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)

COMMENTS OF CALIFORNIA COMMUNITY CHOICE ASSOCIATION ON PCIA PREPAYMENT PROPOSALS DISCUSSED AT NOVEMBER 4, 2019 WORKING GROUP

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Pursuant to Rule 1.9 of the Commission's Rules of Practice and Procedure, and the *Phase 2 Scoping Memo and Ruling of Assigned Commissioner* filed February 1, 2019, California Community Choice Association (CalCCA)[1] submits the following comments.

I. SUMMARY

CalCCA supports the Commission's determination that prepayment of PCIA obligations is a valuable method to protect customers from rate shock and support a stable market. To facilitate the effective use of prepayment, the Commission should 1) reject attempts to introduce true-ups and other barriers, and 2) allow prepaying LSEs flexibility in the number of years and amount of load they prepay.

II. PRINCIPLES

As discussed in previous comments, CalCCA submits the following principles for a successful prepayment framework: [2]

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[1] California Community Choice Association represents the interests of 19 community choice electricity providers in California: Apple Valley Choice Energy, CleanPowerSF, Clean Power Alliance, Desert Community Energy, East Bay Community Energy, Lancaster Choice Energy, Marin Clean Energy, Monterey Bay Community Power, Peninsula Clean Energy, Pioneer Community Energy, Pico Rivera Innovative Municipal Energy, Rancho Mirage Energy Authority, Redwood Coast Energy Authority, San Jacinto Power, San Jose Clean Energy, Silicon Valley Clean Energy, Solana Energy Alliance, Sonoma Clean Power, and Valley Clean Energy.

[2] CalCCA Comments on SDG&E/AReM/DACC Suggested Prepayment Approach at April 4, 2019 working group.

- 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 net present value should not be skewed to favor one customer class over another.

III. SDG&E/AReM/DACC CONSENSUS APPROACH TO DEVELOPING PREPAYMENT "STARTING POINT"

CalCCA supports the consensus approach of SDG&E/AReM/DACC (Co-Chairs) to developing a starting point for prepayment negotiations. This approach for developing a prepayment amount is a hybrid between one set by regulators in a Commission-approved docket (the approach recently used in Nevada) and one bilaterally negotiated between investor-owned utilities (IOUs) and departing/departed load serving entities (LSEs) (recently used in Washington State). The Co-Chairs propose establishing a "starting point" based on the net-present-value of future net liabilities, calculated as:

> Total Costs – Brown Power, Renewable Energy Credits (REC), and Resource Adequacy (RA) values as calculated in Final Adders. The Co-Chairs suggest that, following this "starting point", both LSEs independently develop their suggested prepayment price and then negotiate to determine a mutually-agreeable final price.

However, the fatal flaw in this approach is that the IOU has zero incentive to transact, and, in fact, has actively advocated against the use of any prepayments in the PCIA proceeding. The for-profit utilities are in an enviable position. If market values decline, they charge a higher PCIA. But if market values increase sufficiently such that PCIA goes negative (e.g., results in a refund to departed customers) the

IOUs' advocate to wipe the slate clean. A Proposed Decision issued on November 1, 2019 would eliminate this negative PCIA in PG&E territory for pre-2009 vintage customers.[3]

As AREM/DACC noted in its testimony, each IOU already has in its New Municipal Departing Load tariff the option to have the PCIA and other departing load obligations paid as a negotiated lump sum.[4] Yet none have occurred since the early 2000's. If two parties are expected to negotiate to a mutually-agreeable end, but only one of them has an interest in transacting, there is little chance of an equitable solution. CalCCA remains concerned that while the analytical framework for developing a starting point based on known costs and forecasted values is sound, there remains no carrot or stick to incent the IOUs to act.

IV. RESPONSE TO SDG&E'S ADDITIONAL CHARGE

SDG&E proposes that IOU exposure to market uncertainty be mitigated by imposing a charge on departing customers *in addition* to the calculated prepayment amount. This extra charge, dubbed a Non-Prepayer Protection Reserve (NPPR), would be added to the prepayment cost derived by mutually agreed-upon inputs used to develop the starting point discussed above. SDG&E argues that this is 1) necessary to ensure indifference, and 2) not a true-up.

Requiring departing customers to pay more than the estimated net-present-value of future liabilities would systematically *prevent* indifference. Any calculated prepayment amount should be based on the best information available. This would allow both customer classes to be indifferent at the time of the transaction. The NPPR is an attempt to manipulate the calculation to benefit one group of customers at the expense of another.

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3 *Proposed Decision Adopting Settlement Agreement Resolving Negative Indifference Amount* (Proposed Decision), Application (A.) 16-04-018, Nov. 1, 2019, available at: http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M319/K117/319117122.PDF.

4 Ex. AReM/DACC AD-1 at section IV.C, 27-28.

SDG&E argues that the NPPR is not a true-up, as these are expressly forbidden by Decision (D.) 18-10-019.[5] Instead, they compare it to an insurance product that may be refunded in the future. This metaphor breaks down, though, as insurance is a product that is either required or desired by the buyer. The NPPR is not required for departing load customers, nor is it desired. This is akin to requiring all new home buyers in Marin to purchase hurricane insurance and then refunding the cost of the policy in the future if hurricane damages were less than expected. There is some merit in SDG&E's argument, however, as true-ups offset both positive and negative values. In other words, they flow in either direction and have the potential to benefit either group of customers. That being said, the NPPR cannot benefit departing customers.

If indifference is what is sought by applying an NPPR, then it must be available to all classes of customers on an equal basis. That would result in both the remaining and departing customers paying an equal, additional charge which would go into an escrow account. Then, at the end of the prepayment period, any under- or over-collection would be refunded to the corresponding customer class. However, this is the definition of a true-up. Thus we are in a scenario where the NPPR—by definition—violates the indifference principle. However, correcting this by treating all customer classes equally and allowing benefits to flow in either direction results in a true-up; which is specifically prohibited in D. 18-10-019.

Finally, the amount of the additional NPPR is undefined. If adopted, IOUs could pursue an NPPR which is 200% of the net-present value of future PCIA obligations. This would effectively triple the prepayment amount, a figure which could easily be in the billions of dollars. We must remember

[5] D.18-10-019, Ordering Paragraph #11 at 163, Oct. 19, 2018, available at: http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M232/K687/232687030.PDF.

that the IOUs have opposed even allowing prepayment as an option to be considered. The Decision adopting new PCIA methodologies reasoned that:

> [T]he record evidence cited by the Joint Utilities does not support their assertion that requiring them to accept a prepayment of a customer's long-term cost responsibility would shift substantial risks to remaining bundled service customers. Furthermore, AReM/DACC effectively rebutted the Joint Utilities' expressed concerns about forecast-related market risk, volumetric risk, and regulatory risk.[6]

V. SLICE OF LOAD TOOL

Both IOU and Direct Access (DA) providers enjoy a level of certainty that CCAs do not. The former through rate recovery guaranteed by the Commission, and the latter through a known and fixed load. CCAs have neither. If a CCA forecasted and pre-paid based on a 95% participation rate, and instead saw that participation rate decline to 80% over the coming decades, they would have pre-paid an obligation for a customer load they no longer serve. This risk is not solely driven by participation rates; CCAs see load declines due to effective DER programs, wildfires, etc. Additionally, requiring prepayments for 100% of the current load would in turn require CCAs to obtain financing for the full 100%, which may be difficult and/or costly to secure.

Ratemaking for the slice of load concept could be done akin to what is being proposed in PCIA Working Group #3 addressing IOU portfolio management. In that context, CalCCA, Commercial Energy, and SCE are evaluating how PCIA would operate for LSEs that take an allocation of attributes (e.g., RECs and RA). The most practical solution being discussed in Working Group #3 is to keep PCIA constant for all LSEs, and charge LSEs that take the allocation of attributes an additional fee. This same concept could be applied to LSEs prepaying a slice of load. Departed customer PCIA would remain the same as it would under the annual construct we have today. Then, any difference in the fixed prepayment amount in a given year would be credited or debited to the LSE.

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[6] *Id*. at 91.

It bears noting that the IOUs have raised the risk of the opposite scenario—unexpected load increases of departed LSEs—as a risk to bundled customers. However, load growth in a region in excess of what IOUs initially forecasted and procured for does not pose a risk to bundled customers. PCIA is not intended to function as an on-going account to which IOUs can charge all above-market costs. It is intended to compensate utilities for unavoidable sunk costs made on behalf of a customer the IOU no longer serves. Imagine PG&E was procuring for a forecasted load of 2,500 GWh in Sonoma County. Then, in 2014, Sonoma Clean Power launches and that 2,500 GWh departs. If in the next five years the load increases to 2,600 GWh, that additional 100 GWh is new load not already procured for by PG&E. It will not impact PG&E's remaining customers and is the sole responsibility of Sonoma Clean Power.

VI. CONCLUSION

CalCCA appreciates the opportunity to provide these comments in support of a prepayment methodology that is transparent, binding, consistent, and applied equitably to customers of all LSE types.

Respectfully submitted,

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