VALLEY CLEAN ENERGY ALLIANCE
BOARD OF DIRECTORS

Staff Report – Item 19

TO: VCE Board of Directors

FROM: Mitch Sears, Interim General Manager
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SUBJECT: Approve Valley Clean Energy's Policy regarding potential PG&E allocation of Greenhouse Gas (GHG)-free (Large Hydro and Nuclear) resources to Community Choice Aggregators

DATE: March 12, 2020

RECOMMENDATION

1. Accept the 2020 allocation of large hydro, carbon free attributes paid for by VCE customers when that proposal is filed by Pacific Gas and Electric and ordered by the California Public Utilities Commission (CPUC).

2. Monitor and report back to the Board on current CPUC proceeding related to future potential allocations of PG&E GHG-free resources to CCA's.

BACKGROUND

VCE has set a goal for 2020 to serve customers with a minimum 75% GHG-free energy. In 2020, forty-two percent (42%) of VCE's GHG-free energy portfolio are resources that qualify as renewable energy under the state's renewable portfolio standard program (RPS) and 33% are resources that do not qualify under the RPS but are considered GHG-free. Large hydro and nuclear do not directly emit any GHG emissions, but don't qualify under the state's RPS.

VCE has procured all of the renewable resources and GHG free (large hydro) that we expect are required to meet this target in 2020. Prior to the current proposal to issue GHG-free allocations to CCAs, as additional CCAs started operating with their own GHG-free targets, staff saw the market for GHG-free resources become tighter and the cost increase.

PG&E owns or contracts for a number of GHG-free resources (including large hydro and nuclear from Diablo Canyon Power Plant). PG&E has been able to count these resources on its power content label (PCL) to meet its GHG-free targets. Load serving entities (LSEs), on the other hand, have been paying for those same assets through Power Charge Indifference Adjustment (PCIA), yet do not receive any of the GHG-free benefits – this includes VCE.

In mid-2019, CCAs approached PG&E to discuss whether PG&E would be agreeable to selling energy from their large hydro facilities[1]. PG&E ultimately refused to make sales in 2019, but subsequently approached CCAs and offered to allocate GHG-free resources (nuclear and large hydro) to CCAs and other eligible load serving entities (LSEs).

There is a separate, similar effort occurring in the PCIA Phase 2 Working Group 3 (WG 3) that is focusing on the allocation of GHG-free energy, among other things. Since the PCIA effort is expected to take effect in 2021, the allocations addressed in this staff report are considered an interim approach for 2020 only until PCIA decisions are finalized. Both the PCIA proposal and the interim allocation proposal are works in progress and subject to change pending final CPUC approval.

The purpose of this report is to provide background and information for the Board to consider staff's recommendation to accept VCE's share of the large hydro allocation but not the nuclear allocation under the interim proposal for 2020 only.

Interim Proposal by PG&E

The key elements of the interim proposal include:

- Limited in time to 2020
- Limited in the resources to which it applies:
    - In-state
    - Large hydroelectric
    - Nuclear
- Only available to retail suppliers whose customers pay PCIA with large hydroelectric and nuclear in their PCIA vintage
- Requires active agreement between retail suppliers to offer and to take generation
- Requires that the CPUC approve a mechanism for the allocation of such generation
- No payment required

There is no obligation to accept this allocation of GHG-free energy. An LSE can choose to accept neither resource pool, one or the other, or both.

The PCIA is a non-bypassable charge set annually by the CPUC. The interim proposal and allocation mechanism, and whether VCE accepts an allocation, has no impact on PCIA charges. Regardless of what happens with the allocation mechanism, all customers, VCE customers included, pay for, and will continue to pay for PG&E large hydroelectric and nuclear generation costs through the PCIA.

A link to the PG&E Advice Letter which details the interim proposal is included in the reference section at the end of this staff report.

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[1] Large hydro and nuclear resources count as GHG-free on the power content label (PCL), and investor-owned utilities (IOUs) have been benefiting from counting those resources to meet their GHG-free targets. LSEs, on the other hand, have been paying for those same assets through PCIA, yet do not receive any of the GHG-free benefits through the PCL.

ANALYSIS
Under the interim proposal, PG&E will allocate to each eligible LSE its load share of large hydro (hydro pool) and/or nuclear resources (nuclear pool) based on an LSE's election. VCE accounts for approximately 1% of PG&E's share. Staff estimates that the allocation PG&E offers to VCE may contain the following:

• 90 GWh of large hydroelectric power
• 140 GWh of nuclear power

The volume that each LSE receives will ultimately depend on the volume of electricity generated by each resource pool in 2020 and the proportion of PG&E's load served by the LSE. PG&E has identified public historical production data for each resource pool and will provide ongoing allocation amounts for LSEs to forecast and keep track of allocation amounts.

VCE is eligible for this allocation as an LSE (as defined in the CAISO Tariff) that: (1) has forecasted load identified in PG&E's Energy Resource Recovery Account (ERRA) Forecast Application (ERRA Forecast Departed Load) for the calendar year in which the Allocation Amount is accepted; and (2) serves customers who pay the PCIA departing load charges for the above market costs of Resources.

On December 2, 2019, PG&E filed a Tier 3 Advice Letter and requested that the CPUC issue a final resolution by February 1, 2020. The interim proposal will only become effective upon CPUC approval of this Advice Letter and will remain in effect until the earlier of the effective date of a CPUC action on the PCIA Proposal Rulemaking (R.1706-026) ordering an alternative methodology (PCIA Decision) and December 31, 2020. In practice, this means through 2020.

Once the Advice Letter is approved and PG&E offers the allocation, the LSE has 30 days to accept its allocation of hydro and/or nuclear pool(s). Any unallocated amounts will revert back to PG&E to use or dispose as it sees fit pursuant to applicable law. As of the writing of this report (3/6/20), the CPUC has not issued a decision on PG&E's advice letter.

In exchange for the allocation by PG&E, the receiving LSE "will waive their ability to make petitions, arguments or filings at the CPUC or at the California State Legislature regarding PG&E not offering any allocation, sale or transfer of Carbon Free Energy or attributes for the period that the eligible LSE accepts the offer. Neither PG&E nor the eligible LSEs will be required to post credit or collateral."

PG&E will provide each LSE with an annual attestation confirming actual year-end totals of generation from the Resource Pool(s) and notify the California Energy Commission of the sale of the Product for purposes of PCL reporting.

FISCAL IMPACT
VCE has already procured GHG-free resources for 2020. Accepting either allocation (hydro or nuclear) results in potential savings to VCE, and not any additional costs. If the PG&E proposal is approved, the market demand and price for these allocations are likely to drop. The table below estimates that the savings from the large hydro allocation could range from $0 to $540,000 and the nuclear allocation

could be \$0 to \$840,000. The probability factors are based on SMUD's assessment of the likelihood of being able to sell the resource back into the energy market. For example, it is estimated that there is a high/moderate probability that there will be limited buyers in the market for the accepted GHG-free attributes in 2020 resulting in a \$0 value for VCE. In this case, the value would be captured by VCE in having a higher than anticipated GHG-free portfolio in 2020. Note: if allocations are issued for future years with adequate advanced notice, CCA's can reduce energy costs by accepting the allocation(s) and not purchasing GHG-free attributes on the open market.

Scenario Allocated GHG- Free Resources

Scenario	Forecasted Allocated Volumes (Large Hydro + Nuclear)	Min. Value – High/Moderate Probability	Med. Value – Low/Moderate Probability	Max. Value (current market price) – Low Probability
A (Hydro + Nuclear)	230 GWh	\$0	Up to \$270,000	Up to \$1,380,000
B (Nuclear only)	140 GWh	\$0	\$0	Up to \$840,000
C (Hydro only)	90 GWh	\$0	Up to \$270,000	Up to \$540,000

<u>Scenarios to Consider</u>

By accepting an allocation of carbon free energy from PG&E, VCE could decrease the volume of previously contracted GHG-free energy needed to meet it's 75% GHG-free target for 2020. Staff have prepared three scenarios to consider:

- Scenario A - PG&E offers carbon-free allocations up to VCE's load share percentage (1% of PG&E load), amounting to 230 GWh. VCE accepts all carbon-free allocations – both hydro pool and nuclear pool. Consider option to sell off allocation if buyers are available.

- Scenario B - PG&E offers carbon-free allocations up to VCE's load share percentage (1% of PG&E load), amounting to 140 GWh. VCE accepts the nuclear carbon-free allocations.

- Scenario C - PG&E offers carbon-free allocations up to VCE's load share percentage (1% of PG&E load), amounting to 90 GWh. VCE accepts the hydro pool carbon-free allocations.

- Scenario D - VCE rejects allocations from both resource pools.

To date, with the exception of one CCA, all are taking one or both of the allocations; at least two CCA's are taking the nuclear allocations. Some CCAs have discussed the topic with their Board's but are waiting on the CPUC decision before finalizing their approach.

<u>Community Advisory Committee Recommendation</u>

The Community Advisory Committee (CAC), considered the issues contained in this staff report at a special meeting on February 5th and were briefed again on the topic at the Feb. 27th meeting. At the Feb. 5th meeting, the CAC engaged in a detailed discussion about the advantages and drawbacks of accepting the allocations. The CAC voted 4-2 to support the staff recommendation to accept large hydro allocations from PG&E, but not accept the nuclear allocations. The CAC's support was subject to confirmation that: 1) VCE would only be getting the attributes and not the energy and 2) clarification and interpretation of meaning of the statement that the LSE (VCE) "will waive their ability to make petitions, arguments or filings at the CPUC or at the California State Legislature regarding PG&E not offering any allocation, sale or transfer of Carbon Free Energy or attributes for the period that the eligible LSE accepts the offer".

Note: the no votes by CAC members centered on different issues; one with lack of information on the underlying motivation to offer the allocations, and the second on an interest in accepting both allocations for the express purpose of using any cost savings to help fund VCE's priority local programs/projects.

At the Feb. 27th CAC meeting, staff did clarify for the CAC the above two concerns: 1) LSE's electing to accept these allocations are in fact only receiving allocations not the energy; and 2) confirmed that the LSE is only waiving their rights related to the 2020 allocation – not future proceedings.

RECOMMENDATION
Staff recommends that the Board adopt Scenario C (large hydro only). This is a challenging policy question due to the fact that regardless of VCE's decision: (1) the Diablo nuclear plant will continue to operate until 2024/25, and (2) VCE customers will pay for the GHG attributes from the plant through the PCIA charge. In addition, if there is a market for the attributes, the potential savings could help VCE advance its policy goals. These factors are balanced against the potential reputational risk associated with taking VCE's nuclear allocation.

Staff believes that:

- The potential reputational risk from accepting the nuclear allocation as part of our GHG-free target is greater than the potential savings for accepting this allocation.
- Although there could be monetary savings in 2020 from accepting the nuclear allocation, the likelihood is low.
- Generally nuclear is not considered a clean fuel source due to risks associated with spent fuel and practical long-term disposal options.

Based on these factors, staff believes that VCE is better served by accepting the hydro allocation for 2020 but not the nuclear allocation and should revisit this topic as the PCIA Working Group finalizes the approach for 2021 and beyond.

Reference Materials
PG&E Advice Letter: https://www.pge.com/tariffs/assets/pdf/adviceletter/ELEC_5705-E.pdf