VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 7

To: Valley Clean Energy Alliance Board of Directors

From: Mitch Sears, City of Davis Sustainability Manager
Shawn Marshall, LEAN Energy US

Subject: Regulatory Update

Date: Febaruary 14, 2017

RECOMMENDATION:
1. Receive regulatory update and provide feedback/direction as desired.
2. Approve affiliate membership in Cal-CCA, a new statewide trade association representing CCA interests.

BACKGROUND & DISCUSSION:
Tracking and participating in regulatory proceedings at the CA public Utilities Commission is one of the most important aspects of forming and operating a CCA program. At present, LEAN Energy, through its existing contract, is providing regulatory monitoring and reporting on key regulatory issues affecting both emergent and operational CCAs. As VCEA moves closer to launch and becomes operational, it is anticipated that it will hire its own regulatory and legislative staff to deepen its engagement at the Commission and at the State Legislature.

Regulatory Report: Attached please find this month's regulatory memo from LEAN Energy which provides a summary report of the key regulatory issues currently before the CPUC, including but not limited to:

1) PCIA/Exit Fee Reform
2) Diablo Canyon Power Plant Closure
3) Integrated Resource Planning
4) CCA Bond Requirements

LEAN's report also includes summary notes from a recent *en banc* hearing sponsored by the CPUC which considered several issues related to a growing CCA market and transition/diversification away from the traditional vertically interated utility model. VCEA plans to file follow-up comments on the en banc by the February 23rd deadline. Shawn Marshall will be avaiable at the Board meeting to answer questions on this and other regulatory proceedings.

VCEA Membership in Cal-CCA
CalCCA is a new California trade association representing the intreststs of California's community choice electricity providers in the legislature and at the relevant regulatory agencies, including

the CA Public Untilies Commission, California Energy Commission and CA Air Resources Board. Community choice programs are administered by local governments with a mission to provide competitive alternatives to investor-owned utility sources. CalCCA's voting members are the operating programs in California. Local governments interested in community choice may join as affiliate members; the City of Davis is currently an affiliate member.

Staff recommends that VCEA replace the City of Davis as an affiliate member of Cal-CCA. The city has already paid the annual dues of $1,500/year. Affiliate members have access to educational sessions and materials, and may attend CalCCA business meetings as non-voting members. Once operational, it is recommended that VCEA become a full voting member of the organization.

For more information about CalCCA, please visit www.cal-CCA.org

Attachments

1. CCA Regulatory Update Jan/Feb – LEAN Energy
2. CPUC En Banc Meeting Summary Notes – LEAN Energy
3. Southern California Edison – Notice of Ex Parte Communication with CPUC

To: LEAN Energy Clients:

Central Coast Clean Power (Santa Barbara County as lead)
Contra Costa County
East Bay Community Energy
Monterey Bay Community Power (Santa Cruz County as lead)
Redwood Coast Energy Authority
Peninsula Clean Energy
Silicon Valley Clean Energy
Valley Clean Energy Alliance

From: Steve McCarty, Regulatory Consultant, LEAN Energy US

Cc: Shawn Marshall, Executive Director

Date: February 8, 2017

Subject: Regulatory Update #8, January-February 2017

Each month, LEAN focuses on the key regulatory and legislative activities likely to have long-range and broad impact on the CCA community. This memo provides an update on key CPUC proceeding developments in the past month and covers priority topics including, but not limited to, the recent CCA En Banc hearing (Attachment A), PCIA, Diablo Canyon, Integrated Resource Planning, and CCA Bond requirements.[1]

CPUC DEVELOPMENTS

CCA En Banc Meeting: February 1, 2017

Please see Attachment A for summary notes from the meeting.

To Do:

1. LEAN Energy will monitor and advise of any CPUC rulings or orders that result from this *En Banc*.
2. Parties may file comments in response to the En Banc by February 23rd. Please let us know if your organization would like assistance in preparing your comments.

---

[1] This monthly memo is designed to provide LEAN's clients with a current snapshot of key regulatory and legislative activities related to CCA to help them make informed decisions about whether and how to engage in the regulatory and legislative process during their program formation and early operations. It is not a comprehensive inventory of all the regulatory and statutory requirements impacting operational CCAs. Regulatory and statutory compliance requires a much more comprehensive inventory than the subset of activities described herein and must be tailored to the specific circumstances of each CCA.

KEY REGULATORY CASE DEVELOPMENTS

PCIA Working Group

To Do:
LEAN will continue to participate in this working group and will report, as able under confidentiality rules, on approaches to the current PCIA methodology.

Issues:
As we have reported in the past, a PCIA working group has been meeting for several months in preparation for a filing on April 6th with the Commission on recommendations to possible changes to the PCIA methodology. On January 23th the PCIA working group met to discuss alternatives to the current PCIA methodology and data access and transparency issues. On February 8th, the working group is meeting again to discuss consensus items and possible PCIA alternatives. The next meeting of the CCA subgroup will take place at the SFPUC on February 14th at 10:00 am.

Parties who would like to attend these meetings are subject to confidentiality rules and should reach out to Neal Reardon at Sonoma Clean Power: nreardon@sonomacleanpower.org for more information.

On January 27th, Southern California Edison filed an ex parte notice (see Attachment B) on behalf of SCE, PG&E and SDG&E of a meeting with CPUC Commissioner Randolph about the PCIA. In the notice, SCE states:

> The current administratively-set benchmarks used to calculate PCIA rates significantly overstate the market value of the utilities' generation portfolios. When the utilities sell excess energy at market prices due to load departure, they do not receive revenues sufficient to cover the administratively-set Renewable Energy Credit (REC) and Resource Adequacy (RA) benchmarks that underlie the PCIA. <u>Accordingly, bundled service customers pay for the shortfall. To remedy this situation, the Joint Utilities propose moving to a portfolio allocation method that allocates the pro rata portion of the actual net costs and benefits of their respective generation portfolios to both bundled service and departing load customers.</u> (emphasis added)

This ex parte may indicate what the IOUs plan to file on April 6th. LEAN will monitor this issue and report out when the proposals are filed.

PG&E's Diablo Canyon Power Plant Closure

To Do:
LEAN will continue to monitor this proceeding. At this point, LEAN is not recommending specific action from emergent CCA programs as this is a very resource intensive proceeding. CCA interests are being served by other capable parties including operational CCAs; please see below for a list of the parties.

https://apps.cpuc.ca.gov/apex/f?p=401:56:0::NO:RP,57,RIR:P5_PROCEEDING_SELECT:A1608006

Issues:
On January 27th, 23 parties filed testimony in PG&E's application to close Diablo Canyon. One of those parties is the "joint Intervenors", which includes: the Alliance for Retail Energy Markets, California Clean

DG Coalition,, California Community Choice Association, California Large Energy Consumers Association, City and County of San Francisco, Direct Access Customer Coalition, Energy Producers and Users Coalition, Energy Users Forum, MCE, Peninsula Clean Energy, Silicon Valley Clean Energy Authority, Sonoma Clean Power, South San Joaquin Irrigation District.

Many issues were raised by these intervening parties. Among those of most interest to CCAs are: (1)the existence of a "Clean Energy Charge", (2)the need for three replacement tranches, (3) the need for the IRP proceeding as the venue to address the additional resource needs, if any for Diablo Canyon, and (4) allocation of relicensing costs to bundled ratepayers and shareholders.

Next Steps:

- Rebuttal Testimony served March 17, 2017
- Cross-Examination estimates served April 11, 2017

Evidentiary Hearings April 18, 2017 through April 28, 2017

- Briefs May 26, 2017
- Reply Briefs/Record submitted June 9, 2017

CCA Bond Requirements

To Do:
LEAN will monitor this proceeding; parties may file comments by February 13.

Issues:
On January 30th, Administrative Law Judge (ALJ) Anne Simon issued a ruling in A.03-10-003 that addresses issues related to the bond required of CCAs pursuant to Pub. Util. Code Section 394.25 that requires each CCA to post a bond to cover the costs of involuntary re-entry fees of CCA customers to bundled IOU service. This has been an open issue, and with the growth in CCAs the ALJ states that it is time to resolve the methodology for setting the CCA bond. It is currently set at $100,000. The ALJ held a Prehearing Conference on January 30th at the CPUC to address this issue. Parties may file statements by February 13th that address the following issues:

1. What, if any, consideration should now be given to any of the information filed in response to the Amended Scoping Memo.
2. Should a bond methodology be the same for all CCAs? Why or why not?
3. Should a bond methodology be fundamentally a multiplication of an IOU's reentry fee by an estimate of the number of a CCA's customers, or some other arithmetic measure? What issues would need to be resolved to develop such a methodology.
4. If some other type of methodology should be considered, what would it be? What issues would need to be resolved to develop such a methodology? Numerical examples should be provided.
5. Should the bond methodology include any adjustment for risk and/or historical experience of a CCA? Why or why not?
6. How, if at all, should the potential for expansion of a CCA's service to additional areas after its initial service begins be accounted for in developing a CCA bond methodology?

7. Provide a proposed schedule for resolving this issue in this proceeding. Any proposal that includes either a workshop or an evidentiary hearing must provide specific justification for the proposed activity.
8. Identify any other issues related solely to the setting of a bond for CCAs that a party believes should be discussed at the PHC. A second pre-hearing conference will take place at the CPUC at 10 am on February 16th.

Status:
LEAN is monitoring this proceeding. The ALJ will set up a schedule for testimony and/or workshops and a schedule to address these issues. At that time, emergent CCA programs may wish to engage.

SDG&E Request to Establish a Marketing Affiliate (Advice Letter 2822-E)

To Do:
Join with other parties in protesting by February 16th SDG&E's latest advice filing.

Issue:
On November 21, 2016 SDG&E filed Advice Letter No. 3008-E (replacing No. 2822-E-A), which purports to comply with the CPUC's August 2016 Resolution (E-4874) that approved, with conditions, SDG&E's proposed CCA Marketing Affiliate Plan. LEAN Energy joined several other parties in protesting SDG&E's advice letter as being in violation of CPUC Resolution E-4874.

The Energy Division agreed and on December 28th, in response to our protests, rejected SDG&E's amended CCA marketing affiliate compliance plan described in its Advice Letter. The Energy Division agreed that SDG&E failed to identify personnel in the regulatory affairs, communications, legal and public affairs groups who are involved in "shared services" to ensure that none of these individuals or support functions are involved in marketing or lobbying activities regarding the SDG&E's marketing activities with respect to CCAs.

On January 27th, SDG&E filed another compliance plan advice letter. This advice letter raises similar issues to its previous submission: (1) SDG&E has failed to identify jobs and functions of personnel in those departments SDG&E has identified as being within its corporate shared services; (2) it did not perform the "holistic review" required in Resolution E-4874; (3) it has not demonstrated that individuals who perform advocacy regarding CCA positions or the CCA program are identified and their costs borne exclusively by the marketing affiliate; and, (4) it did not provide transparent accounting procedures to track the transfer of an allocated portion of shared services costs to SDG&E's marketing affiliate.

Status:
LEAN is monitoring this proceeding.

CPUC Resolution E-4805: Tree Mortality Nonbypassable Charge

To Do:
LEAN will monitor developments of new Tree Mortality Nonbypassable Charge and advise accordingly.

Issues:
SB 859, signed into law on September 14, 2016, added that the costs of additional procurement for energy and capacity from biomass be recovered through a nonbypassable charge. Biomass energy and capacity are acquired through a biomass renewable auction mechanism (BioRAM). CPUC Resolution E-4805, to implement the SB 859 requirement, was approved by the CPUC at the October 13, 2016 business meeting. The resolution requires Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company to procure additional capacity from biomass facilities using specific forest fuel stocks. It also permits the utilities to recover costs, and to allocate these costs to all customers through a nonbypassable charge.

As noted last month, the IOUs were ordered to file Applications creating a new Tree Mortality Nonbypassable Charge within 30 days. The IOUs submitted a joint application on 11/17/16 (Application 16-11-005). In the Application they ask the CPUC to not only approve cost sharing of the procurement associated with E-4805, but also procurement associated with E-4770. E-4770 was a similar resolution passed by the CPUC in March of 2016 that required the IOUs to procure 50 MW of forest fuel stock. However, at the time that E-4770 was passed, the CPUC rejected a cost sharing requirement. A number of parties filed protests to the IOUs applications raising a number of issues, including the methodology for calculating the nonbypassable charges and the lack of a self-procurement option.

A ruling should soon be issued by a Commissioner establishing the scope of issues and possibly a hearing schedule.

Status:
LEAN is monitoring this proceeding.

PG&E General Rate Case (GRC) Phase 2 (A.16-06-013)

PG&E's Phase 2 Application is used to determine where the revenue requirement will be allocated among all customer classes and where new rate designs will be considered.

To Do:
LEAN is monitoring this proceeding. Consider intervening in this case.

Issues:
No change from last month. Parties are now doing discovery on PG&E's application, and their testimony is not expected to be filed until later this year.

Status:
LEAN is monitoring this proceeding.

Integrated Resource Planning (IRP) R.16-02-007):

To Do:
Consider forming a working group to address CCA IRP issues. Review the following link for background on the proceeding and access to the staff whitepaper: http://www.cpuc.ca.gov/LTPP

Issues:
There are, as of now, three tracks in this proceeding: GHG planning and implementation, modeling, and scenario planning.

A recent round of comments address planning assumptions and modeling scenarios. The next set of comments on T&D issues, disadvantages communities, and distributed energy resources is due mid-February, with reply comments due February 27.

The Executive Director is expected to issue his proposal on the IRP planning process in March, although that date may slip. Parties will have an opportunity for formal comments. Then, the Commission will formally adopt a planning process. The earliest that CCAs and other load serving entities (LSEs) can expect to file their resource plans is the Fall of 2017, potentially later depending on how the process proceeds.

Status:
LEAN is monitoring this proceeding.

Attachments:
A: En Banc Summary Notes
B: SCE's Notice of Ex Parte Communication

Summary Notes of CCA En Banc Meeting
California Public Utilities Commission
February 1, 2017

On February 1st, the CPUC held an *en banc* meeting with all Commissioners in attendance to discuss CCA issues. The en banc was very well attended. The main auditorium was full, a separate room accommodated an overflow crowd, and about 800 people attended on-line. The day consisted of an overview of CCA statutes, regulation and status by the Energy Division that followed the staff paper prepared in advance (copy attached) and three panels of speakers.

Panel 1: Reliability and Supply Issues:
Moderator: Professor Severin Borenstein, U.C. Energy Institute at Hass Business School
Panelists: Dawn Weisz (MCE), Emily Shults (SDG&E), and Matt Freedman (TURN).

This panel described the history of the development of CCAs. The main policy theme running through this panel was the role of CCAs in Integrated Resource Planning (IRP).

Emily Shults described SDG&E's procurement status. Load is flat or declining. Under direction from the CPUC, 51 of their 52 contracts are long term and 50% of their contracts are 20 years or more. The long term planning process, now called integrated resource planning, is the best forum for addressing larger procurement issues, and to address the needs of bundled customers.

Dawn Weisz explained how MCE meets customer needs. In the beginning, MCE necessarily relied on shorter term contracts, due primarily to credit capacity. Now MCE has transitioned to a majority of its load served by long term contracts and and is planning to get 30% of its retail load from new local resources by 2019 and 50% by 2020. MCE is running pilots using automated load shifting with residential pool pumps and thermostats. As MCE pursues longer term contracts, battery storage, dispatchable hydro, and load shifting will become increasingly important. MCE has accounted for the growth in rooftop solar, and schedules all its load into the CAISO taking solar reductions in its load into account.

Matt Freedman provided an analysis of the history of CCAs, noting their reliance on short term contracts while they begin, and when prices have been low due to abundant supply. Matt said that in the beginning there was little "additionality" of renewable resources, a reliance on purchasing unbundled Renewable Energy Credits (RECs) and a significant amount of supply from out of state. He noted that, as a CCA customer, he could not use PG&E's rate calculator to compare PG&E and CleanPower SF time-of-use rates because CCA rates are not available on the PG&E calculator.

The Commissioners questions indicated an interest in how CCAs should be regulated in the IRP: Should the approach be "let a thousand flowers bloom" or should there be a more centralized, managed procurement process that is coordinated statewide?

Panel 2: Customer-Facing Issues
Moderator: Mitchell Shapson, Staff Attorney, CPUC
Panelists: Geof Syphers, (CEO SCP), Tony Brunello,(President, More than Smart), Aaron Johnson, (VP Customer Energy Services, PG&E), Merrian Borgeson, (Senior Scientist, NRDC)

This panel provided a good overview of the range of customer programs and the large diversity of deliverers for those programs.

Merrian Borgeson described the significant changes that will be coming to the energy efficiency portfolio, with a minimum of 60% of programs to be designed and implemented by third parties, and a minimum of 25% of programs to be run on a statewide basis. So far, the only CCA that has applied to be an administrator of energy efficiency programs is MCE, which managed a $2M portfolio in 2016. MCE has demonstrated several energy efficiency program best practices, and its 2017 proposed Energy Efficiency Business Plan utilizes very innovative approaches and program designs. CCAs can be effective at running programs that target hard-to-reach customer segments. Merrian noted that CCA and IOUs programs are delivered concurrently, which if not managed carefully can cause confusion in the marketplace. Also, CCAs are only allowed to administer electric programs, so the opportunity to partner with IOUs to offer comprehensive retrofit programs that include gas will be important because it would increase cost effectiveness.

Aaron Johnson stated that the energy efficiency portfolio is about $1 billion per year, with opportunity for many parties to administer programs. PG&E is looking for the best program administrators, including CCAs, to deliver its programs. He also stated that PG&E would welcome the assistance of CCAs in its low-income energy efficiency program with their knowledge of their local communities. He stated that PG&E has started coupling energy efficiency and demand response and has been focusing efforts on specific substation areas that needed upgrades, which is much more effective in avoiding grid investments than blanket energy efficiency targeting.

Geof Syphers described SCP's recently concluded EV pilot to discover the best places to give incentives and place EV chargers. Statewide EV adoption would essentially act like a clean peaker plant if you managed charging of a huge fleet of EVs. He noted that CCA customers want them to administer some type of DER program, and they have been implementing a number of pilots. He emphasized that CCAs need good data to ensure proper location placement at the feeder and subfeeder level.

Tony Brunello described More than Smart's work to support DERs, especially to figure out where to target DERs for maximum impact. He noted that CCAs can help with local permitting and electric vehicle adoption.

Panel 3: Looking to the Future
Moderator: Mark Ferron (CAISO Board of Governors)
Panelists: Colin Cushnie (VP Energy Procurement, SCE), Elizabeth Echols (Director, ORA), Barbara Hale (Assistant General Manager, San Francisco Public Power Enterprise), Jan Smutny-Jones, (CEO, Independent Energy Producers Association)

This panel provided a very good discussion on the two biggest policy issues addressed during the en banc, the provider of last resort (POLR) and the PCIA charge.

Barbara Hale described the robust development of the CCA market. Following MCE's lead, CCAs have done much work educating the producer and financial communities on how CCAs work. Recent requests for bids are receiving significant responses.

1. **Provider of Last Resort (POLR)**. Colin Cushnie raised the issue of how to address a situation in which a CCA dissolves, and must take back all the CCA's previous customers. Barbara Hale noted that if this were to happen, the CCA gives a one-year notice, and any costs for that transition would be borne by the CCA's customers. Commissioner Peterman asked if contracts could be transferred to the POLR.

2. **PCIA**. Colin Cushnie indicated dissatisfaction with the current mechanism for calculating the PCIA, which results in too many costs being borne by bundled customers. He stated that 10% of SCE's customers departing would be a $60M-$70M burden on remaining bundled customers. With LA County thinking of becoming a CCA (which would be 40% of SCE's load), this issue needs to be resolved. Barbara Hale pointed out how much PCIA costs have risen and how unpredictable the PCIA has become. The large possible swings in the PCIA are the biggest source of disruption for the market. The PCIA needs to be stabilized, and the CPUC has the tools to do this. One starting point would be to ensure that there are no IOU authorizations for additional resources outside the IRP. Jan Smutney-Jones noted that the California market is largely composed of bi-lateral contracts, and that whatever steps the CPUC takes, producers want to see their contracts honored. Commissioner Peterman acknowledged the significance of the PCIA issue and said that she looked forward to seeing parties' proposals in early April. (See discussion on the PCIA working group below.)

Next Steps

It is unclear what steps the Commission will take in response to the en banc. However, the substantive discussion left them much better informed on key issues, risks and benefits with respect to CCAs. The immediate forums for starting to address the issues raised in this hearing are the ongoing IRP proceeding, the PCIA workshop report due at the beginning of April, and the Diablo Canyon closure application. LEAN Energy is participating in and monitoring the progress of all these proceedings and their potential for future rulemaking.

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Application Of Southern California Edison Company (U 338-E) For Approval Of Its Forecast 2017 ERRA Proceeding Revenue Requirement.	))))	Application No. 16-05-001 (Filed May 2, 2016)

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) NOTICE OF EX PARTE COMMUNICATION

FADIA R. KHOURY
RUSSELL A. ARCHER

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-2865
Facsimile: (626) 302-3990
E-mail: Russell.Archer@sce.com

Dated: **January 27, 2017**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Application Of Southern California Edison Company (U 338-E) For Approval Of Its Forecast 2017 ERRA Proceeding Revenue Requirement.	))))	Application No. 16-05-001 (Filed May 2, 2016)

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) NOTICE OF *EX PARTE* COMMUNICATION

Pursuant to Rule 8.4 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), Southern California Edison Company (SCE) hereby gives notice of the following notice of *ex parte* communication. The communication occurred on Tuesday, January 24, 2017, at 11:00 a.m. at the offices of the Commission. The communication was oral and lasted approximately 45 minutes. The attached written materials were distributed during the meeting.

SCE, Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company (SDG&E) (collectively, Joint Utilities) initiated the communication with Rachel Peterson, Chief of Staff to Commissioner Liane Randolph. Also attending the meeting on behalf of the Commission were Leuwam Tesfai and Jason Houck, Advisors to Commissioner Randolph, and Mitchell Shapson, Attorney for the Commission's Legal Division. Attending the meeting for SCE were Caroline Choi, Senior Vice President, Regulatory Affairs, and Laura Genao, Managing Director, Regulatory Affairs. Attending the meeting for PG&E were Fong Wan, Senior Vice President, Energy Policy and Procurement, and Erik Jacobson, Director, Regulatory

Relations. Attending the meeting for SDG&E were Dan Skopec, Vice President, Regulatory Affairs, and Kendall Helm, Director of Origination.

The Joint Utilities described the increasing number of communities that are considering Community Choice Aggregation (CCA). The timeframe from CCA exploration to implementation is shrinking and communities like the City of San Diego and Los Angeles County represent a significant share of their utilities' total load. In aggregate, potential load departure could be up to about 80 percent of total retail load. State law requires that bundled retail customers do not experience any cost increases as a result of retail customer departure. The Commission has established the Power Charge Indifference Adjustment (PCIA) and Cost Allocation Mechanism (CAM) to achieve this customer indifference. The PCIA is flawed and does not prevent cost shifting to bundled service customers. The current administratively-set benchmarks used to calculate PCIA rates significantly overstate the market value of the utilities' generation portfolios. When the utilities sell excess energy at market prices due to load departure, they do not receive revenues sufficient to cover the administratively-set Renewable Energy Credit (REC) and Resource Adequacy (RA) benchmarks that underlie the PCIA. Accordingly, bundled service customers pay for the shortfall. To remedy this situation, the Joint Utilities propose moving to a portfolio allocation method that allocates the pro rata portion of the actual net costs and benefits of their respective generation portfolios to both bundled service and departing load customers. This has the additional benefit of facilitating a retrospective true-up to reflect actual costs and benefits, and would eliminate the reliance on administratively-set benchmarks. It would also be more effective than the PCIA at meeting the statutory indifference requirement that all customers pay their share of legacy utility procurement costs. The Joint Utilities proposed this Portfolio Allocation Method during the last PCIA Working Group meeting along with other options, and are considering proposing it to the Commission in a joint application.

Respectfully submitted,

FADIA R. KHOURY
RUSSELL A. ARCHER

/s/ Russell A. Archer

By: Russell A. Archer

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-2865
Facsimile: (626) 302-3990
E-mail: Russell.Archer@sce.com

January 27, 2017

ATTACHMENT

Update on Customer Choice in California and Portfolio Allocation Proposal

Update on Customer Choice in California and Portfolio Allocation Proposal

January 2017

Joint presentation of PG&E, SCE, SDG&E

Executive Summary

Customer Choice Is Increasing And Accelerating	Customers are expressing more interest in departing from utility bundled service, especially through Community Choice Aggregation (CCA) formation.
All LSEs Should Contribute Equitably To Achieve State Energy Policy Goals	The utilities support the State's clean policy goals. However, implementing policy objectives through utility-only procurement will not be practical as load departures increase.
Remaining Bundled Customers' Indifference From Load Departures Is Required By State Law	Remaining utility bundled service customers should not experience cost increases associated with departing load, as required by state law (Pub. Util. Code Sections 366.2 and 366.3).
Reforms Are Needed To Protect Remaining Bundled Customers	The Power Charge Indifference Adjustment (PCIA) mechanism is fundamentally flawed and currently results in bundled customer cost increases.

Significant Numbers Of Communities Are Expressing Interest In CCA Across California

ACTIVE

PG&E Service Territory
- Marin County
- Napa County
- San Francisco County
- San Mateo County
- Sonoma County
- Cities of Benicia, El Cerrito, Lafayette, Richmond, San Pablo and Walnut Creek

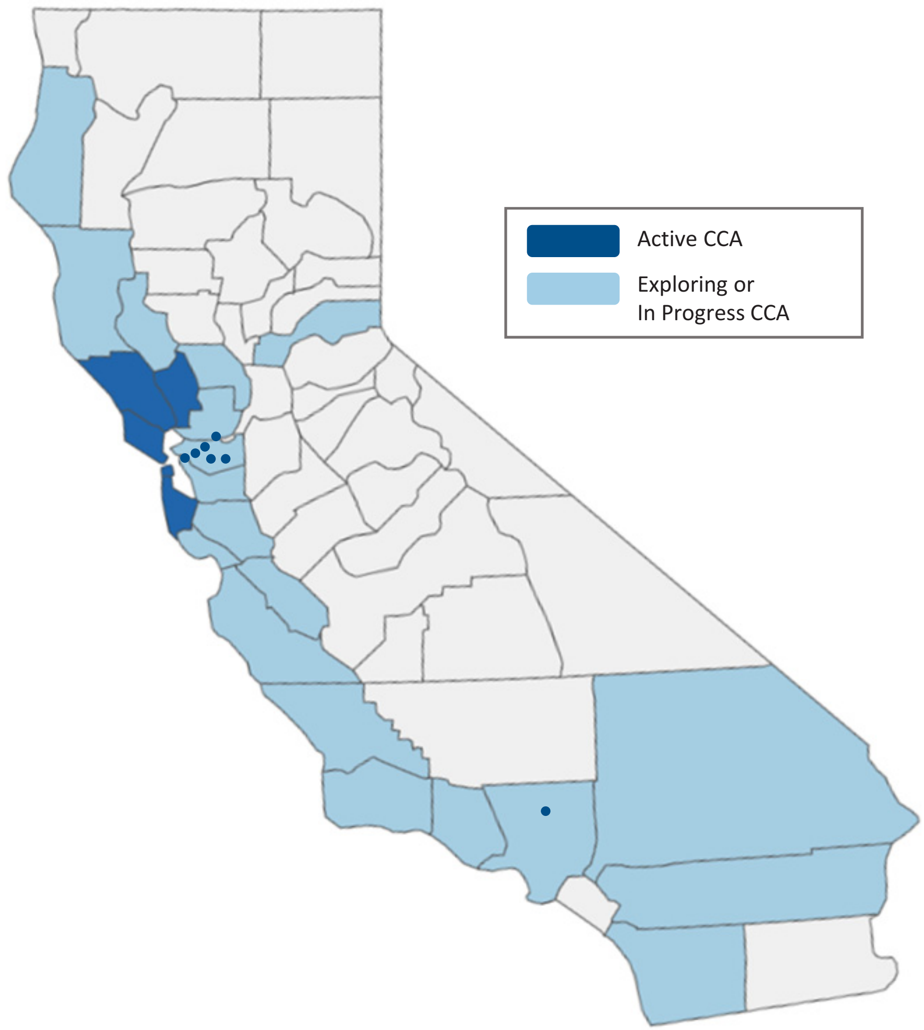
SCE Service Territory
- City of Lancaster

EXPLORING / IN PROGRESS

PG&E Service Territory
- Alameda County
- Contra Costa County
- Humboldt County
- Lake County
- Mendocino County
- Monterey County
- Placer County
- San Luis Obispo County
- Placer County
- Santa Clara County
- Santa Cruz County
- Solano County
- Yolo County
- San Benito County
- Santa Barbara County

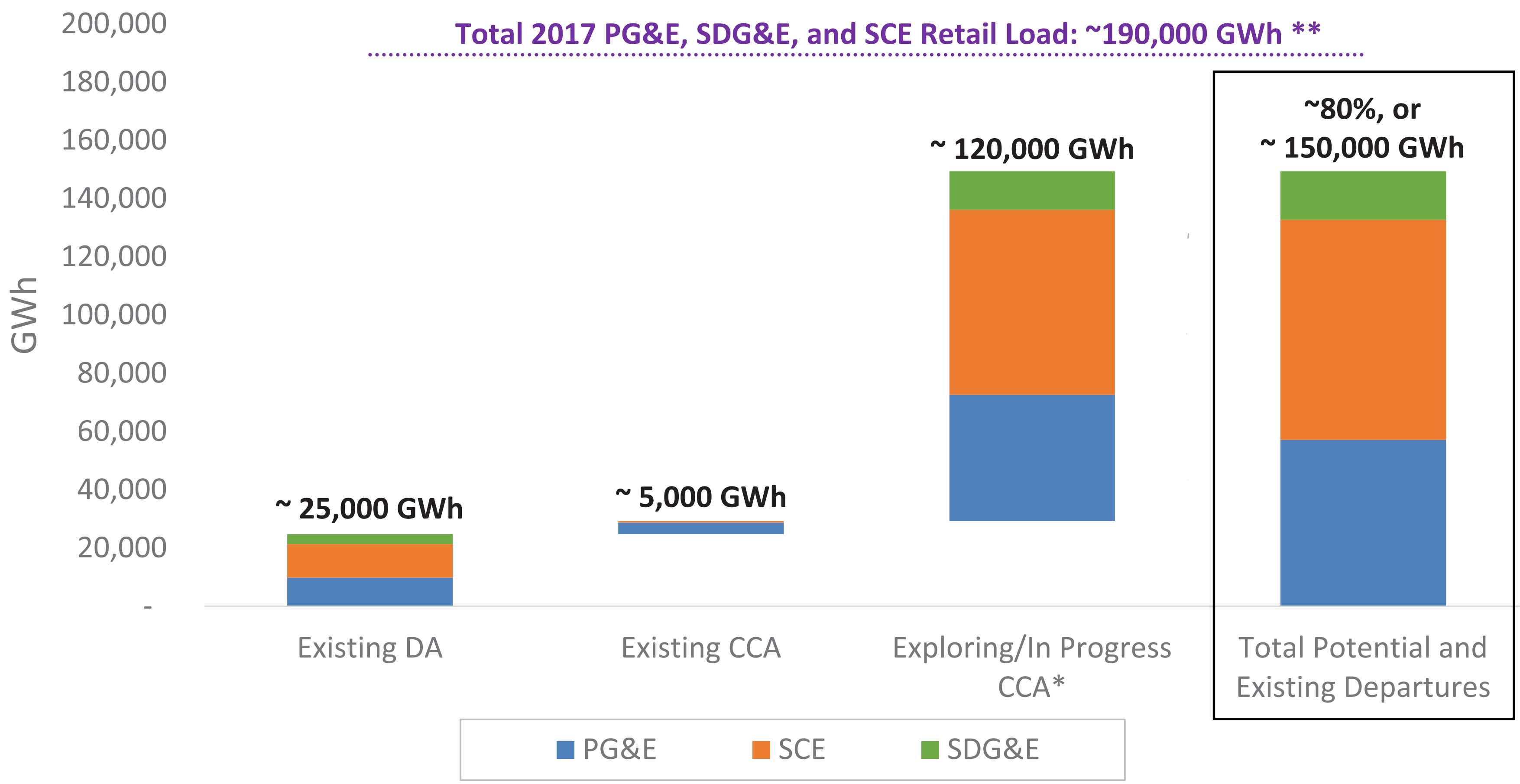
SCE Service Territory
- Los Angeles County
- Riverside County
- San Bernardino County
- Santa Barbara County
- Ventura County

SDG&E Service Territory
- City of San Diego
- San Diego County



Note: Typical timeframe to move from exploration to implementation is 6 to 24 months

Potential Customer And Load Departure Could Be Up To ~80%



* Exploring / In Progress CCA load departures reflect local jurisdictions that have issued a CCA municipal ordinance or have stated interest in CCA formation. It also reflects full departure with no opt outs.

** Retail load excludes current Energy Efficiency and Distributed Generation. Additional future departing load from Net Energy Metering is not reflected here.

Source of Total IOU Retail Load: CEC IEPR Form 1.1c 2017 Retail Load based on actual 2014 data

Protections For Bundled Service Customers From Cost Increases Due To Load Departures

LEGISLATIVE DIRECTIVE
Assembly Bill 117 (2002) Enabled CCA formation and states that the "***implementation of a CCA program shall not result in a shifting of costs*** *between the customers of the CCA and the bundled service customers.*"
Decision 04-12-048 (2004) Acknowledged PU Code 366.2 requires the Commission to authorize CCA formation only if it imposes ***cost-recovery mechanism consistent with the law***
Senate Bill 350 (2015) Stated that the CPUC shall "*ensure that* ***bundled retail customers of an electrical corporation do not experience any cost increases*** *as a result of retail customers of an electrical corporation electing to receive service from other providers*"

REGULATORY IMPLEMENTATION	
✗ **Power Charge Indifference Adjustment (PCIA)**	Mechanism to recover above-market costs of generation resources procured by the utility prior to the departure of customers "Market value" of generation resources is determined based on administratively-set benchmarks
☑ **Cost Allocation Mechanism (CAM)**	Mechanism to recover costs from all benefiting customers Allocates resource attributes and net cost to LSEs

PCIA Is Not Effective In Preventing Cost Shifting Between Departed Load And Remaining Bundled Service Customers

PCIA = Cost of the **utility portfolio commitments** at the time the customer left − Forecasted "**market value**" of the portfolio using administratively-set benchmarks established in 2011

CURRENT STATE

Current administratively-set benchmarks significantly overstate market value

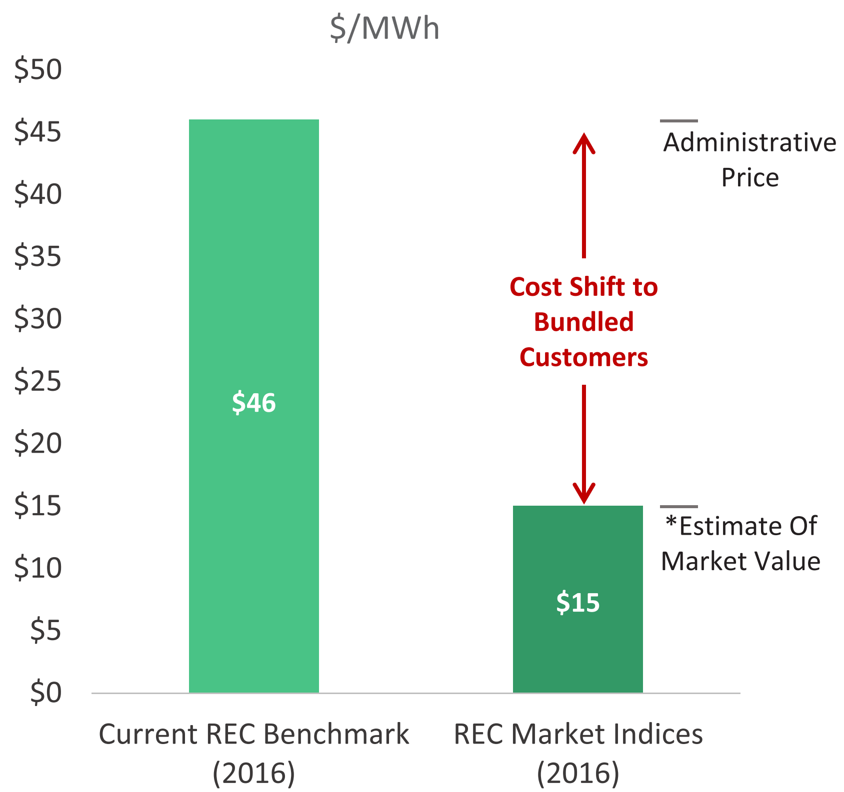
REC and capacity benchmarks are not aligned with current market prices:

- REC benchmark is based on out-of-date confidential IOU contract information
- Capacity benchmark is based on a CEC study of gas peaker operating costs and does not represent current Resource Adequacy capacity market value
- Process for updating benchmarks is contentious. The benchmarks were last updated in 2011, more than 5 years ago

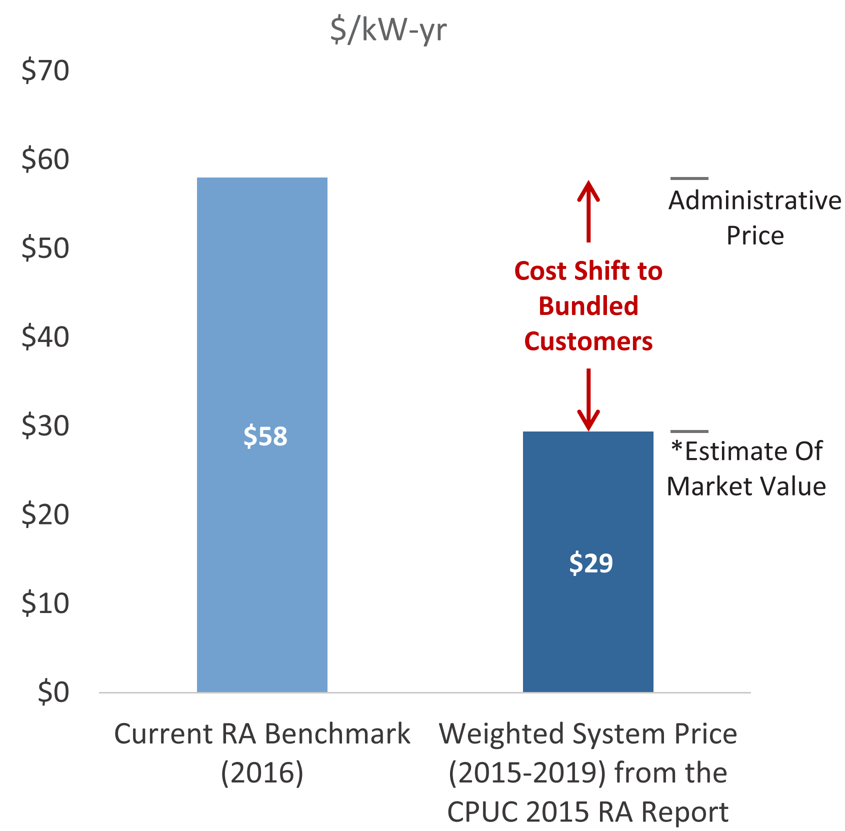
Fixing benchmarks alone will not solve the underlying flaws of PCIA methodology

Current PCIA Benchmarks Are Too High

Renewable Energy Credit (REC) Benchmark

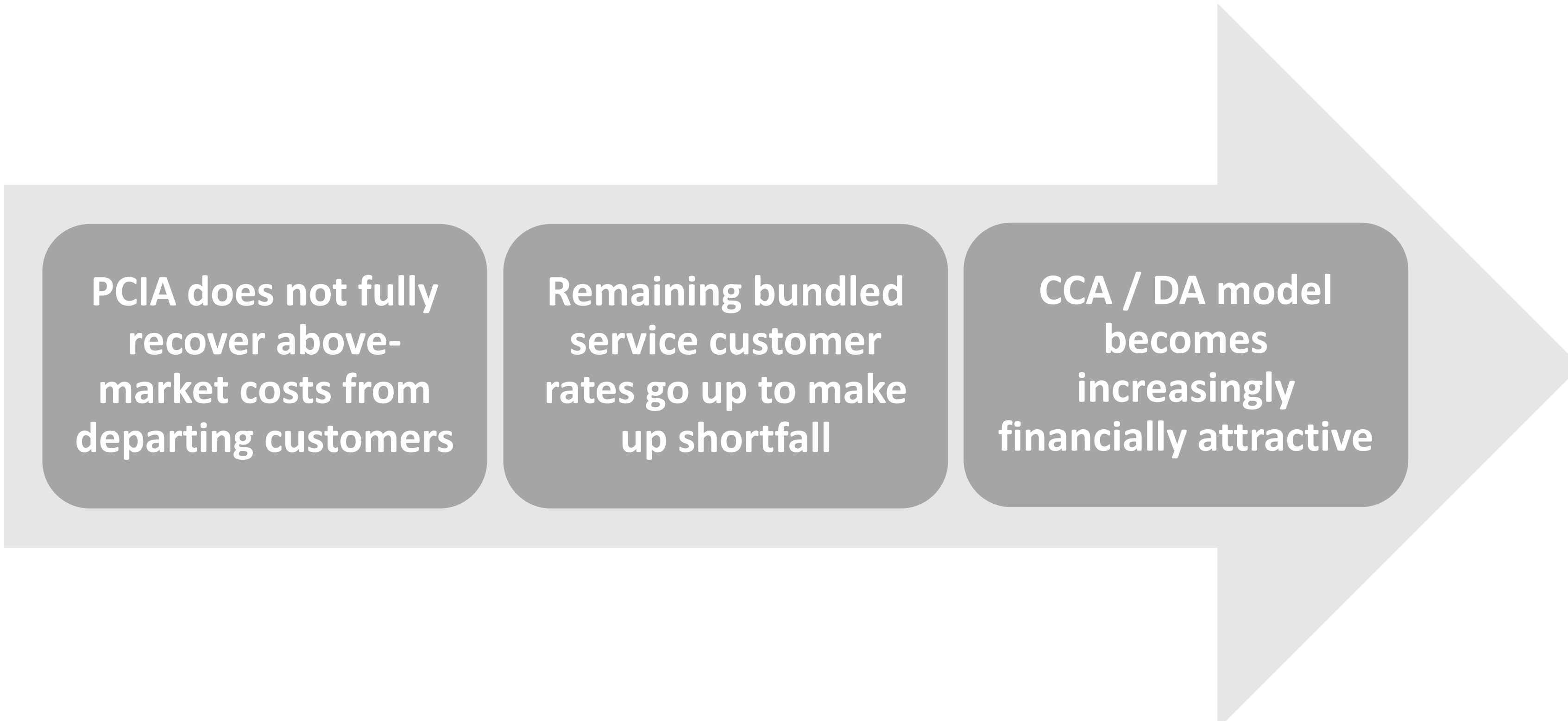


Capacity (RA) Benchmark



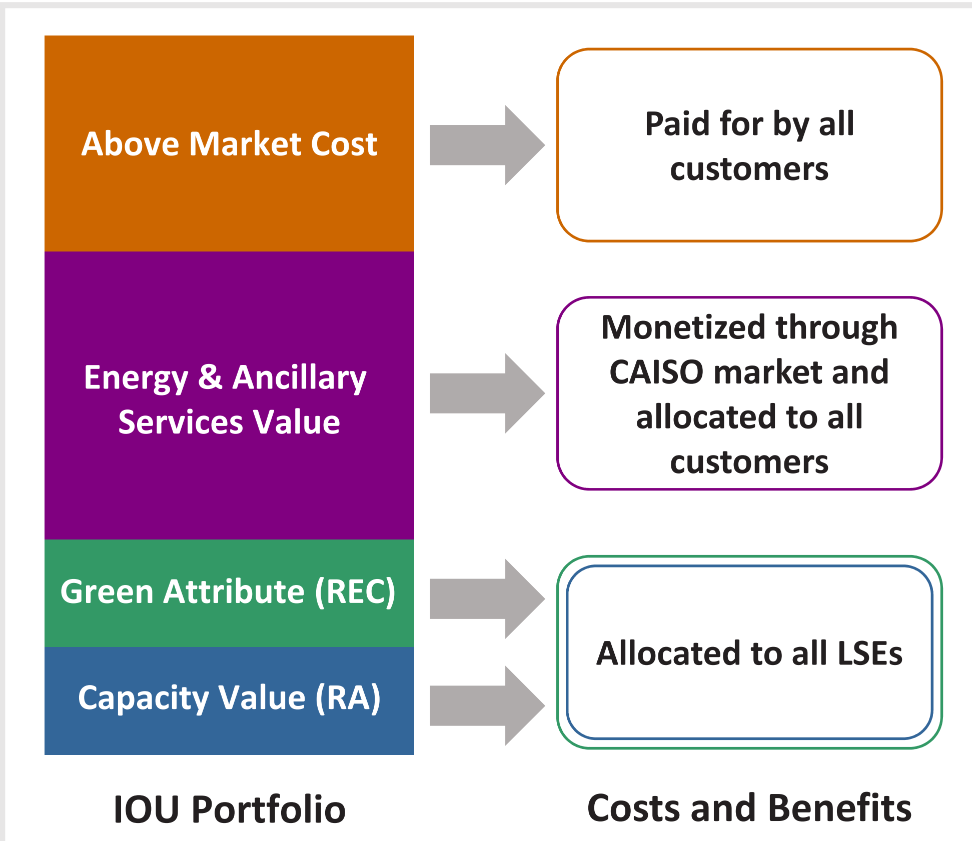
**Estimates shown are based on publicly available information only. Market benchmarks at these prices may still result in cost shifts to bundled customers since they represent transactions different from those the utility may be able to obtain when selling excess power and capacity.*

The PCIA Methodology Artificially Encourages Departure From Bundled Service And Is Unsustainable



As departing customers avoid their share of existing bundled service costs, the regulatory compact is undermined

Moving to a Portfolio Allocation Method Is Consistent with State Law and Equitable to All Customers



BENEFITS

- Eliminates administratively set benchmarks
- Clear, transparent, and effective
  - ☑ *No longer based on confidential data and inaccurate market estimates*
- Facilitates a true-up to reflect actual costs and value
- Meets statutory indifference requirement that all customers pay their share of costs

A Portfolio Allocation Method replaces inaccurate and contentious administrative prices with true market valuation and an allocation of attributes and is increasingly important with higher levels of load departure