdvocates suggestion that SCE use bridge capacity to delay its procurement obligation was neither considered or approved in D.21-06-035 or any subsequent decision. Finally, CalAdvocates presents no evidence that contracting for 2024 instead of 2023 and contracting for bridge RA would be either feasible or result in lower overall contract prices.

For the multiple reasons provided above, we reject CalAdvocates protest and approve SCE’s contract with WPower for 69 MW (nameplate) RA-only from its Stanton energy storage facility. We also approve the three other storage contracts presented in AL 4885-E.

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 on December 8, 2022.

The Commission timely received letters from the California Energy Storage Alliance (CESA) on December 27, 2022, the Los Angeles and/ Orange Counties Building & Construction Trades Council (December 22, 2022), and Senator Josh Newman of Senate District 29 (December 21, 2022) supporting the Draft Resolution and urging the Commission to approve all of the contracts addressed in the Resolution, including the WPower contract for 68.8 MW of energy storage, at the January 12, 2023, Commission meeting. There were no comments opposing or asking for modifications to the Draft Resolution.

FINDINGS

1. In June 2021, D.21-06-035 directed Load Serving Entities to procure 11,500 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.
2. In June 2021, 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. By Advice Letter ("AL") 4885-E, filed on October 28, 2022, SCE has submitted for approval four energy storage contracts that are intended to partially meet SCE's D.21-06-035 requirements.
4. SCE's methodology to evaluate the bids in the competitive solicitation that resulted in contracts presented in SCE AL 4850-E is reasonable.
5. The cost of the MTR Contracts presented in SCE AL 4885-E are reasonable based on the robust competitive solicitation and bid evaluation methodology.
6. D.21-06-035 allows LSEs to use bridge capacity to cover the risk of delay in a project online date; however, it does not allow an LSE to postpone the contracted online date for resources the LSE is obliged to procure. If used, bridge capacity must cover the entire period of delay from when the resource is expected to come online to the actual online date.
7. D.22-02-004 clarifies that bridge capacity must be contracted from the same contractual counterparty to the delayed MTR procurement contract.

THEREFORE IT IS ORDERED THAT:

1. Southern California Edison's request in SCE AL 4885-E for approval of the four mid-term reliability contracts and related costs for a total of 619 megawatts of nameplate capacity, expected to come online August 1, 2023, and June 1, 2024, 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 January 12, 2023; the following Commissioners voting favorably thereon:

Rachel Peterson