

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

**Order Instituting Rulemaking to Review,
Revise, and Consider Alternatives to the
Power Charge Indifference Adjustment.**

**R.17-06-026
(Filed June 29, 2017)**

**REPLY COMMENTS OF THE
CALIFORNIA COMMUNITY CHOICE ASSOCIATION**



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September 13, 2018

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Pursuant to Rule 14.3 of the Commission’s Rules of Practice and Procedure and the September 7, 2018, ruling of Administrative Law Judge (ALJ) Roscow, the California Community Choice Association (CalCCA) submits this reply to comments on the Proposed Decision of ALJ Roscow (PD) and the Alternate Proposed Decision of Assigned Commissioner Peterman (APD) and to issues raised during the September 7, 2018, All-Party Meeting.

I. SUMMARY OF RECOMMENDATIONS

The Power Charge Indifference Adjustment (PCIA) methodology proposed by the PD and APD materially shifts costs from bundled to departing load customers. To reduce the magnitude of the cost shift, the Commission must, at a bare minimum, make three corrections.

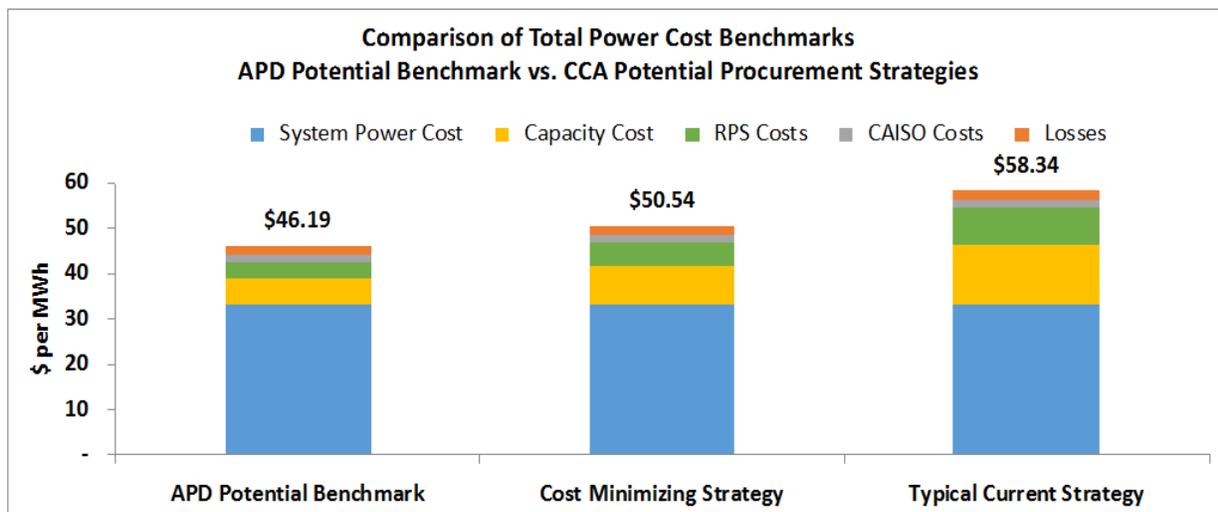
1. **Capacity Benchmark.** CalCCA advocates the use of long-term referents to value the utilities’ long-term resources. A more reasonable short-term benchmark than proposed by the PD and APD, however, could bridge the gap until Phase 2 implementation. These comments describe an alternative benchmark that weights short-run values from multiple sources, including the Energy Division’s annual Resource Adequacy (RA) Report.¹
2. **GHG-Free Attribute.** The MPB must value the greenhouse gas (GHG) free attributes of the IOUs’ portfolios to prevent further cost shifts to departing load; to reject this adjustment would ignore evidence of a premium in today’s market and equate the value of GHG-free resources with brown power – an untenable conclusion in today’s policy environment.
3. **True-Up.** Any PCIA true-up should be limited to brown power; attempting to true-up the value of other attributes held by the IOUs to serve bundled customers fails to achieve greater accuracy, adds complexity and presents a risk of market manipulation.

¹ CPUC Energy Division, “The 2017 Resource Adequacy Report” (August 2018)
<http://www.cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=6442458520>

II. CALCCA REPLY COMMENTS

A. The MPB Benchmark Proposed by the PD and APD Unlawfully Shifts Costs from Bundled to Departing Load Customers.

While the APD’s impact on a community choice aggregator (CCA) will depend on the CCA’s vintage of departure, service territory, and procurement strategy, CalCCA has estimated the APD’s impact and the attendant unlawful cost shift using two illustrative procurement strategies. It compares these strategies to an “APD Benchmark,” which assumes a \$24.24/kW-year capacity cost and \$11.50/kWh RPS Premium consistent with the assumptions used in the Joint Utilities’ updated cost shift analysis.² A “cost minimizing strategy” assumes that the CCA limits RPS procurement to the minimal 2019 compliance target of 31.5% and incurs costs consistent with the assumptions in the Joint Utilities’ August 31, 2018, rate tables: \$37.08/kW-year for capacity and \$16.00 for the RPS Premium. A “typical current strategy” differs from the cost minimizing strategy by increasing the RPS percentage to 50 percent and assuming a more representative average short-run capacity cost of \$58.27/kW-year. The figure below presents the results of CalCCA’s conclusions.



² The capacity value is derived from the 2017 RA Report, “Average Price” for 2017. The RPS value was derived from Exhibit IOU-3, Joint Utilities’ Rebuttal Testimony, at Appendix E, lines 17, 19.

This graph demonstrates that *the “market price” that the PD and APD attribute to resources falls well below any reasonable estimate of the actual cost of acquiring these resources in today’s market.* Simply stated, a CCA could not procure power to serve its customers at the price implied by the benchmark for bundled customers under *any* of these procurement strategies. The unrealistically low MPB will increase PCIA rates and, consequently, CCA customers’ rates, while bundled customers will benefit from an unjustifiable rate reduction. There could be no clearer indicator of a cost shift.

Using these assumptions, the MPB proposed by the PD and APD increases the *existing* annual cost shift³ from bundled to departing load customers under the “Typical Current Strategy” by approximately \$221 million for Pacific Gas and Electric Company (PG&E) and \$167 million for Southern California Edison Company (SCE).⁴

B. The Capacity Benchmark Must Reasonably Represent the Value of the Portfolio Resources Used to Serve Bundled Customers.

Choosing a benchmark to value the capacity in the IOUs’ portfolios will be pivotal in determining whether the existing cost shift from bundled to departing load customers is reduced or exacerbated.⁵ The capacity benchmark will have a greater impact under the APD than the PD; the PD, by excluding Legacy UOG and post-2002 UOG after 10 years, reduces the amount of capacity eligible for PCIA recovery and thus reduces stranded capacity costs. Table 1 shows the difference in PCIA-eligible capacity under the PD and APD.

	PG&E PCIA-Eligible Capacity (MW)	SCE PCIA-Eligible Capacity (MW)
Proposed Decision	6,010	5,489
Alternate Decision	11,447	8,184

³ CalCCA contends that a cost shift is occurring under the current PCIA, which relies on the \$58.27 capacity benchmark used in the calculation of the increased cost shift. *See* CalCCA Opening Brief at 2 (estimate based on current levels of load departure for each utility).

⁴ This calculation assumes, for both utilities, 40 percent departing load and 60 percent bundled load to allow for an apples-to-apples comparison between PG&E and SCE.

⁵ At the All-Party Meeting, ALJ Roscow asked why the benchmarks matter if a true-up is adopted. The answer lies in the formulation of the true-up. CalCCA proposes a true-up of only brown power costs, and recommends no true-up for other portfolio attributes. Under this assumption, the level of RA and RPS benchmarks will ultimately determine the final PCIA.

As a result of this difference, the cost shift resulting from the capacity benchmark under the APD is much greater than under the PD. Under the PD, a minimal assessment of the cost shift is \$125.2 million on PG&E's system and \$123.9 million on SCE's system. Under the APD, the PG&E impact climbs to \$248.6 million, and SCE's impact to \$184.7 million.⁶

TURN and the Joint Utilities maintain that the most representative benchmark is the average of short-term capacity sales value in the RA Report.⁷ TURN emphasizes the need "to make sure that the market value is what's used."⁸ In their views, the short-term sales price reflected in a limited number of bilateral transactions for capacity represents the *only* value to bundled customers of holding that capacity. CalCCA disagrees. There is no single "market" value today that can capture the full value of the resources – a point supported by the record⁹ and, indeed, a direct utility admission.¹⁰ Indeed, any adopted capacity proxy will necessarily be only an *estimate* of the capacity value because there is no transaction associated with the capacity product provided by the IOUs' long-term resources held in the portfolio to satisfy their RA obligations arising out of tariff sales to bundled load customers.

Short-term sales prices reported in the Energy Division's RA Report, while actual and observable, represent only a small portion of the capacity used to meet RA requirements and thus cannot reasonably be used to value 100 percent of the IOUs' capacity. Indeed, Mr. Freedman of TURN opined in his discussion of GHG-free values: "***Because those sales are for small volumes and to impute that value to the actual power that isn't sold in those transactions is to create a cost shift.***"¹¹ The same principle applies in considering the equities of relying on the RA Report for a capacity value. Taken to an extreme, the implication of the PD and APD is that if the IOUs were to sell only 1 MW of RA in the short-term market, the transaction price of that 1 MW sale of RA reported in the RA Report should serve as the value of the entire capacity portfolio of the utilities. That premise is simply untenable and should be rejected.

⁶ This cost-shift estimate uses conservative assumptions: a proposed benchmark for 2019 of \$37.08/kW-year (weighted average price of 2019 Capacity from Table 6 of the 2017 RA Report used in the Joint Utilities' August 31, 2018, rate table files) and the current benchmark of an actual average cost of \$58.27/kW-year.

⁷ See, e.g., Joint Utilities' Comments on APD at 10.

⁸ All-Party Meeting, Freedman/TURN, at approximately hour 2:00.

⁹ See generally CalCCA Opening Brief at 42-52.

¹⁰ Exh. IOU-1 at 5-9:21-23 ("a market does not exist that would provide additional revenues to compensate for the full capacity value...").

¹¹ All-Party Meeting, Freedman/TURN, at approximately hour 2:07.

The use of the RA Report is flawed in other ways. First, the RA Report reflects prices paid for products sold in the short-term market; these products do not have the same characteristics, and therefore do not have the same value, as the underlying resources.¹² The price paid for the right to use capacity for a month of RA compliance is no more representative of the full capacity value of the underlying resource than the charge for one night's Air BnB rental charge is representative of the value of ownership of the underlying home. Second, by relying solely on bilateral transactions addressed in the RA report, the proposed capacity benchmark fails to reflect the short-term avoidable costs incurred for the majority of the RA resources serving bundled load -- the RA that is self-provided from UOG resources. This omission is contrary to Section 366.2(g), which requires that the utility's costs be reduced by "the value of any benefits that remain with bundled service customers." In fact, PG&E's actual incurred short-run avoidable cost for providing RA from its fossil facilities and Diablo Canyon is estimated at \$85/kW-year¹³ -- more than twice the capacity value reported in the RA Report.

However, given the complexity of constructing a reasonably representative capacity benchmark, CalCCA proposes an alternative that, while failing to move toward true long-term valuation,¹⁴ will "do no harm" pending the transition to a Phase 2 framework. Using this alternative, the PG&E and SCE benchmark values for system and local capacity are calculated as a weighted average of the 2017 RA Report aggregate prices (12.8% Weighting Factor) and the alternative benchmark (87.2%) described below.¹⁵

- **Local RA weighted average prices** for NP-26 and SP-26 are calculated first, based on the applicable CPUC-jurisdictional Resource Adequacy Requirement (RAR) for the various Local sub-areas and the \$6.31/kW-month CPM price for the 87.2%-weighted alternative benchmark;¹⁶

¹² See CalCCA Opening Brief at 54; CalCCA Reply Brief at 27.

¹³ Exh. CalCCA-3, Rebuttal Testimony, at 2B-7.

¹⁴ CalCCA initially proposed a blended benchmark, relying on the Commission's long-term planning value for resources held in the portfolio to serve bundled customers and on the California Independent System Operator's Capacity Procurement Mechanism price for excess capacity. See CalCCA Opening Brief at 61-62.

¹⁵ The 12.8% weighting factor is calculated as the ratio of (56,249 / 440,540). 56,249 MW is the 2019 Contracted Capacity reported in Table 6 at p. 22 of the 2017 RA Report and represents the aggregate monthly volume of 2019 RA contracts in the transaction database. 440,540 MW is the sum of all monthly 2017 RA obligations net of CAM, RMR, DR allocations, per Table 4 at p. 16 and Footnote 23 at p. 22 of the 2017 RA Report.

¹⁶ *Id.*, Table 5 at p. 18.

- **System RA weighted average prices** for NP-26 and SP-26 are calculated second, based on the remaining volumes up to the 440,540 MW aggregate RA obligations in each of the respective zones and the \$4.86/kW-month CEC Going Forward Cost for the 87.2%-weighted alternative benchmark;
- **Flexible RA**, if any, will be valued at the CEC Going Forward Cost until a reasonable proxy develops or actual valuation occurs in Phase 2.

These calculations yield a 2019 benchmark value for PG&E (NP-26) of \$63.90/kW-year and a benchmark for SCE (SP-26) of \$64.60/kW-year. Adopting these benchmarks, despite their limitations, will prevent an increase in the cost shift from bundled to departing load customers and begin to move the benchmark toward a more reasonably representative value.

C. Any True-Up Should Be Limited to Brown Power.

The Joint Utilities and TURN support the PD and APD proposals for truing up the PCIA.¹⁷ The true-up as proposed, however, is incomplete, lacks clarity, presents a risk of gaming by the utilities, will add complexity to the PCIA calculation and could exacerbate PCIA volatility

AReM/DACC, while opposing a true-up, contemplates the possibility of a true-up limited to brown power.¹⁸ In effect, CalCCA's proposal reaches the same result. CalCCA supports a true-up of the inputs to the calculation that are a part of the standard ERRA true-up practice: (1) quantities of generation, fuel, and purchased power and (2) costs of fuel, operations and maintenance expenses and purchased power. To be used in the PCIA, the standard practice must also be modified to address benchmark values. CalCCA supports a limited, after-the-fact update of: (a) the brown power component of the MPB, substituting recorded CAISO market-clearing energy and ancillary services prices for those set on a forecast basis using *Platts* forward prices for the purchase and sale of all non-UOG resources and actual revenues for UOG resources and (b) an update of the quantities of the resources represented in the MPB.

CalCCA does not support updating RA, RPS and GHG-free proxy prices used for the MPB. Unlike the other elements of CalCCA's proposed true-up, these proxies do not reflect *actual* transactions to buy or sell the portfolio attributes, *actual* bundled customer costs and tariff sales revenues, or *verifiable* market values for these portfolio attributes. Quite simply, a

¹⁷ Joint Utilities Opening Comments on APD at 12-14; TURN Opening Comments on PD at 2.

¹⁸ AReM/DACC Opening Comments on PD at 9-10.

significant portion of the portfolio is not transacted in the market in auctions, bilateral contracts, or other mechanisms. The benchmarks for these attributes thus represent only estimates of the value bundled customers would otherwise pay for these resources in the market. Truing up initial forecasts of proxy value with a later estimate of the proxy value does not increase accuracy and could magnify existing uncertainties or flaws in the underlying methodology.

Truing up the RA, RPS and GHG-free values also introduces new problems. The IOU's will be the dominant sellers in the capacity, RPS and GHG-free markets, and the prices at which they sell their excess supply will heavily influence the MPB under the PD and APD. The IOUs will have an incentive to sell their products and attributes in a way that *minimizes* prices and the associated benchmarks. This risk of gaming would require greater review, oversight and litigation of utility sales strategies and actions in ERRA proceedings. Finally, the IOUs are just beginning their forays into more substantial sales of RPS and RA products – a process that should be better informed and organized through Phase 2. Attempting to incorporate these nascent efforts into a true-up can only increase uncertainty and volatility.

CalCCA supports a true-up limited to brown power for the foregoing reasons.¹⁹

D. A GHG Adder Must Be Adopted to Prevent a Material Cost Shift from Bundled to Departing Load Customers.

CalCCA proposed adding a premium in the MPB to recognize the higher value of the IOUs' GHG-free resources relative to brown power.²⁰ During the September 7, 2018, all-party meeting, parties touched on the two issues surrounding this proposal: (1) does the market value GHG-free resources at a premium to brown power and, if so (2) what market price referent most reasonably represents that value. While there is not a transparent published market-clearing price for GHG-free energy, this product trades at a premium in the bilateral market, as acknowledged in the Joint Utilities' testimony and by TURN during the all-party meeting. In the absence of a published index that captures the precise value at which these products are traded, the Joint Utilities' testimony provides a reasonable means of estimating the premium.

¹⁹ CalCCA acknowledges that there will be actual, verifiable values for RA sold in the short-term market, but does not propose to true up the benchmark to reflect these values. Doing so invites gaming by the utilities and fails to recognize the long-term value of holding the capacity beyond the capacity's short-term use.

²⁰ See CalCCA Opening Brief at 63-66.

1. A Market Exists for GHG-Free Resources

The existence of a GHG-free premium relative to brown power is obvious under California's evolving GHG-reduction policies. The record provides evidence, demonstrating the existence of a GHG-premium value:

- Evidence of solicitations in which PG&E participated expressly seeking “carbon free” products.²¹
- The Joint Utilities' acknowledgement that market participants have placed value on GHG-free energy.²²
- The importance of these resources in marketing and public relations strategies evidenced by the IOUs' websites and SCE's “Clean Power and Electrification Pathway” initiative;²³
- The value of these resources as reflected in the Power Content Label required for each LSE;²⁴
- PG&E's suggestion in the Diablo Canyon retirement proceeding that the output of the resource should be replaced by GHG-free resources, up to a cost cap reflecting the same premium applied to RPS resources;²⁵
- The Commission's own recognition of avoided GHG-value in the Avoided Cost Calculator, at a value of \$110.93/kW-year for PG&E and \$102.31/kW-year for SCE;²⁶
- Section §454.3 permits the Commission to increase the return for a utility's investment in GHG-free resources.

TURN acknowledged at the All-Party Meeting that GHG-free resources have a higher value:

...one of the primary focuses of the next phase of the case is not only to come up with a structure for how utilities would market their resources but to segment the marketing of those resources by product type: renewable energy and GHG-free energy which are now in the market classified as somewhat different products. The utilities should be engaging in greater sales of that. ***There's obviously demand for it.***²⁷

Evidence from both proponents of a GHG-free adder and opponents demonstrates that there is a unique bilateral market for GHG-free resources, which trades at a premium.

²¹ *Id.* at 61.

²² *Id.* at 62.

²³ *Id.* at 63-64.

²⁴ *Id.* at 64.

²⁵ *Id.* at 64-65.

²⁶ *See id.* at 38.

²⁷ All-Party Meeting, September 7, 2018, Matt Freedman of TURN in colloquy with Commissioner Peterman, at approximately hour 1:58 (emphasis added).

2. The Joint Utilities' Testimony Describes a Reasonable Approach to Valuation of the GHG-Free Resource Attribute.

A range of values for the GHG premium is available to the Commission:

- The Joint Utilities provide evidence of GHG-free value, including \$2/MWh and \$3.50/MWh, and explain a methodology that yields a premium of \$6.14/MWh.²⁸
- CalCCA presented evidence that Diablo Canyon's operating costs are considerably above the MPB, which can only be justified by implying a GHG-free value and a higher capacity value to these operations; the MPB implies a GHG-free value of at least \$3/MWh when combined with an assumed capacity value of \$85 kW-year,²⁹ and a higher GHG-free value would result if a lower capacity value is assumed.
- PG&E's Diablo Canyon Power Plant testimony requested authority to procure GHG-free resources at a value up to the RPS premium.³⁰
- In its Integrated Resource Planning process (D.18-02-018), the Commission directed load-serving entities as part of its planning process to procure: "resources that reduce GHG emissions up to the point that the marginal cost of doing so equals the GHG Planning Price" set by the Commission at \$15.17/ton in 2018, \$22.19 in 2025 and then rising quickly to \$150/ton in 2030.³¹

CalCCA requests adoption of the value referenced in footnote 73 the Joint Utilities' rebuttal testimony. The value calculates the premium as the difference between the emissions from the GHG-free source and the unspecified emissions rate of 0.428 mtCO₂e/MWh multiplied by the current GHG allowance value.³² The Joint Utilities' testimony acknowledges that such "...GHG-free specified source (SS) and low emission factor Asset Controlling Supplier (ACS) energy transactions are commonly traded among market participants across the Western Interconnection via voice brokers."³³ The Joint Utilities estimated the potential value of GHG-free energy, of \$6.14/MWh.³⁴ This value, while perhaps understated when applied to the IOUs' zero carbon resources, is a reasonable proxy pending implementation of Phase 2. Failure to

²⁸ CalCCA Opening Brief at 65-66.

²⁹ Exh. CalCCA-3 at 2B-7; *see* CalCCA Opening Brief at 58.

³⁰ CalCCA Opening Brief at 66-67.

³¹ D.18-02-018 at 106, 116.

³² Exh. IOU-3. Joint Utilities' Rebuttal Testimony, at 2-25, n.73.

³³ *Id.*

³⁴ *Id.* The Joint Utilities' calculation discusses the calculation in the context of Asset Controlling Supplier trades and assumes an emissions factor ranging between 0.0120 to 0.0254 metric tons of carbon dioxide equivalent. The "GHG-free" resources at issue in this proceeding, however, have an emissions factor of zero.

acknowledge GHG-free attributes in the IOUs' portfolio produce a significant cost shift from bundled to departing load customers.

E. A Fixed Collar of 0.3¢/kWh Will Most Reasonably Mitigate the Volatility Produced by the APD.

A cap and/or collar are necessary to mitigate the volatility the APD will produce. Adoption of a cap or collar reasonably balances the interests of bundled customers, who will see a rate decrease, and departing load customers, who will see a rate increase. Bundled customers already enjoy substantial rate stability because they can pass on all their stranded costs through the PCIA while departed customers are not able to reciprocally pass on their stranded costs.

CalCCA supports adoption of a 0.3¢/kWh annual collar for changes to any rate class. Adopting a 0.3¢/kWh value provides greater certainty, equally benefits all classes of departing load customers and simplifies tracking of under- and over-collections.

III. CONCLUSION

For the foregoing reasons, CalCCA requests that the Commission reject the APD and adopt the Administrative Law Judge's Proposed Decision, subject to the modifications proposed in CalCCA's August 21 comments on the PD. In the alternative, the Commission should adopt the APD with the changes described herein and in CalCCA's September 6, 2018, comments on the APD.

Respectfully submitted,



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September 13, 2018