May 31, 2022

VIA ELECTRONIC MAIL

Mr. Simon Baker
Interim Executive Director, Energy and Climate Policy
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: California Community Choice Association's Protest of Southern California Edison Company's Tier 2 Advice Letters 4789-E and 4789-E-A, regarding Community Choice Aggregator Financial Security Requirement Reports for May 2022

Dear Mr. Baker:

Pursuant to the California Public Utilities Commission's (Commission) General Order (GO) 96-B,[1] the California Community Choice Association[2] (CalCCA) submits this protest of Southern California Edison Company's (SCE) Tier 2 Advice Letters 4789-E and 4789-E-A, regarding Community Choice Aggregator Financial Security Requirement Reports for May 2022 (Advice Letter). The Advice Letter seeks approval of the Financial Security Requirements (FSRs) that community choice aggregators (CCAs) must post under SCE's tariff.

INTRODUCTION

SCE's proposed FSR amounts are inconsistent with SCE's Rule 23, underlying Commission decisions, and the methodology used by Pacific Gas and Electric Company (PG&E) and San Diego Gas & Electric Company (SDG&E). These inconsistencies would radically increase the FSR amounts required from SCE CCAs compared to prior postings and with current postings required of PG&E and SDG&E CCAs. Increasing the FSR amounts will undermine SCE CCAs' financial conditions at a time when liquidity is needed to maintain electric market

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[1] References to "General Rules" are to the general rules identified in General Order 96-B.

[2] California Community Choice Association represents the interests of 23 community choice electricity providers in California: Apple Valley Choice Energy, Baldwin Park Resident Owned Utility District, Central Coast Community Energy, Clean Energy Alliance, Clean Power Alliance, CleanPowerSF, Desert Community Energy, East Bay Community Energy, Lancaster Choice Energy, Marin Clean Energy, Peninsula Clean Energy, Pico Rivera Innovative Municipal Energy, Pioneer Community Energy, Pomona Choice Energy, Rancho Mirage Energy Authority, Redwood Coast Energy Authority, San Diego Community Power, San Jacinto Power, San José Clean Energy, Santa Barbara Clean Energy, Silicon Valley Clean Energy, Sonoma Clean Power, and Valley Clean Energy.

stability and to complete needed generation projects. Consequently, the Advice Letter violates Public Utilities Code section 451, which requires reasonableness in all charges demanded by a public utility. CalCCA requests that the Commission prevent these adverse consequences by requiring SCE to (1) correct the period for determination of "peak load" in applying the applicable resource adequacy (RA) cost based on SCE's own tariff, and (2) resubmit its FSR requirements using Intercontinental Energy Exchange (ICE) quotes from March 2022, rather than April 2022, consistent with the submissions of PG&E and SDG&E.

In the alternative, CalCCA urges the Commission to maintain the existing FSR amounts, without recalculation, until a revised methodology is adopted in Rulemaking (R.) 21-03-011 (Provider of Last Resort). CalCCA acknowledges the need for changes in the FSR calculation, and SCE's Advice Letter certainly highlights the need to rethink this approach. Some of the changes currently under consideration in R. 21-03-011 would increase the FSR amount, while others would reduce it. For example, the existing calculation does not consider the availability upon a customer's return of RA through the Cost Allocation Mechanism (CAM) allocations. While this change, if applied, would reduce the current FSR calculation, CalCCA does not ask in this protest for resolution of this or any other policy recommendation. Instead, CalCCA requests refraining from approving significant increases in FSR levels before resolving these policy issues.

PROTEST

1. Implementing the Proposed FSR Amounts Will Unnecessarily Reduce CCA Liquidity, Placing Financial Stability and New Generation Projects at Risk

CalCCA estimates that the impact in FSR postings using the forward ICE quote that SCE used will tie up in excess of $120 million in CCA liquidity collectively in the SCE area. This exceeds the current collective posting of $1.5 million. The liquidity impact arises from a likely one-for-one reduction in cash or credit capacity, depending upon the instrument and form of collateral used. The updated requirements thus directly undermine SCE CCAs' financial condition, straining liquidity needed to support Summer 2022 operations and to complete new resources for Summer 2023.

Public Utilities Code section 451 requires that all charges by a utility must be "just and reasonable." SCE's proposed FSR amounts go beyond the boundaries of section 451 by (1) dramatically increasing the FSR burden on SCE CCAs relative to their prior FSR amounts and the FSR amounts in other IOU service territories, and (2) reducing needed CCA liquidity, undermining financial conditions for Summer 2022 and threatening new project completion for Summer 2023.

2. SCE's Calculation Departs from SCE's Rule 23 and Underlying Decisions in Determining a CCA's "Peak Demand"

Rule 23.X.1 (Sheet 61) requires SCE to calculate a CCA's monthly peak demand (MW) forecast, for purposes of determining the RA volume, "using the most recent 12 months of historical monthly peaks." SCE's calculations, however, appear to rely on the use of the most recent six months' historical monthly peaks.[3]

SCE's Rule 23 is consistent in its peak demand calculation with the comparable rules of PG&E and SDG&E.[4] In fact, each rule uses precisely the same language. The demand calculation articulated in SCE's Rule 23 is also consistent with Commission Decision (D.) 18-05-022. D.18-05-022 directed the determination of the FSR consistent with the "methodology set forth in the Joint Utilities' testimony."[5] The Joint Utilities' testimony, in turn, provides: "[t]he CCA's monthly peak demand forecast (MW) will be established using the most recent calendar year of historical monthly peaks, defined as the CCA's demand during each month's system peak hour."[6]

For these reasons, the Commission should require SCE to update the proposed FSR amounts using a peak demand based on the most recent 12 months of historical peaks.

3. The Proposed FSR Amounts Rely on April ICE Energy Price Quotes, Contrary to the Methodology Used by PG&E and SDG&E and Underlying Decisions, Causing an Unreasonable Increase

The CCA Financial Security Amount Proposal (Summary) provided by each IOU for each CCA indicates the "Calculation Month (M)" used to calculate the FSR. SCE uses May as the calculation month,[7] while PG&E and SDG&E use April.[8] Based on Commission guidance, each IOU uses ICE quotes from the month prior to the calculation month in establishing the Energy Cost Forecast; SCE uses April ICE quotes, while PG&E and SDG&E use March ICE quotes. The result of this seemingly small deviation is an outsized impact on FSR amounts for CCAs in the SCE service territory relative to past FSRs and FSRs in other service territories.

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[3] SCE Advice Letter 4789-E-A, Attachment A, line 30 CCA Average Peak Demand is described as the average of column 8 lines 3 through 8. Lines 3 through 8 are the months of June through November and exclude the months of December through May, and thus are using the six months of the FSR period and not the 12 months as indicated in the tariff.

[4] SCE Rule 23 section X.1, PG&E Rule 23 section X.1, and SDG&E Rule 27 section X.1 all state, "The CCA's monthly peak demand forecast (MW) will be established using the most recent [twelve] 12 months of historical monthly peaks, defined as the CCA's demand during each month's system peak hour."

[5] *See* D.18-05-022 at 7.

[6] *Joint Utilities' Direct Testimony Proposing a Methodology for Calculating and Implementing the CCA Financial Security Requirement*, R.03-10-003 (July 28, 2017) (JU Testimony), at 23 (emphasis supplied).

[7] SCE Advice Letter 4789-E-A Attachment A, line 2.

[8] SDG&E Advice Letter 4002-E Attachment A, line 2; and PG&E Advice Letter 6589-E-A Attachment C, line 2.

Using March quotes, all SCE CCAs would post FSRs at the $147,000 minimum as they have in the past.

As discussed above, the magnitude of FSR requirements unnecessarily places CCAs at greater financial risk for Summer 2022. SCE's impact can be brought within the bounds of reasonableness simply by conforming the calculation with those of PG&E and SDG&E without a risk to accuracy. The Commission should require SCE to make this change.

a. Use of March Quotes is Consistent with Rule 23, Underlying Decisions, and the FSR Requirements of PG&E and SDG&E

SCE's Rule 23 does not specify which month will be designated as the Calculation Month. SCE describes the Energy Cost Forecast[9] calculation as follows:

> To forecast incremental energy costs for the CCA FSR, SCE will use a load-weighted forward SP-15 price and update the forward price forecast monthly. The forward prices will be obtained from Intercontinental Exchange (ICE) and will be the load-weighted average of daily peak and off-peak energy prices for all trading days in Month M-1 for Months M+1 to Month M+6, inclusive, where Month M denotes the month when the financial security amount is calculated.

While it is clear that price quotes from the month preceding the calculation month should be used, the tariff does not specify which month will be designated as Month M;[10] neither do the comparable rules of the other two IOUs.[11]

The Commission has provided limited guidance on this question. D.18-05-022 clearly states the Commission's understanding of the basis for calculation of the CCA FSR amounts: "Forecasts of incremental procurement costs shall be calculated using the methodology set forth in the Joint Utilities' testimony … to the extent that methodology is consistent with this

9 SCE Rule 23.X.1.

10 It is clear that Month M-1, Month M, and Month M+1 were not intended to be sequential. Month M+1 is the first month of the period for which an FSR is implemented (January or July). If M and M+1 were sequential, the calculation would occur in June, which is *after* the date on which the Advice Letter must be filed.

11 SCE and PG&E Rule 23.W.3 and SDG&E Rule 27.W.3 each state, "The Utility will update the CCA's financial security requirement amount semi-annually and submit the updated amount to the CPUC by May 10 and November 10 of each year". Each state in their section Energy Cost Section (X.1 for SCE and X.2 for PG&E and SDG&E) that they "The forward prices will be obtained from Intercontinental Exchange (ICE) and will be the load-weighted3 average of daily peak and off-peak energy prices for all trading days in Month M-1 for Months M+1 to Month M+6, inclusive, where Month M denotes the month when the financial security amount is calculated. will use the ICE forward quotes for M-1 and apply that quote to months M+1 through M+6 where M is the "calculation month" . However, none of the three tariffs define Month M.

decision."[12] In turn, the IOU testimony – specifically the template that mirrors the Summary used today – provides that the Calculation Month, assuming a May 10 filing date, would be April.[13] The Commission adopted the IOUs' proposal for a May 10 advice letter filing,[14] which strongly suggests it also intended to accept an April calculation month.[15] Moreover, using April as the calculation month makes more sense from the standpoint of the IOU. Performing these calculations, updating all of the individual FSRs for each CCA, takes time. Using April as the calculation month assures the IOU it has sufficient time to do the calculation, check it twice, and get it submitted to Energy Division.

Using April as the calculation month also ensures that the IOUs use consistent sources to establish the CCA FSR amounts. Consistency among the IOUs was the principal focus of Resolution E-5170. In adopting Resolution E-5170, the Commission first noted that "[i]n reviewing the original advice letters, Energy Division identified inconsistencies in the values and sources used to establish the FSR amounts …."[16] The Commission found that "[w]hile updates to the FSR methodology will be considered further in the [Provider of Last Resort (POLR)] rulemaking, Energy Division requested that the SCE and SDG&E file supplemental advice letters to revise their sources to create consistency in the interim implementation of FSRs …."[17] To ensure consistency, the Commission ordered the IOUs to use specific sources and values for future FSR filings.[18] As noted above, PG&E and SDG&E already use April as the calculation month. By directing SCE to use April as the calculation month, the Commission will ensure consistency among the IOUs.

b. Use of March Quotes Will Not Necessarily Render the Calculation Less "Accurate"

The current FSR calculation includes forecasted energy costs the POLR can expect to pay as a result of serving the returned customers. The energy prices used to calculate forecasted energy costs come from the ICE forward price quotes from the month prior to the month the FSR calculation occurs. There is a significant amount of literature available discussing the ability of a forward market to predict future prices. William Emmons and Timothy J. Yeager stated:

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12 D.18-05-022 at 7 (emphasis supplied).

13 JU Testimony, Appendix E. This is consistent with the Commission's directive in D.13-01-021, at 25.

14 D.18-05-022 at 10-11.

15 While D.18-05-022 refers back to language in D.13-01-021 stating that the security amount would be "recalculated" twice each year, "in November and May," PG&E and SDG&E seemingly, and appropriately, have read this language as "updated" in November and May. And, importantly, there is no Finding of Fact, Conclusion of Law, or Ordering Paragraph that explains why such a change would have been made to the IOUs' adopted proposal.

16 Resolution E-5170 at 9.

17 *Id.* at 12; Finding 2.

18 *See* Resolution E-5170 at 12; Ordering Paragraphs 2-3.

> Futures prices of non-storable commodities can deviate significantly from spot prices because of anticipated changes in supply or demand.[19]

Commodity forward markets are used for two purposes. First, they may hedge a buyer or seller's risk of future prices. Second, they may be used as speculative devices by entities to profit from price divergence between the forward and actual price of the commodity when the forward period arrives. This is not a model of convergence to the actual price but rather differing parties having differing estimates of the future market prices with differing tolerance to price volatility.

Suggesting that forward prices are more likely to predict the actual outcome in a market the closer they come to the delivery month, this may not be the case.

An analysis of forward energy price quotes from New York Mercantile Exchange (NYMEX)[20] reveal that they are not a good predictor of the actual CAISO settlement prices the IOU would pay to serve the returned customers. As can be seen in the data below, the impact of using a forward quote to predict the future price of energy in the CAISO is highly variable. In fact, if the FSR for 2021 been calculated in either March or April of 2021 using forward NYMEX prices, they would have predicted $88 to $99 prices on-peak for NP-15 while the actual settled value at the CAISO market was $65.57. A similar result can be seen for SP-15 where the March and April NYMEX quotes were $110 to $119 with a CAISO settled price of $65.08. In both cases, the more proximate April quotes were a poorer predictor of actual price than the March quotes. The same dynamic played out with ICE prices for 2021.

Any forward price quote is likely to miss its mark in predicting actual settled prices, with deviations varying in direction and magnitude. In this sense, no quote – including the ICE energy price quotes – is "accurate." Moreover, while in general a quote closer to the delivery month may be more accurate, it may be less accurate.

CONCLUSION

CalCCA thanks the Energy Division for its review of this protest, and requests that the Commission require SCE to (1) correct the period for determination of "peak load" in applying the applicable RA cost, and (2) resubmit its FSR requirements using ICE quotes from March 2022, rather than April 2022, consistent with the submissions provided by PG&E and SDG&E.

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[19] https://www.stlouisfed.org/publications/regional-economist/january-2002/the-futures-market-as-forecasting-tool-an-imperfect-crystal-ball#authorbox While the energy market is developing more storage for the energy commodity, that storage is generally short-term in nature covering hours. This type of storage will arbitrage prices within a day but does not address the fundamental movers of longer-term price trends including the costs of other inputs to electricity production.

[20] While the IOUs use ICE forwards for this purpose, the ICE data is not publicly available and cannot be published for this purpose even if a subscription were obtained. NYMEX data is therefore used for demonstration purposes of the volatility of forward price quotes.

Respectfully,

CALIFORNIA COMMUNITY CHOICE ASSOCIATION

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