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

COMMENTS OF CALIFORNIA COMMUNITY CHOICE ASSOCIATION ON SDG&E/AReM/DACC SUGGESTED APPROACH AT MAY 31, 2019 WORKING GROUP

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Pursuant to the Rule 1.9 of the Commission's Rules of Practice and Procedure, California Community Choice Association (CalCCA) submits the following comments.

I. SUMMARY

CalCCA continues to support the Commission determination that prepayment of PCIA is a valuable tool to protect customers from rate shock and support a stable market. We are dismayed to see that the co-chairs continue to re—litigate the use of a true-up. True-ups were explicitly disallowed in the PCIA Phase 1 Decision, as they obviate the central benefit prepayment affords: certainty of costs. The Commission should recognize and deny the IOUs' brazen attempts to neuter the potential of a prepayment by creating additional cost categories for prepayers, forcing a true-up, refusing to accept third-party financing, and requiring prepayment for 100% of load.

II. PRINCIPLES

A successful framework for prepayment should be:

- Transparent: clear delineation of resources included, inputs, and assumptions
- Binding: once a pre-payment is made there will be no true-ups/re-evaluations/re-negotiations – this obviates the central benefit of prepayment: certainty
- Consistent: prepayment amount should be calculated in uniform manner for all customers (DA, CCA, and even bundled) and include all net costs and benefits

- Unbiased: calculated NPV should not be skewed to favor one customer class over another

III. RESPONSE TO SPECIFIC ASPECTS OF SDG&E/AReM/DACC PROPOSAL

Page 15: *SDG&E proposes that prepayment includes a "Non-Prepayer Protection Reserve" (NPPR). The NPPR is a refundable, upfront, negotiated, escrow-like payment that would be used to recover under-collections due to prepayment arrangement.*

Response: CalCCA opposes the creation of a NPPR. Requiring departing customers to pay *more* than the estimated net-present value of future liabilities should be seen for what it is: is a bald-faced attempt to discourage prepayments. IOUs regularly decry any effort by LSEs to secure fair and equitable treatment for unbundled customers as inherently unjust to the bundled customers; yet, increasing the cost to prepay would systematically favor bundled customers. How would the IOUs respond if departing customers advocated for the converse of this: a discount to the cost to prepay?

The amount placed in the proposed NPPR is an additional forecasted estimated value placed in a separate bucket that IOUs can use to true-up under collection of PCIA obligation. Ordering Paragraph 11 (c) states "The prepayment shall not be trued-up".[1] Although the NPPR is refundable to the prepayer if funds are available after the term of the obligation, the NPPR still represents a true-up escrow-like account for the IOUs for undercollections. As true-ups are specifically disallowed, this proposed should be rejected.

Page 17: Prepayment Accounting proposed a PCIA "Shadow" Billed where each year, the IOU calculates "shadow bills" for the prepayer of what PCIA would have been paid had they not prepaid.

Response: This proposal would net the difference between a fixed, agreed-upon prepayment amount and what the customer would have otherwise paid through an annual PCIA (now called the "shadow" bill). The purpose of the prepayment calculation is to create a set cost that eliminates any future PCIA burden and uncertainty for both bundled

[1] D. 18-10-019, Ordering Paragraph 11.

customers and those of the LSE making the prepayment. Under the proposed *shadow bill* system, the difference between the fixed prepayment and the floating PCIA would be booked into the PABA balancing account and applied as a credit or additional charge to the customer the next year. So, if the forecast PCIA was $10M, but actual above-market costs were $9M, the $1M difference would be trued-up in the following year.

As true-ups are prohibited under Ordering Paragraph 11 (c), the mechanism of "Shadow" bill netting should be rejected for what it is: a true-up by a different name. No matter what it is called, netting the annually-fluctuating PCIA chargers from a fixed payment and charging or crediting the difference destroys the principal value a prepayment brings: certainty of costs. This re-branding reads as an attempt to obfuscate the truth that shadow billing would operate in the same manner as a true-up, because they are one in the same. Would a true-up by any other name obviate certainty? Yes.

Page 21: Co-chairs state that "Risk associated with a prepayer's "material and unanticipated" load increase will be managed by the refundable NPPR.

Response: The co-chairs conflate previous procurement decisions with future ones. If load increases in a CCA territory, say in 2020, that has nothing to do with PG&E's historic procurement decisions, say for example in 2010. That additional/new load is the sole responsibility of the CCA to serve. The PCIA was created to compensate the IOUs for unavoidable costs from *previous* procurement decisions made on the expectation that they would serve a particular load. That load is defined when it departs in its vintage year and costs are calculated for that particular load. If new load develops, the procurement requirements for that load are the responsibility of the CCA as the default provider and not the IOU.

CalCCA does agree that an expansion of a CCA (i.e. to another city or county) or a new DA customer should receive a PCIA rate in accordance with vintaging rules. However, increases of load within an existing territory that occur after departure from IOU service have no bearing on future IOU procurement planning or purchases hence no PCIA impacts. All LSEs should plan to procure for, and pay for, resources to meet their customers and not the customers of another LSE.

Page 23: Negotiating parties mutually agree, prepayment contracts may address a process for amendment to reflect cost impacts of statutory and/or regulatory changes

Response: CalCCA continues to support disallowing amendments to reflect cost impacts of statutory and/or regulatory changes. PCIA is for the above-market costs of generation *already procured*, and there is a defined list of contracts/UOG in each customer's vintage that does not change. If the Commission or Legislature enacts a new program (e.g. biomass procurement in bark-beetle prone areas), the costs of that procurement should be allocated via a new NBC to any LSE that fails to procure its required allocation. Regulatory and statutory changes are rarely if ever retroactive, and so changes would only apply to current and future LSE loads. This proposal again puts forth a method of cost shifting from bundled customers to unbundled customers by asking the departed load to take on a portion of costs that should rest squarely on the bundled customers' shoulders.

Page 25: SDG&E proposes that each IOU establish an administrative process to handle prepayment requests, which will include an initial viability review to demonstrate financial ability to engage in commercial transactions.

Response: CalCCA notes that separate administrative processes are acceptable so long as the standards and criteria are applied uniformly across IOUs. SDG&E, for example, should not conduct a viability review of a counterparty's financial health using different metrics than PG&E. The CPUC should conduct a workshop to determine what these metrics should be. Following that, established metrics should be made public so that Commission staff and departing load interests know how they are being evaluated.

Page 25: Co-chairs propose that for levelized annual prepayments (e.g. over a period of 2-5 years), prepaying entities must provide sufficient financial information and establish creditworthiness, and must provide reasonable collateral.

Response: Reasonable collateral should be defined in a quantitative manner based on metrics such as annual revenues, credit worthiness or net position, etc. CalCCA notes that CCAs are required to post a bond upon launch to ensure that bundled customers are not exposed to increased costs if there is a mass involuntary return of customers. Thus, if a CCA ceased to exist in year 3 of a 5 year levelized prepayment agreement, the customers

would return to IOU/POLR service and bond proceeds would protect IOU customers from increased rates. Additionally, "sufficient financial information" should be defined and applied in a consistent manner by all IOUs.

Page 27: Time period of prepayment: Co-chairs propose that parties may mutually agree to prepayment of the entire PCIA obligation or may (but not required to) mutually agree to payment of a "segment" of the PCIA obligation.

Response: CalCCA continues to recommend that partial prepayments be an option for prepayers. As discussed in our earlier comments, this will facilitate effective prepayments for two central reasons: 1) CCAs do not enjoy the fixed customer base of ESPs, nor the rate-recovery guarantee of IOUs, and, 2) partial or "sliver" prepayments will facilitate financing for CCAs that may not be able to issue debt for 100% of their PCIA obligation. The magnitude of above-market costs is enormous. For context, Sonoma Clean Power estimates that their customers' PCIA obligation is over one billion dollars – and their territory represents less than 4% of PG&E's load. Requiring all-or-nothing prepayments will create an unnecessary barrier to utilizing this tool.

Page 31: Dispute Resolution process: co-chairs suggest wither mediation followed by binding arbitration, or, taking disputes to State of Federal courts located in the county where the IOU's headquarter is located.

Response: CalCCA recognizes both of these options as useful, though not mutually exclusive. Attempting to resolve disputes in mediation is a reasonable first step, though binding arbitration is not a necessary clause to include in that mediation. Parties entering into mediation should not be precluded from also taking those disputes to court. CalCCA recommends that – owing to the significant financial and staffing resources of IOUs – the court should be in the county closest to where the CCA is located, not the IOU.

Page 32: Co-Chairs propose that both the "Bank-Financing Approach" and "Sliver of Load Concept" are out-of-scope issues.

Response: CalCCA strongly disagrees on both counts.

The bank financing approach, as correctly noted by the co-chairs, is an agreement between the CCA/ESP and a third party. However, the prepayment framework suggested by the co-chairs relies on bilateral negotiations for the terms (amount, payment structure, etc.) Thus, any CCA/ESP making use of third party financing would bilaterally negotiate the terms of that agreement with the relevant IOU. If the IOUs are not directed in this proceeding to consider this as an option and to participate in the process, it will provide another avenue by which an IOU can refuse to consider a prepayment.

The co-chairs contend that the sliver of load concept (also known as partial prepayment or percentage of load prepayment) was, "not contemplated in D.18-10-019". This is factually incorrect. Sonoma Clean Power addressed this issue at length in their comments on the Proposed Decision. The final Decision referred to this advocacy, stating "SCP recommends that in order to encourage interest in pre-payment by CCAs, partial pre-payments should be allowed."[2] Eliminating this practical approach as an option to even be considered will further restrict the likelihood that a prepayment can occur.

Respectfully submitted,

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[2] D.18-10.019 at p.145.