

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION E-4860
August 24, 2017**

REDACTED
RESOLUTION

Resolution E-4860. Southern California Edison requests approval of its Agreement with O.L.S. Energy-Chino for combined heat and power energy and capacity.

PROPOSED OUTCOME:

- This Resolution approves an Agreement between Southern California Edison (SCE) and O.L.S. Energy-Chino (Chino).

SAFETY CONSIDERATIONS:

- The terms of the Agreement state Chino must operate and maintain the facility within the terms of prudent electrical practices. SCE submitted a safety plan for the facility that was certified by a licensed California engineer.

ESTIMATED COST:

- The cost of the Agreement is confidential

By Advice Letter 3485-E, Filed on October 3, 2016.

SUMMARY

This Resolution approves a materially-modified Combined Heat and Power Request for Offers (CHP RFO) Agreement that Southern California Edison (SCE) executed with O.L.S. Energy-Chino (Chino).

The agreement (OLS Chino PPA or Agreement) was executed as part of SCE's fourth CHP RFO and is comprised of three agreements that SCE entered into with Chino, which includes: (1) a master power purchase and sale agreement, (2) a master power purchase and sale agreement confirmation letter for Resource

Adequacy capacity, and (3) a Master Power Purchase and Sale Agreement confirmation letter for energy-only unit contingent tolling. The term of the contract is seven years and SCE requests the Commission approve the Agreement by August 24, 2017 to meet the requirements of the contract. The Agreement will begin when the current contract expires on March 11, 2018.

BACKGROUND

Background on Relevant terms of the CHP/QF Settlement

On December 16, 2010, the Commission adopted the Qualifying Facility and Combined Heat and Power Program Settlement Agreement (Settlement) with the issuance of Decision (D).10-12-035. The Settlement resolves a number of longstanding issues regarding the contractual obligations and procurement options for facilities operating under legacy and qualifying facility contracts.

The Settlement establishes megawatt (MW) procurement targets and GHG Emissions Reduction Targets the investor-owned utilities (IOUs) are required to meet by entering into contracts with eligible CHP Facilities, as defined in the Settlement.

Pursuant to D.10-12-035, the three large electric IOUs must procure a minimum of 3,000 MW of CHP and reduce GHG emissions consistent with the California Air Resources Board (CARB) Scoping Plan, currently set at 4.8 million metric tons (MMT) by the end of 2020.

Per Section 4.2 of the Settlement Term Sheet, the IOUs are directed to conduct Requests for Offers (RFOs) exclusively for CHP resources as a means of achieving their MW and GHG Emissions Reduction Targets. In addition, per Section 4.3 of the Settlement Term Sheet, bilaterally negotiated and executed CHP Power Purchase Agreements (PPAs) are included among the procurement options in the CHP Program. Pricing, terms, and conditions will be determined according to the executed and approved PPA. The use of an independent evaluator (IE) is required for bilateral negotiations between an IOU and its negotiating partner.

Under D.15-06-028, the Greenhouse Gas Emissions Reduction Targets were revised to collectively achieve 2.72 MMT of emissions reductions from CHP facilities by 2020. The agreement also established a schedule of four competitive solicitations for CHP facilities during the Second Program Period, which began on November 23, 2015.

In accordance with D.15-06-028, SCE launched the fourth CHP RFO on February 11, 2016. To increase efficiency, rather than require participants to submit initial and final prices in a two-step process, SCE required participants to submit a single bidding price in a one-step process. Interested CHP parties submitted binding offers on March 31, 2016 and created a short list of bidders to be presented at its Cost Allocation Mechanism Group on May 19, 2016 and SCE began negotiations with short listed bidders. SCE entered into the instant agreement with O.L.S. Energy-Chino on August 3, 2016.

Background on Chino CHP facility

The Chino facility is located in Chino, 32 miles east of Los Angeles at the California Institute for Men (CIM), , a prison which is part of the California Department of Corrections and Rehabilitation. The Chino facility has a nameplate capacity of 30 MW and contract capacity of 26 MW. In operation since 1988, the facility sells power to SCE under a 30-year PPA ending on March 11, 2018 and the facility also provides 2 MW to CIM.

The facility uses a gas-fired water injected combustion turbine with an attached 21.2 MW generator. The combustion turbine exhaust gas passes through a heat recovery steam generator producing steam used by CIM for cooking, heating and laundry.

SCE Settlement Targets

Because SCE reached its MW Settlement target when the Commission approved the Tesoro PPA in March 2017, SCE is only using the OLS Chino PPA to reach its GHG emission reduction target of 1.23 MMT. The OLS Chino PPA contributes 0.0197 MMT toward that GHG reduction target because the facility will convert from a baseload facility to a Utility Prescheduled Facility (UPF). This conversion

will reduce the facility's GHG emissions because less natural gas will be used to power the facility.

SCE requests the Commission approve the PPA by August 24, 2017 to ensure it has enough time to on-board a resource that is switching from a baseload generator to a UPF.

SCE provides its justification for obtaining GHG emission reductions credit by citing Section 7.3.1.3 of the CHP Settlement Term Sheet: CHP Facility Change in Operations or Conversion to a UPF. Under the Settlement Terms, the GHG savings are realized from the conversion from a baseload generated resource to a resource that runs less because it is only called to operate based on market economics. This reduction in operating time can be counted as reduced GHG emissions because the facility will require less fuel and therefore, will produce fewer emissions.

NOTICE

Notice of AL 3485-E was made by publication in the Commission's Daily Calendar. Southern California Edison 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 AL 3485-E was not protested.

DISCUSSION

On October 3, 2016, SCE filed Advice Letter 3485-E requesting Commission approval of an Agreement with Chino.

Specifically in this Advice Letter, SCE requested that the Commission:

1. Approve the Agreement in its entirety;
2. Find that the Agreement, and SCE's entry into the Agreement, is reasonable and prudent for all purposes, subject only to further review with respect to the reasonableness of the agreement;
3. Find that 0.0197 MMT of GHG emissions reductions associated with the Agreement applies toward SCE's GHG Target;
4. Find that the Agreement is in compliance with the Emissions Performance Standard;
5. Find that SCE's costs under the Agreement shall be recovered through SCE's Cost Allocation Mechanism; and
6. Approve the Agreement by August 24, 2017.

Energy Division evaluated the Proposed PPA based on the following criteria:

- Consistency with D.10-12-035, which approved the QF/CHP Program Settlement, including:
 - Consistency with GHG Counting Rules
 - Need for Procurement
 - Cost Reasonableness
 - Public Safety
 - Project Viability
 - Consistency with the Emissions Performance Standard
 - Consistency with D.02-08-071 and D.07-12-052, which respectively require Cost Allocation Mechanism Group participation
 - Energy Division typically considers the analysis and recommendations of an Independent Evaluator (IE), if available.
 - Disadvantaged Community Designation

Consistency with D.10-12-035, which approved the QF/CHP Program Settlement,

Consistency with Definition of CHP Facility and Qualifying Cogeneration Facility

To be eligible to count towards Settlement MW and GHG goals, all CHP facilities, excluding those that convert to UPFs, must meet the federal definition

of a qualifying cogeneration facility under 18 C.F.R. § 292.205 by the term start date and through the duration of the proposed PPA, and must also maintain QF certification. With reference to the federal regulations, the Settlement establishes minimum operating and efficiency requirements for topping-cycle facilities and establishes efficiency standards for bottoming-cycle facilities. Chino's CHP facility meets the terms of the Settlement.

Consistency with GHG Counting Rules

Under the terms of the Second Program Period, revised by D.15-06-028, SCE can count Chino, an existing topping cycle facility, as 0.0197 MMT of reduced GHG emissions because it is a baseload facility which is converting to an UPF on March 11, 2018. Therefore, the Chino UPF conversion counts as reduced GHG emissions. Approving this PPA will leave SCE with an additional 0.422 MMT of GHG reductions that it still needs to procure to meet its GHG reduction target.

Need for Procurement

SCE's total MW procurement goal for the CHP Program is 1,402 MW. SCE needs to procure this CHP resource in order to meet its GHG reduction requirement under the CHP Agreement. The Chino PPA will provide 0.0197 MMT of reductions towards SCE's target. This will leave a balance of 0.422 GHG reduced SCE will still need to procure under the settlement. The Chino PPA meets a procurement need.

Cost Reasonableness

The price of the agreement represents the least-cost best-fit bid submitted in this RFO and the costs are just and reasonable. More information on the cost of this proposal is contained in the Confidential Appendix.

Public Safety

Pursuant to D.15-06-028, SCE required OLS Energy to provide a report from an independent, California Licensed engineer certifying that the Chino Facility has a feasible safety plan. Energy Division reviewed the safety plan, the engineer's certification and finds that it meets the requirements set forth in D.15-06-028.

Consistency with Emissions Performance Standard

Combined cycle gas turbine baseload plants in operation on D.07-01-039's effective date of January 29, 2007 are deemed automatically compliant with the Emissions Performance Standard (EPS). The Chino facility achieved commercial operation in March 1988 and therefore is compliant with the EPS.

CAM Group Participation

SCE presented information about the agreement on February 10, 2016, May 19, 2016 and July 27, 2016. SCE has complied with the Commission's rules for involving the CAM group.

Independent Evaluator

SCE engaged Accion to act as Independent Evaluator (IE) for CHP RFO 4 and the IE participated in all elements of the RFO including participating in meetings and monitoring all communications between the parties.

Disadvantaged Community Designation

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.

Energy Division staff notes that this facility, including the CHP generating unit, are physically located in a CalEnviroScreen Version 2.0 designated Disadvantaged Community in Chino, CA, Census Tract 6071000605. This is a Disadvantaged Community with an 83 percent pollution score generally and 98 percent pollution score for drinking water.

SCE asserts the Chino PPA will contribute to the GHG reduction target because the facility will convert to a UPF from a baseload facility. SCE states that this conversion will reduce the facility's emissions because it will run less often, so less natural gas will be burned.

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 and comment

prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft Resolution was mailed to parties on July 25, 2017. SCE filed comments on August 14, 2017.

In its comments, SCE requested two minor corrections to the draft Resolution. The Resolution has been revised to reflect these corrections.

FINDINGS

1. Commission Decision 10-12-035 directed SCE to procure 1,402 MW of combined heat and power capacity and established a 1.22 MMT GHG reduction target.
2. On October 3, 2016, Southern California Edison Company (SCE) filed Advice Letter (AL) 3458-E seeking approval of a power purchase agreement with O.L.S. Energy-Chino, Inc. (Chino), a 27.9 MW combined cycle cogeneration facility.
3. SCE is authorized to 0.0197 MMT as a GHG Credit towards its Settlement GHG Emissions Reduction Target.
4. The cost associated with the Chino PPA is just and reasonable.
5. The Safety Plan submitted with Advice Letter 3458-E complies with D.15-06-028.
6. The Chino Facility achieved commercial operation in March 1988 and therefore is automatically compliant with the Emissions Performance Standard.
7. The Chino Facility is located in a disadvantaged community designated by CalEnviroScreen.

THEREFORE IT IS ORDERED THAT:

1. The request of Southern California Edison to approve the Agreement with O.L.S. Energy-Chino is approved and SCE is authorized to recover costs via the cost allocation mechanism, as proposed in Advice Letter 3485-E.

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 24, 2017; the following Commissioners voting favorably thereon:

/s/TIMOTHY J. SULLIVAN
TIMOTHY J. SULLIVAN
Executive Director

MICHAEL PICKER
President
CARLA J. PETERMAN
LIANE M. RANDOLPH
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
Commissioners

Confidential Appendix A

[APPENDIX REDACTED]