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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**Agenda ID 14895
RESOLUTION E-4791
May 26, 2016**

R E S O L U T I O N

Resolution E-4791. Authorizing expedited procurement of storage resources to ensure electric reliability in the Los Angeles Basin due to limited operations of Aliso Canyon Gas Storage Facility.

PROPOSED OUTCOME:

- Requires Southern California Edison Company to hold an expedited competitive energy storage procurement solicitation to help alleviate an outage risk during the upcoming summer and winter of 2016-2017.
- Requires Southern California Edison Company to file one or more Tier 3 Advice Letters to seek approval of storage contracts selected in the solicitation.

SAFETY CONSIDERATIONS:

- This Resolution supports the Governor's Emergency Proclamation to protect public safety by ensuring the continued reliability of natural gas and electric supplies while there is a moratorium on gas injections at Aliso Canyon.
- SCE shall ensure any contracts entered into provide that sellers shall operate the energy storage facilities in accordance with prudent and safe electrical practices.

ESTIMATED COST:

- This Resolution is expected to result in additional contracts which could lead to increased ratepayer costs. Actual costs of the contracts are unknown at this time.

By Energy Division's own motion.

Energy Division's Own Motion Regarding Expedited Procurement of Storage
Resources to Ensure Electric Reliability in the Los Angeles Basin/ML2

SUMMARY

This Resolution orders Southern California Edison Company (SCE) to hold a competitive solicitation for storage contracts to address electrical reliability risks in the Los Angeles ("LA") Basin due the moratorium on injections into the Aliso Canyon Natural Gas Storage Facility ("Aliso Canyon").

This Resolution also allows SCE to contract for storage that will count towards their overall storage mandate and meet their local capacity requirement needs.

BACKGROUND

The Aliso Canyon Well Failure threatens electric reliability in the LA Basin

On October 23, 2015, a massive leak at one of Southern California Gas Company's ("SoCalGas") natural gas storage wells was discovered by crews at the Aliso Canyon storage field. The well has since been permanently sealed. Currently, 15 billion cubic feet of working natural gas remains in the Aliso Canyon underground reservoir – less than one-fifth of the capacity of the facility. SoCalGas is prohibited from injecting additional natural gas into the facility until the completion of well safety tests that are currently underway.

Aliso Canyon is critical to help meet peak electrical demands during the summer months and peak gas usage demands in winter months. Aliso Canyon's limited operational capabilities have put SoCalGas at risk of not being able to meet the gas supply needs of electric generators and its retail customers in the Greater Los Angeles area. This situation creates a distinct possibility of electricity service interruptions in the coming summer and winter months.

Overview of the State of Emergency Proclamation

On January 6, 2016, Governor Brown proclaimed a state of emergency in Los Angeles County due to the prolonged duration of the natural gas leak at Aliso Canyon. Paragraph 10 of the Proclamation states that: "The California Public Utilities Commission and the California Energy Commission, in coordination with the California Independent System Operator, shall take all actions necessary to ensure the continued reliability of natural gas and electricity supplies in the coming months during the moratorium on gas injections into the Aliso Canyon Storage Facility."

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Without Additional Procurement, Gas Curtailments Could Cause Electricity Service Interruptions during the Upcoming Summer and Winter of 2016-2017.

On April 5, 2016, the California Energy Commission (CEC), The California Public Utilities Commission (CPUC), California Independent System Operator (CAISO), and the Los Angeles Department of Water and Power (LADWP) released the *Aliso Canyon Action Plan to Preserve Gas and Electric Reliability for the Los Angeles Basin* ("Action Plan"). The Action Plan finds that "Aliso Canyon plays an essential role in maintaining both natural gas and electric reliability in the greater Los Angeles area. As a result, the facility's limited current operations create a distinct possibility of electricity service interruptions in the coming summer months." The accompanying report and technical studies predict that the region faces up to 14 days this coming summer during which gas curtailments could be high enough to cause electricity service interruptions to millions of utility customers.¹ The Action Plan proposes over 18 measures to reduce the possibility of electrical interruptions, including a call for greater conservation from residents. State and local agencies have undertaken the recommended measures of the Action Plan. Nonetheless, the report concludes that these actions "will reduce, but not eliminate, the risk of gas shortages this summer that are large enough to cause electricity interruptions for the region's residents and businesses."²

¹ See Page 3 of Aliso Canyon Action Plan to Preserve Gas and Electric Reliability for the Los Angeles Basin, prepared by the California Public Utilities Commission, California Energy Commission, the California Independent System Operator, and the Los Angeles Department of Water and Power, available at: [http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/News_and_Updates/Aliso%20Canyon%20Action%20Plan%20\(04-4-16\)_final%20clean.pdf](http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/News_and_Updates/Aliso%20Canyon%20Action%20Plan%20(04-4-16)_final%20clean.pdf)

² *Ibid.* page 4

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DISCUSSION

In accordance with the Governor's State of Emergency Proclamation, the Commission is pursuing activities that could be quickly implemented to alleviate the electric reliability risks to the LA Basin. The Commission identified energy storage systems as one potential solution because they can be fast-responding, firm, and dispatchable. Energy storage resources can be potentially constructed, interconnected, and deployed on a short timeline. Under current conditions, energy storage systems may alleviate the reliability risks associated with the partial shutdown of the Alison Canyon.

Given the risk to electric reliability in the LA Basin, SCE shall execute an expedited competitive solicitation to procure energy storage that can help mitigate an outage risk in the coming months due to limited availability of gas supplies from Aliso Canyon.

Parameters for storage procurement:

1. SCE may solicit energy storage resources consistent with SCE's remaining LA Basin Local Capacity Requirement (LCR) procurement authorization from Decision D.15-11-041³.
2. SCE shall solicit in-front-of-the-meter (IFOM) energy storage that can be operational by December 31, 2016.
3. All resources procured under the Aliso Canyon Energy Storage Solicitation must interconnect in a location(s) that helps to alleviate electric reliability concerns associated with the partial shutdown of the Alison Canyon Gas Storage Facility and qualify for resource adequacy credit.
4. Resources procured in the Aliso Canyon Energy Storage Solicitation must be price-competitive with previous solicitations in which SCE has awarded contracts to comparable energy storage resources.

³ D.15-11-041 approving, in part, results of SCE's local capacity requirements request for offers for the Western LA Basin pursuant to Decisions 13-02-015 and 14-03-004.

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5. Given that it is unclear how long the moratorium on injections into Aliso Canyon will persist, SCE may enter into contracts with terms of 10 years or less.

Solicitation Structure

SCE shall conduct the Aliso Canyon Energy Storage Solicitation as a "one round" competitive solicitation allowing bidders to submit pricing at the offer deadline. SCE will then evaluate and shortlist offers. SCE will enter into contract negotiations with shortlisted bidders and will make final selection decisions based on successful negotiation of a form of contract agreeable to both parties.

Commission Authorization for Solicitation and Approval of Contracts

SCE is directed to conduct a solicitation at its earliest opportunity.

The Commission intends to expedite consideration of any contracts resulting from the Aliso Canyon Energy Storage Solicitation. To that end, SCE may seek approval of, and obtain cost recovery treatment and Energy Storage target credit and LCR credit for, any contracts resulting from the Aliso Canyon Energy Storage Solicitation through a Tier 3 Advice Letter. Any storage procured through the Aliso Canyon Energy Storage Solicitation should be able to satisfy SCE's overall storage mandate obligation, assuming it meets existing defined eligibility criteria.

Cost Recovery Mechanism

Any procurement to alleviate reliability risks associated with the partial shutdown of the Aliso Canyon Natural Gas Storage Facility will benefit all customers connected to the grid. Therefore, all customers must bear the costs of contracts resulting from the Aliso Canyon Energy Storage Solicitation. Thus, the Cost Allocation Mechanism (CAM), as adopted by the Commission in D.15-11-041 and applicable to "In Front of the Meter" (IFOM) Energy Storage, shall apply to any contracts resulting from the Aliso Canyon Energy Storage Solicitation. SCE shall consult with its CAM Group on the Aliso Canyon Energy Storage Solicitation process and results.

SAFETY

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Public Utilities Code Section 451 requires that every public utility maintain adequate, efficient, just, and reasonable service, instrumentalities, equipment and facilities to ensure the safety, health, and comfort of the public.

This Resolution implements the Governor's State of Emergency Proclamation to address the electric reliability concerns in the Los Angeles Basin due to the moratorium on gas injections into the Aliso Canyon Natural Gas Storage Facility.

SCE shall ensure that any contracts selected for CPUC approval provide that sellers shall operate the energy storage facility in accordance with prudent electrical practices.

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 "in an unforeseen emergency" The Commission's Rules of Practice and Procedure also provides that public review and comment may be waived or reduced in an "unforeseen emergency situation" specifically where there are "[a]ctivities that severely impair or threaten to severely impair public health or safety..." (Rule 14.6(a)(1) and/or where there are "[c]rippling disasters that severely impair public health or safety" (Rule 14.6(a)(2)).

The 30-day comment period is reduced pursuant to these authorities. Comments will be due within 5 business days of the release of this Draft Resolution.

FINDINGS

1. On October 23 2016, a massive methane leak was detected at the Aliso Canyon Natural Gas Storage Facility.
2. The leak has been permanently sealed; 15 billion cubic feet of working gas remains the underground reservoir – less than one-fifth of the capacity of the facility.

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3. No new gas may be injected into the facility until safety tests are completed on all the facilities' wells.
4. The facility is critical to meeting peak gas usage demands in winter months and peak electrical demands during the summer months in the Los Angeles Basin.
5. With limited gas supply from Aliso Canyon, there could be gas curtailments severe enough to cause electric generation shortages that lead to electric service interruptions during upcoming summer and winter days in 2016-2017.
6. On January 6, 2016, Governor Brown proclaimed a state of emergency in Los Angeles County due to the Aliso Canyon leak.
7. Paragraph 10 of the Proclamation directs the CPUC to take all actions necessary to ensure the continued reliability of natural gas and electricity supplies in the coming months during the moratorium on gas injections into the Aliso Canyon Natural Gas Storage Facility.
8. On April 5, 2016, a joint agency Reliability Action Plan analyzing the reliability risks to electrical service this summer in the greater Los Angeles area found that there are 14 days this coming summer during which gas curtailments could be high enough to cause electricity service interruptions to millions of utility customers.
9. The Action Plan identifies 18 measures to reduce the possibility of electrical interruptions, including a call for greater conservation from residents.
10. There is limited time to undertake remedial actions or activities that will help alleviate electric reliability risk concerns, thus it is necessary to accelerate regulatory processes that might delay remedial actions.
11. The Commission recognizes energy storage can be fast-responding, firm, and dispatchable, and may be able to alleviate the reliability risks associated with the injection moratorium at Alison Canyon.
12. Energy storage resources can be potentially constructed on a short timeline.
13. Allowing SCE to execute an expedited competitive solicitation to procure energy storage that can help mitigate outage risks in the coming months

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- due to limited availability of gas supplies from Aliso Canyon is consistent with Paragraph 10 of the Governor's State of Emergency Proclamation.
14. SCE may solicit energy storage resources consistent with SCE's remaining LA Basin LCR procurement authorization.
 15. SCE shall solicit "In-front-of-the-Meter" (IFOM) energy storage that can be operational by December 31, 2016.
 16. It is reasonable that energy storage procurements interconnect in a location that will help alleviate electric reliability concerns and qualify for resource adequacy credit.
 17. Resources procured in the Aliso Canyon Energy Solicitation should be price-competitive with previous solicitations in which SCE has awarded contracts to energy storage resources.
 18. It is unclear how long the injection moratorium will last; therefore, SCE is authorized to enter into contracts with terms of 10 years or less.
 19. To expedite the process SCE may conduct the Aliso Canyon Energy Storage Solicitation as a "one round" competitive solicitation allowing bidders to submit pricing at the offer deadline.
 20. One of the objectives of this Resolution is facilitating contracts within a timely manner by allowing SCE to successfully negotiate contracts with shortlisted sellers.
 21. SCE may conduct a solicitation at its earliest opportunity.
 22. SCE may seek approval of, and obtain cost recovery treatment for, any contracts resulting from the Aliso Canyon Energy Storage Solicitation through a Tier 3 Advice Letter.
 23. It is reasonable that any storage procured through the Aliso Canyon Energy Storage Solicitation should be able to satisfy SCE's LCR credit and overall storage mandate obligation, assuming it meets existing defined eligibility criteria.
 24. The partial shutdown of the Aliso Canyon Natural Gas Storage Facility will impact all customers connected in the area.

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25. It is reasonable that all impacted customers bear the costs of contracts resulting from the Aliso Canyon Energy Storage Solicitation.
26. The Cost Allocation Mechanism, as adopted by the Commission in D.15-11-041 and applicable to In-Front-Of-the-Meter (IFOM) energy storage, shall apply to any contracts resulting from the Aliso Canyon Energy Storage Solicitation.
27. Public Utilities Code Section 451 requires that every public utility maintain adequate, efficient, just, and reasonable service, instrumentalities, equipment and facilities to ensure the safety, health, and comfort of the public.
28. This Resolution responds to the Governor's Emergency Proclamation to address the electric reliability concerns in the Los Angeles Basin area due to partial shutdown of the Aliso Canyon Gas Storage Facility.
29. It is reasonable that SCE ensures the contract provides that sellers shall operate the energy storage facility in accordance with prudent electrical practices.

THEREFORE IT IS ORDERED THAT:

1. Southern California Edison Company is ordered to hold a competitive solicitation to procure energy storage resources to address the system and local reliability risks associated with the injection moratorium at the Aliso Canyon Natural Gas Storage Facility.
2. Southern California Edison Company is authorized to file Tier 3 Advice Letters for approval of contracts resulting from the Aliso Canyon Energy Solicitation.

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 May 26, 2016; the following Commissioners voting favorably thereon:

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TIMOTHY J. SULLIVAN
Executive Director