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

REPLY COMMENTS OF CALIFORNIA COMMUNITY CHOICE ASSOCIATION ON THE FINAL REPORT OF WORKING GROUP 3 CO-CHAIRS SOUTHERN CALIFORNIA EDISON COMPANY (U 338E), CALIFORNIA COMMUNITY CHOICE ASSOCIATION, AND COMMERCIAL ENERGY

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Pursuant to the January 22, 2020 Administrative Law Judge's ("ALJ") Ruling Modifying Proceeding Schedule, the California Community Choice Association ("CalCCA")[1] respectfully submits these Reply Comments on the Final Report of Working Group 3 submitted by Co-Chairs CalCCA, Southern California Edison Company ("SCE"), and Commercial Energy.[2]

I. INTRODUCTION AND SUMMARY

CalCCA urges the Commission to adopt the consensus proposals put forward by the Working Group to effect a significant improvement over the status quo and a large step toward meeting the Commission's goals of optimizing Investor-Owned Utility ("IOU") portfolios and reducing costs for all customers. Interestingly, the Opening Comments received on the Final

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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 Final Report of Working Group 3 Co-Chairs: Southern California Edison Company (U-338E), California Community Choice Association, and Commercial Energy, February 21, 2020 ("Final Report").

Report of Working Group 3 included several proposals by various parties – disconcertingly, some of which were newly proposed, after a full year's worth of effort by the Co-Chairs to develop and socialize its proposals. These new proposals are not actionable and would not be effective to achieve the goals of this proceeding. Some, in fact, would result in many LSEs being in a less desirable position than they are now.

CalCCA therefore urges the Commission to:

- ✓ Adopt the consensus proposals instead of the alternatives proposed, which do not improve the status quo and in some cases are a step backward;
- ✓ Adopt CalCCA's proposed timeline to implement the consensus proposals as soon as possible;
- ✓ Determine the consensus proposal for long-term RPS allocation is consistent with Public Utilities Code Section 399.13(b), or clarify its interpretation of the statute;
- ✓ Make clear that IOUs' portfolio optimization efforts are subject to the PCIA rate cap established in Decision ("D.")18-10-019;
- ✓ Require the IOUs to report on their actions and inactions with respect to the RFI and solicitation processes proposed by the Co-Chairs in each IOU's ERRA application; and
- ✓ Adopt the Co-Chairs' proposal for a full allocation of Local RA to ensure an equitable distribution of the attributes of PCIA-eligible assets to the LSEs, and their customers, who helped pay for them.

II. THE ALTERNATIVE PROPOSALS DO NOT IMPROVE THE STATUS QUO AND FAIL TO ADDRESS THE QUESTIONS PHASE 2 WAS INTENDED TO RESOLVE

Decision 18-10-019 laid out the stated purposes of Phase 2 of this proceeding, which were to develop new "structures, process and rules" for portfolio management, and "minimize further accumulation of uneconomic costs."[3] As set out in the Scoping Memo, Phase 2 was established to change the status quo "in order to address excess resources in utility portfolios."[4]

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3 D.18-10-019 at 112.

4 R.17-06-026 *Phase 2 Scoping Memo and Ruling of Assigned Commissioner*, February 1, 2019 at 5.

The alternative proposals put forward by San Diego Gas & Electric Company ("SDG&E"), Pacific Gas & Electric Company ("PG&E") and Alliance for Retail Energy Markets and Direct Access Customer Coalition ("AReM/DACC") would, at best, maintain the status quo, and are in some aspects a step backward. Indeed, AReM/DACC has put forward no specific and actionable proposal, suggesting that action be deferred to some future date and proceeding. All of these parties' comments thus fail to address the fundamental issues Phase 2 was intended to resolve.

A. SDG&E's Hybrid Allocation Framework Is a Step Backward

Under SDG&E's "Hybrid Allocation Framework" proposal, the IOUs would make "excess portfolio resources" available to market participants in the "bilateral market."[5] If, following this sale and the Commission's final determination of each LSE's obligations, there remains "unsold excess," that volume will be allocated to all LSEs on a peak load ratio basis.[6] This process would take place annually until each IOU "no longer has any excess portfolio and has effectively reduced its PCIA eligible vintaged portfolio to meet only the compliance obligations of its bundled service customers."[7]

1. The Hybrid Allocation Framework Combines the Worst Aspects of the Excess Sales Construct and PAM and Is Worse Than the Status Quo.

The proposed offer of IOUs' "excess" to the bilateral market, after retaining whatever the IOU determines it needs for its own compliance, is simply the status quo: this is exactly what happens now. Making matters worse, however, SDG&E's proposed Hybrid Allocation Framework increases the risk non-IOU LSEs face under the existing framework by increasing IOU discretion. Following the IOUs' sales in the bilateral market, the IOU would then allocate

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5 Comments of San Diego Gas & Electric Company (U 902 E) on the Phase Two, Working Group Three Final Report, March 13, 2020 ("SDG&E Comments") at 5.

6 *Id*. at 5-6.

7 *Id*. at 6.

those "excess" volumes out to other LSEs, very late in the compliance cycle. The LSEs do not have the option to decline this allocation. In other words, each LSE will be forced to take – and pay for – attributes the IOUs have determined they don't need, regardless of the LSE's own position or needs.

As a practical matter, this is not a workable proposal. Under SDG&E's proposal, the IOUs will not decide whether to allocate volumes to LSEs until *after* LSEs have received their final compliance obligation- by which time many LSEs will have already procured their estimated obligation. Thus, LSEs will receive an allocation of an unknowable volume of attributes, and potentially find themselves in a long position, at a time when the market for such attributes will be close to non-existent. LSEs, who have no option to decline this allocation, will thus have no opportunity to monetize their new acquisitions. This will undermine Guiding Principle b. that the PCIA methodologies "should have reasonably predictable outcomes that promote certainty and stability for all customers within a reasonable planning horizon."[8]

SDG&E explains this timing issue as necessary because IOUs will not know their compliance obligation, and thus, IOUs will not be able to determine their "excess," until all LSEs receive word of their final obligations. But this timing issue highlights how completely unequal treatment of IOUs and other LSEs is under the proposal. Non-IOUs bear *all* of the costs of whatever volumes the IOU determines it does not need, as noted, without any ability to plan for what that amount might be. This will be the case even if the IOU was wildly inaccurate and could have, but did not, offer these volumes for sale earlier. By giving the IOUs full discretion, with no restrictions on when they must act, SDG&E's Hybrid Allocation Model combines the worst aspect of the "Excess Sales" construct – the idea that IOU needs alone determine what is

[8] R.17-06-026 *Scoping Memo and Ruling of Assigned Commissioner*, September 25, 2017 at 14.

"excess" – with the Portfolio Monetization Mechanism/Green Allocation Mechanism ("PMM/GAM") that the Commission rejected in Phase 1 of this proceeding.[9]

2. The Hybrid Allocation Framework Contains No Incentives for IOUs to Reduce Their Portfolios

Because the Hybrid Allocation Framework allows the IOUs to allocate out to LSEs whatever excess remains after the IOUs' portfolio optimization efforts, the IOUs are under no incentive to increase or make those efforts more effective. This, again, proposes no changes to the status quo. This phase of the proceeding results from the Commission's determination that the IOUs must increase their portfolio optimization efforts to reduce their portfolio costs. The IOUs' efforts have so far proved ineffective in reducing the IOUs' portfolio costs, and there is nothing in the Hybrid Allocation Model to drive the change this proceeding was intended to address.

B. PG&E's Attribute Distribution Framework Is Unworkable and Contrary to Commission Decisions

PG&E urges the Commission to reject the Co-Chairs' consensus proposal for voluntary allocation and market offer ("VAMO") in PG&E's service territory and adopt its proposal, the Attribute Distribution Framework ("ADF") in its stead. In addition, PG&E proposes the Commission take the extraordinary step of creating a structure for PG&E's service territory separate from whatever is adopted elsewhere, based on what it claims is PG&E's unique circumstance.[10] PG&E also states that it "believes portfolio optimization can be achieved without the creation of new regulatory processes, new regulatory timelines, or new products."[11]

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[9] D.18-10-019 at 95-96.

[10] Opening Comments of Pacific Gas & Electric Company (U 39 E) on the Power Charge Indifference Adjustment Phase 2, Working Group #3 Final Report, March 13, 2020 ("PG&E Comments") at 2.

[11] *Id*. at 15.

CalCCA disagrees. PG&E's proposals would create a major, unjustified shift in the current cost recovery paradigm. At the same time, the proposals fail to address the issues intended to be resolved in Phase 2.

1. The Commission Should Defer to Previous Decisions and Exclude Local RA Resources from CAM Treatment

PG&E agrees with the Co-Chairs that full allocation of Local RA is the preferred option. However, PG&E proposes to "leverage" the existing Cost Allocation Mechanism ("CAM") process to include allocation of Local RA resources that are located in local capacity areas.[12] This is reasonable, according to PG&E, because "the utility-owned generation ("UOG") resources and non-UOG resource contracts proposed for CAM allocation located in local capacity areas were intended to, and do, provide the foundation for CAISO grid reliability. . . Because all customers benefit from reliability, these resources should be widely shared, and their costs should be fairly allocated to all customers."[13]

This characterization ignores the fact that the Commission never intended for these resources to receive CAM treatment.[14] The Commission has already ruled that these resources are subject to cost recovery through rates charged to PG&E's customers on a vintage basis. Applying CAM treatment to these resources would require all ratepayers, not just customers the Commission previously deemed responsible based on their vintage, to bear cost responsibility for these resources. In addition, the effect would be to give these resources a new, current "vintage," thereby making every ratepayer in the state responsible for their costs, regardless of whether

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12 *Id*. at 17.

13 *Id*. at 18.

14 *See* D.06-07-029 at 25 (CAM was intended to remove many of the remaining risks or barriers, perceived or real, to investment in new generation); *id.* at 29 (Commission would not "allow utility-owned generation to qualify for this cost-benefit allocation mechanism.").

such ratepayers ever received service from PG&E, or if they did, the date they departed PG&E service.

PG&E thus proposes a seismic shift in ratemaking. PG&E justifies this shift by a few sentences regarding reliability. Ironically, in its comments PG&E argues against adoption of the Co-Chairs' allocation proposal because "such a significant and unprecedented market, regulatory, and planning transformation . . . must be carefully examined."[15] CalCCA agrees, and notes that Working Group 3 held four workshops over the last year to create a dialogue among parties and to vet the Working Group's proposals. PG&E had ample time to bring this proposal forward, yet chose not to do so.

CalCCA urges the Commission not to adopt the proposal PG&E just put forward to shift the cost recovery paradigm for Local RA. Instead of making an abrupt and unjustifiable change in the cost recovery paradigm, the Commission should defer to its earlier decisions and reject this proposal.

2. PG&E's RPS Proposal Is Only a Bandage on a Broken System

PG&E also proposes a one-time, voluntary allocation of RPS energy from its portfolio, followed by a sale of volumes in excess of what it needs for its bundled customer compliance.[16] PG&E touts this allocation as a significant reduction in "planning challenges" that would result from the VAMO process, and claims LSEs will have greater certainty from a planning perspective. PG&E also claims this approach is preferred because it has concerns regarding the design of the market offer process.[17]

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15 PG&E Comments at 2.
16 *Id*. at 20.
17 *Id*. at 21.

The fallacy of these positions is that following this one time allocation, which would be subject to strict parameters, PG&E's proposal is simply to do what it has been doing all along. In addition, the proposal is based on an "excess sales" construct (in which PG&E alone is responsible for determining the excess) that has so far failed to reduce the IOUs' portfolios. Thus, if adopted, this proposal would not result in any change to the status quo, notwithstanding years' worth of litigation specifically addressing this subject.

3. Bundling GHG-free and GHG-emitting Resources in an Allocation Stymies Choice and Removes Value

The Co-Chairs devoted significant time to creating a structure for allocation of GHG-free attributes that would optimize the value of those attributes for all LSEs. A major aspect of this proposal is the emphasis on LSE choice. PG&E claims its proposal for GHG-free energy and attributes is "voluntary." However, the details of PG&E's proposal include aspects that effectively remove LSEs' choice from the decision.

The Co-Chairs proposed two pools of GHG-free attributes, a nuclear and non-nuclear pool, to allow LSEs that are prohibited from accepting nuclear energy to realize the value of the other GHG-free attributes in the IOUs' portfolios. PG&E's proposal does not separate nuclear from non-nuclear resources, and goes one step further. The proposal allows an LSE to take an allocation of GHG-free attributes only if the GHG-free attribute is bundled with GHG-emitting resources for the purposes of calculating the Power Content Label ("PCL") and for IRP reporting.[18] As a result, many LSEs will be prevented from accepting this allocation at all, including those LSEs whose governing documents prohibit acceptance of nuclear energy. For many other LSEs, presumably a majority, the allocation will be extremely unattractive.

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18 *Id*. at 22.

On December 2, 2019, PG&E filed Advice Letter 5705-E, seeking approval to update its Bundled Procurement Plan to permit PG&E to allocate carbon-free energy to LSEs in 2019 and 2020 as an interim measure until Phase 2 of this proceeding is completed. The Commission posted a Draft Resolution on March 25, 2020 that would approve these updates.[19] PG&E's plan, which is quite similar to the Co-Chairs' consensus proposal, is to divide PG&E's carbon-free resources into two pools, one of large hydroelectric resources, and one of nuclear resources.[20] An eligible LSE would be able to accept an allocation share based on its proportional share of forecasted monthly load *from one or both of the resource pools*.[21] PG&E explained its request as a reasonable method for LSEs to report generation on their PCL "based on how energy from PCIA resources is actually delivered to customers."[22] Thus, in December PG&E recognized the value of GHG-free energy to LSEs, and the need to transfer that value to LSEs. PG&E also recognized the importance of segregating nuclear and non-nuclear resources.

PG&E's new proposal, in which nuclear and non-nuclear resources are bundled together and allocated only if GHG-emitting energy is taken as well, directly contradicts its own previous position. PG&E offers no explanation for its change of course. Nothing has changed in PG&E's delivery of energy since the filing of its Advice Letter. In fact, no logical connection exists that would require an LSE who accepts hydroelectric energy or nuclear energy to also be forced to accept GHG-emitting energy. Furthermore, the Co-Chairs' consensus proposal specifically addresses PG&E's most likely concern, namely, that bundled customer under the current construct bear the full emissions from emitting resources. The Co-Chairs propose to address this by changing the PCL accounting rules so the IOUs only count their proportionate share of

19 Draft Resolution E-5046, posted March 25, 2020.
20 PG&E Advice Letter 5705-E, December 2, 2019 at 2.
21 *Id*. at 3.
22 *Id*. at 4.

emissions from GHG-emitting resources. Given this proposed treatment, PG&E's proposal is rendered completely unnecessary, in addition to being unfair and illogical. CalCCA therefore urges the Commission to reject PG&E's new proposal.

By making the GHG-free allocation unacceptable to many LSEs under their foundational documents, and completely unattractive to most LSEs, PG&E's proposal will result in little to no allocation of valuable GHG-free energy. The value of that energy will thus remain in the IOUs' portfolios. Thus, there will be no change in the status quo, and Working Group 3's efforts will have all been in vain.

C. AReM/DACC and SDG&E Mistakenly Suggest the Consensus Proposal Is Out of Scope

AReM/DACC contend that the Co-Chairs have "missed an opportunity to offer a more meaningful solution" and "strayed from the Commission's direction" provided in D.18-10-019.[23] AReM/DACC claim that instead of pursuing "market-based solutions," as directed in D.18-10-019, the Working Group "has resurrected the discredited and rejected mandatory allocation scheme."[24] SDG&E also argues the Co-Chairs' consensus proposals are out of scope.[25]

CalCCA disagrees. In D.18-10-019 the Commission stated the second phase of the proceeding "should be opened in order to pursue *solutions* to the challenges of portfolio optimization and cost reductions, which will provide an ongoing opportunity to propose additional means of fulfilling [the] guiding principal."[26] Decision 18-10-019 intended the working groups to develop proposals for those solutions, and notes that the proposals should

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[23] Alliance for Retail Energy Markets and Direct Access Customer Coalition Comments on Final Report of Working Group #3 Co-Chairs, March 13, 2020 ("AReM/DACC Comments") at 1.
[24] *Id*. at 7.
[25] SDG&E Comments at 4.
[26] D.18-10-019 at 128 *(emphasis added)*.

include "voluntary auction frameworks." [27] But nowhere in the Decision does the Commission *require* that all attributes in the IOUs' portfolios be subject to a "voluntary auction framework" or, indeed, define what that term means. Likewise, the February 1, 2019 Scoping Memo for Phase 2 ("Scoping Memo") states that it will "primarily rely on the working group process to further develop a number of PCIA-related proposals."[28] The Scoping Memo in no way limits the types of proposal to be developed, or requires parties to develop a voluntary-only structure.

CalCCA also disagrees with SDG&E's interpretation of the term "excess." SDG&E claims that Working Group 3 was intended by the Commission to deal only with those IOU assets that are "excess" to the IOUs' needs to serve bundled load.[29] But the Co-Chairs interpret the term "excess" differently. The Co-Chairs' proposals are based on their recognition that "excess" is correctly interpreted as *"excess to the bundled customers' share of the portfolio to which they are reasonably entitled*." The Co-Chairs crafted proposals that distribute out of the IOUs' portfolios resources that are excess to the IOUs' bundled customers' shares.

CalCCA, along with the other Co-Chairs and members of the Working Group, put considerable effort and thought into crafting solutions in response to the Commission's directives. The Co-Chairs' consensus proposals, including the allocation of Local RA, the VAMO construct for System and Flex RA and RPS, and a voluntary allocation for GHG-free energy, are clearly consistent with the Commission's intent.

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[27] D.18-10-019 at 111.

[28] R.17-06-026 *Phase 2 Scoping Memo and Ruling of Assigned Commissioner*, February 1, 2019 at 3.

[29] SDG&E Comments at 3.

D. AReM/DACC Propose Only Further Delay and Fail to Recognize the Work of Working Group 3

AReM/DACC are dissatisfied with the solution crafted by Working Group 3. But AReM/DACC's comments, to the extent they can be deemed an actual "proposal," do not propose a change to the status quo, and would only defer action on the very items Working Group 3 was intended to resolve. This proceeding has been underway for almost three years and the issues it aims to address have been occurring even longer. AReM/DACC have had sufficient time to craft an actual proposal that would make specific and discrete improvements to the status quo. Further, AReM/DACC seem to ignore the actionable proposals put forward by the Co-Chairs.

1. AReM/DACC Do Not Put Forward an Actionable Proposal and Seek Only Further Delay

Instead of providing meaningful suggestions and improvements, AReM/DDACC find issues with both an excess sales approach and a mandatory allocation approach.[30] AReM/DACC therefore propose only that the Commission require the IOUs to auction off "excess" RA, RPS and GHG emission free attributes, and then redirect the Working Group (or form a new one) to "develop a more focused and concrete structure for divestiture of excess IOU resources no longer needed to serve their load."[31] AReM/DACC do not describe how to define this "excess." Requiring "excess sales" without first defining "excess" leaves each IOU with the autonomy to define it for themselves, just as they currently do. Thus, even if this proposal were actionable, it would result in no change to the status quo. Additionally, AReM/DACC make no effort to identify or address the many challenging issues that would arise from any portfolio divestiture

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30 AReM/DACC Comments at 2-3.

31 AReM/DACC Comments at 3.

process. AReM/DACC simply have not put forward substantive proposals that could be acted upon.

2. Contrary to AReM/DACC's Statements, Working Group 3 Has Already Created "Divestiture Strategies" for IOU Assets

AReM/DACC complain that Working Group 3 focused its efforts on the allocation of various assets, instead of on "active management" to "right size" the IOUs' portfolios.[32] AReM/DACC claim there must be a "protocol" established for "divesting excess resources."[33] CalCCA argues this is precisely what the consensus proposals achieve.

CalCCA disagrees with AReM/DACC that "allocations of attributes do little to actually manage the IOUs' portfolios in line with the amount of load they are serving."[34] The Final Report of Working Group 3 includes painstaking detail on proposals to divest IOU portfolios of Local RA, System and Flex RA, RPS Energy and GHG-free energy and attributes. The Report highlights the diligent efforts of the Working Group over the past year to create these detailed proposals. In that process, the Co-Chairs concluded in particular that the kind of forced divestiture that AReM/DACC appear to propose would be extremely difficult to achieve while honoring Guiding Principle k., which states that the process "should respect the terms of existing PPAs between power suppliers and IOUs,"[35] because divesting resources (rather than attributes) requires agreement by generators for any assignment to occur.

CalCCA believes the resulting proposals constitute a "thorough structure" for distributing IOU resources, as required by the Decision and Scoping Memo. In addition, CalCCA believes that the consensus proposals for the IOUs to hold RFIs and solicit their counterparties for

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32 *Id*. at 2.
33 *Id*. at 15.
34 *Id*. at 15.
35 D.18-10-019 at 129.

contract assignments and/or modifications addresses portfolio optimization as aggressively as is possible without abrogating existing contracts.

CalCCA therefore urges the Commission to adopt the consensus proposals and the clarifications and additional proposals put forward by CalCCA in its opening comments.

III. ALLOCATIONS SHOULD BE IMPLEMENTED AS SOON AS POSSIBLE, FOLLOWING CALCCA'S TIMELINE

Several parties advocate delaying implementation of the allocation process. SCE opposes interim allocations and states that 2022 is the earliest a solution can be implemented.[36] The Public Advocates Office argues that implementation should not occur until the IOUs determine they have had sufficient time to plan and become compliant, and so therefore supports the longer implementation process that SCE proposes.[37] PG&E advocates the creation of a separate implementation phase.[38] These positions are in direct opposition to a guiding principle in this proceeding that the solutions "have reasonably predictable outcomes that promote certainty and stability for all customers within a reasonable planning horizon."[39]

A fundamental goal of this proceeding is to minimize "future accumulation" of uneconomic costs.[40] One simple method for doing so is to implement the consensus proposals as soon as possible. In addition, the utilities have themselves advocated that solutions should be implemented in the near-term, and have cautioned that any further delay will make a timely resolution of this proceeding impossible.[41] Because the IOUs presumably know their own

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36 Southern California Edison Company's Opening Comments on the Working Group 2 Final Report, March 13, 2020 ("SCE Comments") at 8.

37 Public Advocates Office's Comments on the Final Report of Working Group 3 Co-Chairs: Southern California Edison Company (U-338 E), California Community Choice Association, and Commercial Energy, March 13, 2020 ("Public Advocates Comments") at 1-2.

38 PG&E Comments at 2.

39 Guiding Principal b., D.18-10-019 at 127.

40 *Id*. at 112.

41 R.17-06-026 *Amended Scoping Memo and Ruling of Assigned Commissioner*, March 2, 2018 at 5.

portfolios, their argument for more time to determine their needs is disingenuous. CalCCA urges the Commission adopt its proposal for interim allocation on the schedule put forward by CalCCA in the Final Report. The allocation of GHG-free and RPS attributes can take place almost immediately following a final decision in this proceeding, and System and Flex RA can be allocated beginning in 2021 for the 2022 compliance year, with Local RA allocated in 2021 for the 2023 and 2024 compliance years.

A. Coordination with Other Proceedings Can Take Place During Interim Allocation Phase, or Via Commission Direction

PG&E and Public Advocates urge careful coordination with existing regulatory processes.[42] American Wind Association California Caucus ("AWEA CA") is "largely supportive" of the Working Group 3 proposals, but notes that "there will be a need to coordinate with the RPS and IRP proceedings."[43] CalCCA agrees that coordination with the IRP and Resource Adequacy proceeding should occur, but does not believe that this coordination effort should delay the interim allocation.

AWEA CA's concerns that the implications of redistributed long-term contracts be fully evaluated in IRP and RPS filings can be resolved in those proceedings; there is no need to delay the implementation of the Co-Chairs' proposals. In addition, the IRP is designed to be an iterative process, and the allocations and sales proposed by the Co-Chairs will be reflected in the IRP as those allocations and sales take place. CalCCA proposed a detailed interim allocation schedule in the Final Report[44] because any delay in implementation ultimately deprives customers of the benefits of attributes for which they have already paid. Further, equitably

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42 PG&E Comments at 2; Public Advocates Comments at 1.
43 Opening Comments of the American Wind Association California Caucus, March 13, 2020 at 2.
44 Final Report at 62.

distributing the RA benefits that all customers help pay for is particularly time-sensitive now, given the tightening RA market.

Under this proposal the IOUs would amend their RPS Procurement Plans via motions to update and RPS allocations could begin in 2021. CalCCA and Commercial Energy also proposed that allocations of RA begin in 2021, with the IOUs determining each LSE's allocation amount based on the preliminary RA obligations issued in July, and forecast volumes agreed by the LSEs and IOUs.[45]

Given the importance of this proceeding and in "right sizing" the IOUs' portfolios that is at the heart of the Co-Chairs' proposals, it is simply unnecessary to delay implementation of the Co-Chairs' proposals for another two years.

B. There is No Reason to Coordinate Implementation of the Allocation Proposals with Either Working Group 1 or Working Group 2

Neither Working Group 1 nor Working Group 2 require any coordination with the proposed timeline for implementing the Co-Chairs' proposals. Working Group 1 proposals have already been implemented or will be implemented soon, and any pending issues are unrelated. Similarly, Working Group 2 addresses issues unrelated to the proposals of Working Group 3.

The recommendations from Working Group 1 related to benchmarking, Questions 1-7 and 11, have already been implemented pursuant to D.19-10-001.[46] These proposals were implemented in the Commission's decisions in the IOUs' Energy Resource Recovery Account 2020 Forecast proceedings. A proposed decision is pending directing implementation of proposals arising from Working Group 1, Questions 8-10 and 12, addressing departing load

45 Final Report at 62.

46 D.19-10-001, Ordering Paragraph 4 at 56; *see also, id.*, Ordering Paragraph 6 at 57.

forecasting issues. None of these issues, however, bears on allocation of whatever portfolio resources remain.

Tying Working Group 3 resolution to adoption of a prepayment option in Working Group 2 is even more attenuated. As an initial matter, there are no definitive, detailed proposals advanced in the Working Group 2 final report.[47] At best, the proposal is a series of high-level guiding principles and evaluation criteria.[48] More importantly, the adoption of a prepayment framework will have no influence on the allocation proposals offered by Working Group 3 Co-Chairs. Prepayment options, if adopted, are simply accounting methods for dealing with revenues received from LSEs to cover above-market costs. Their effect on PCIA calculation will have to be addressed whether or not the Commission adopts the Working Group 3 proposals. Moreover, the allocation and sales frameworks can be undertaken whether or not a particular LSE chooses to exit its obligation through prepayment. The pending high-level proposals do not contemplate any change in the composition of the underlying IOU portfolios.

IV. THE COMMISSION SHOULD INTERPRET LONG-TERM RPS ALLOCATION AS PROPOSED AS CONSISTENT WITH THE STATUTE.

The Utility Reform Network ("TURN") takes issue with the consensus proposal that an LSE be permitted to receive long-term contract credit regardless of whether there are any contracts with a forward duration of a least 10 years remaining in the relevant vintage's portfolio, and contends that it violates Public Utilities Code Section 399.13(b).[49] TURN goes on to urge the Commission to find that any IOU pre-existing long-term contract does not retain its

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[47] Final Report for Working Group 2 (Prepayment) Submitted by San Diego Gas & Electric Company and the Direct Access Customer Coalition and the Alliance for Retail Energy Markets ("Final WG 2 Report").

[48] *See id*., Appendix A at ii-vii.

[49] Comments of the Utility Reform Network on the Final Report of Working Group #3 Co Chairs, March 13, 2020 ("TURN Comments") at 2.

compliance value under PUC Code 399.13(b) if is it subsequently allocated or resold for a term of less than 10 years.[50]

The Co-Chairs' consensus proposal for the *allocation* of RPS energy to LSEs permitting the "grandfathering" of contracts that were originally for a term of longer than ten years does not violate the statute. An allocation is not a "sale."

A. Allocation Is Not a "Sale"

As TURN describes, the Commission has previously ruled on the question of whether a long-term contract can be repackaged, with portions resold to a subsequent buyer who makes a commitment of less than 10 years.[51] The consensus proposal, however, does not require the "slicing and dicing" of existing long-term contracts that was the focus of previous Commission decisions. Rather, the consensus would merely allocate to early vintages their proportional share of RPS energy. The recipient LSEs will have no contact with the original "retail seller" and the contract itself will be untouched, including its term.

The Co-Chairs intend that early vintages, which included contracts of at least 10 years in duration that may no longer have 10 years left to run, be entitled to long-term treatment enjoyed by the IOU allocating that resource to LSEs under the proposal. The statute should not stand as an obstacle to the Co-Chairs' proposal when the original contracts remain in place, and there has been no change to the underlying contract's counterparties. Rather, the intent of the proposal is to transfer the benefit to the vintages, and therefore customers, who paid for those contracts.

CalCCA therefore respectfully requests the Commission agree with the Co-Chairs that vintages allocated contracts with less than 10 years remaining that originally had terms of at least 10 years are entitled to long-term treatment for that allocation. If the Commission determines to

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50 *Id* at 3.
51 *Id.* at 2.

the contrary, CalCCA also respectfully requests the Commission set out its interpretation in this proceeding.

B. TURN's Proposed Solution Is Unworkable and Contrary to the PCIA Framework

As a potential solution to the issues it raises, TURN proposes that an LSE that is otherwise unable to claim long-term treatment for its allocation be permitted to "update" its PCIA vintage to the first year of the portfolio allocation.[52] According to TURN, "[u]nder this approach, the LSE would be allowed to accept a full assignment of costs and benefits associated with the entire IOU portfolio for the updated PCIA vintage."[53]

This solution is hardly a solution, and only raises more questions. TURN provides no detail about how or when these elections would occur. More significantly, changing a vintage changes the entire cost recovery framework. The basis of the entire PCIA structure is that each LSE's customers should be responsible for their share of the costs of resources from which those customers benefited, and not of resources procured after those customers departed IOU service. This is accomplished, in part, by the creation of "vintages" and the Portfolio Allocation Balancing Account accounting structure to track the costs of resources through to the appropriate customers. TURN's proposed "solution" to allow LSEs to "update" their vintages runs contrary to the entire PCIA ratemaking philosophy and structure. LSEs would become responsible for resources procured by IOUs long after the LSE's customers had departed IOU service and customers who were already standing to benefit from the resources in that vintage would have their shares reduced. CalCCA urges the Commission to reject this proposal, which would frustrate the basic purpose of the PCIA.

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[52] *Id.*

[53] *Id.* at 3.

V. PORTFOLIO OPTIMIZATION EFFORTS SHOULD BE SUBJECT TO THE PCIA RATE CAP

As TURN notes, the Co-Chairs did not reach consensus with respect to whether costs resulting from Commission-approved contract assignments or modifications should be subject to the 0.5 cents/kWh rate cap on the PCIA adopted in D.18-10-019.[54] TURN urges the Commission find that these costs are outside the cap "if they result from actions demonstrated to result in overall customer savings in future years."[55]

CalCCA disagrees. The IOUs have consistently stressed the diligent efforts they have taken and continue to take to optimize their portfolios.[56] As they have continually explained, these efforts are part of their regular operations. These costs are therefore intended to be factored into an IOU's existing rate structure and are not exempted from the cap. The Co-Chairs' consensus proposal that the IOUs undertake targeted solicitations for contract assignments and modifications should not change the basic calculus.

The Commission has emphasized the importance of stability in the PCIA. Responding to concerns raised by the CCAs that price volatility in the PCIA added challenges to resource planning, the Commission found "the dismissal of those concerns by the Joint Utilities or Commercial Energy [to be] unpersuasive."[57] Indeed, at that time TURN argued for a cap on the PCIA rate because "[t]he potential for significant annual fluctuations in the PCIA charges can complicate individual LSE planning efforts by creating cost uncertainty that may limit their

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54 *Id.* at 5.

55 *Id.*

56 *See* Opening Brief of Pacific Gas and Electric Company (U 39-E), Southern California Edison Company (U 338-E) and San Diego Gas and Electric Company (U 902-E) on Track 2 Issues, June 1, 2018 at 63, *citing* Ex. IOU-1, pp. 3-1 to 3-4 (describing regulatory and commercial actions taken by IOUs to reduce generation portfolios); *see also* Final Report, Appendix D- Presentation of PCIA Phase 2-Working Group Three, Workshop No. 4, December 11, 2019, at slide 23.

57 D.18-10-019 at 86.

ability to procure over longer time horizons and thereby frustrate clean resource development objectives."[58]

CalCCA agrees with TURN's previous comments, and urges the Commission to defer to the original intent of the PCIA rate cap: to protect against volatility in the PCIA.[59] An exception from the cap is inappropriate for contract assignments and/or modifications, which the IOUs should in any case be pursuing even without adoption of the Co-Chairs' consensus proposal.

VI. IOUS SHOULD BE SUBJECT TO REPORTING REQUIREMENTS FOR RFI PROCESS, AND THE ERRA PROCESS IS THE APPROPRIATE VENUE

The Co-Chairs reached consensus that IOUs should report out on their progress with the RFI and solicitation processes proposed. The Co-Chairs agreed that each IOU should report on "its implementation of the newly proposed RFI process . . . and outcomes thereof, including identification of rejected offers and the bases for rejection.[60] The Co-Chairs also reached consensus that the IOUs report in the annual ERRA Review of Operations application:

> (1) material events of defaults and any termination rights and any actions taken with respect thereto in a single section consistently formatted in each IOU's filings; and (2) cost savings received from active portfolio management.[61]
> The only substantive disagreement is with respect to the venue for these reports

SCE proposes this information be reported in a "PCIA OIR" or separate application, but in any event, not the ERRA application.[62] SDG&E argues that existing reporting is sufficient, and that no further reporting is required.[63]

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58 *Id*. at 83, *citing* Opening Brief of The Utility Reform Network on Track 2 Issues, June 1 2018 at 33.
59 *Id*. at 85.
60 Final Report at 64.
61 *Id*.
62 SCE Comments at 15.
63 SDG&E Comments at 26.

As detailed in its Opening Comments, CalCCA urges the Commission to apply a prudent manager standard to the IOUs' actions *and inactions* with respect to the RFI and solicitation processes.[64] As recognized in D.18-10-019, "[u]tilities are of course required to manage their portfolios prudently. Imprudent management would justify disallowing recovery of portfolio costs, and could be considered in ERRA or General Rate Case (GRC) proceedings."[65] The Commission also notes that "ERRA proceedings routinely consider prudent management, including Standard of Conduct 4, which states 'utilities shall prudently administer all contracts and generation resources and dispatch the energy in a least-cost manner.'"[66]

The ERRA process is already well-established, with recognized, set standards and requirements. The information proposed to be reported could easily be added to the existing information required in ERRA applications, and there would be no need for the creation of a new process. More significantly, the information proposed to be reported here on IOUs' portfolio optimization efforts goes to the heart of the issues Working Group 3 was designed to address. It is precisely these portfolio optimization efforts that should be subject to scrutiny. The ERRA application process allows parties to propound discovery to increase transparency and stakeholder involvement. The items the Co-Chairs have agreed should be the subject of IOU reports are the very issues that should be subject to discovery. The ERRA application process is therefore the logical venue for these reports.

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64 Opening Comments of California Community Choice Association on the Final Report of Working Group 3 Co Chairs Southern California Edison Company (U 338E), California Community Choice Association, and Commercial Energy, March 13, 2020 ("CalCCA Comments") at 10-13.

65 D.18-10-019 at 112.

66 *Id.*, *citing* D.02-10-062 at 52.

VII. FULL ALLOCATION OF LOCAL RA IS PREFERABLE TO A VOLUNTARY ALLOCATION AS IT ENSURES EQUITABLE DISTRIBUTION

The Co-Chairs' consensus proposal for Local RA is a mandatory allocation of the IOUs' portfolios, based on peak load share. The proposal is the result of months of discussion and debate concerning the pros and cons of various mechanisms for reducing IOU portfolio costs, including the "excess sales" approaches, and constructs involving voluntary allocation. As detailed in the Final Report [67] and in CalCCA's Opening Comments,[68] the Co-Chairs spent months debating these issues and ultimately rejected both of those approaches.

Shell Energy opposes the mandatory allocation framework and proposes a voluntary allocation followed by a market offer process for all RA attributes. Shell argues that the Co-Chairs' proposal does not include a financial incentive for the IOUs to divest themselves of these attributes.[69] Protect Our Communities Foundation ("POC") also argues for a voluntary allocation, followed by an auction of declined attributes. According to POC, "[b]y including a market offer for local RA the Commission can promote a liquid market and reduce ratepayers' PCIA burden."[70] AReM/DACC argue that any mandatory allocation also goes against the explicit instructions of D.18-10-019.[71]

CalCCA disagrees. In a mandatory allocation construct there is no need to craft "financial incentives." Nor is it clear that a voluntary allocation would provide any greater incentives. In addition, D.18-10-019 intended the working groups to develop proposals, and

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67 Final Report at 13-15.
68 CalCCA Comments at 1-2.
69 Comments of Shell Energy North America on the Phase Two, Working Group Three Final Report, March 13, 2020 ("Shell Comments") at 2.
70 Comments of Protect Our Communities Foundation on the Phase Two, Working Group Three Final Report, March 13, 2020 ("POC Comments") at 2.
71 AReM/DACC Comments at 2

noted that the proposals should include "voluntary auction frameworks." [72] The Commission could have, but did not, specify which attributes, if any, were required to be subject to voluntary allocation. The Co-Chairs' consensus proposal includes the VAMO construct for System and Flex RA, RPS, and a voluntary allocation for GHG-free energy. This is clearly consistent with the Decision's intent.

Further, as discussed in the Final Report, a mandatory allocation of Local RA based on load share resolves difficulties of determining what constitutes "excess" Local RA, and whether or not the IOU should be allowed a "buffer" or "uncertainty tranche." [73] These difficulties will be encountered with any proposed solution that does not definitely allocate all Local RA.

Presumably for these reasons PG&E's ADF proposal (which is problematic for other reasons, as discussed above) includes a mandatory allocation of Local RA. CalCCA agrees that a mandatory allocation is the optimal means to distribute Local RA equitably among LSEs.

VIII. CONCLUSION

CalCCA appreciates the opportunity to submit these comments and requests adoption of the recommendations proposed herein.

Respectfully submitted,

/s/ Ann Springgate

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[72] D.18-10-019 at 111.
[73] Final Report at 15.