

Provider of Last Resort (POLR) Workshop #1

Rulemaking 21-03-011

October 29, 2021



California Public
Utilities Commission

Workshop Preliminary Information

- Questions-and-Answers protocols:
 - Q-and-A sessions will be held at the end of each section.
 - Since all attendees are on mute, please use the “raise hand” function on the right side of your screen.
 - Alternatively, please use the Q-and-A messaging function on the right side of your screen – (not the “Chat” messaging function.)
- **Notice of Recording: This public meeting will be recorded and may be posted online for subsequent viewing.**

Agenda

Time	Topic	Presenters
9:00 - 9:15	Introduction and Opening Remarks	Commissioner Darcie L. Houck Senator Robert Hertzberger
9:15 - 10:15	Existing Processes	CPUC Energy Division
10:15 - 12:00	Current POLR requirements, gaps, and/or relevant issues	Various Parties
12:00 – 1:00	LUNCH	
1:00 – 2:00	Emerging Issues with Deregistration	CPUC Energy Division and Parties
2:00 – 3:00	Emerging Questions to Consider in POLR Phase I	CPUC Energy Division
3:00 – 3:05	Closing Remarks	Commissioner Darcie L. Houck



Introductory Remarks

Commissioner Darcie L. Houck, CPUC
Senator Robert Hertzberg, Majority Leader, District 41



Introduction

Key Requirements of SB520

- IOU shall be the Provider of Last Resort unless the CPUC designate another Load Serving Entity provide service
 - *(Provisions regarding the designation of alternate LSE as POLR to be addressed in Phase II)*
- POLR shall receive reasonable cost recovery for being designated and providing service as POLR
- To ensure continued achievement of California's Clean Energy goals, the CPUC shall:
 - Establish rules for all LSEs in preparation of large unplanned customer migrations
 - Recommend modification to regulations
- IOU shall provide billing and collection services to POLR
- The CPUC shall supervise and regulate the POLR to ensure customers are provided electric service without disruption



Energy Division Presentation on Existing Processes



CCA Registration and Deregistration

David Oliver – Retail Choice

CCA Certification and Registration Process

Certification

- City/JPA submits implementation plan to CPUC Energy Division according to schedule set in Resolution E-4907
- A city/JPA may withdraw its implementation plan without triggering regulatory requirements

Registration Phase I

- CCA files advice letter confirming it has implemented its financial security requirements with the IOU
- An execution of a Service Agreement with the IOU
- ED issues registration confirmation letter on May 1 of year prior to service date

Registration Phase II

- File annual demand forecast and be assigned an Annual RA obligation in April
Final load forecast is due Mid -August
- CCA must fulfill year ahead RA obligation; will only need to procure monthly RA once load is served, but still must file on schedule

CCA Launch

- CCA starts serving load to customers.
- CCA has full procurement compliance obligations starting launch month

Deregistration during each stage of registration

Certification

- A city may withdraw its implementation plan without triggering its implementation requirement

Registration Phase I

- A registered CCA may deregister without triggering regulatory requirements, as long as it does so before the demand forecast is filed.
- CCA must request its FSR is withdrawn

Registration Phase II

- Once a CCA has filed with RA and has RA obligations, it is technically obligated to pay for RA for the next year
- CCA's FSR is only returned once the RA obligation has been addressed

Serving Load

Deregistration process must formally be defined

Key Issue Areas in Phase I of POLR

LSE Deregistration Compliance Requirements

Establish the deregistration process to ensure procurement compliance requirements are met

Financial Security Requirements/ Reentry Fees

Review the current framework and determine whether any revisions are necessary

POLR Requirements to ensure continuity of service

To ensure procurement is met during a major market event or under conditions where load from CCA cannot be easily absorbed by POLR

Existing requirements for Non-IOU LSEs



Procurement Requirements

Kelsey Choing – Resource Adequacy

Christian Knierim – Renewables Portfolio Standard

James McGarry – Integrated Resource Planning

RPS Program Compliance Requirements

- Compliance with California's RPS program is determined by the amount of RPS-eligible energy procured for compliance within multi-year compliance periods by a load serving entity (LSE).
- **Procurement Quantity Requirement:** Set percentage of RPS-eligible procurement required in a compliance period based on retail sales (in megawatt-hours).
 - Example calculation for compliance period 2021-2024:

$$\begin{aligned} & \text{Megawatt – hours (MWh) of RPS procurement required} = \\ & (.3575 * 2021 \text{ retail sales in MWh}) + (.385 * 2022 \text{ retail sales in MWh}) + \\ & (.4125 * 2023 \text{ retail sales in MWh}) + (.44 * 2024 \text{ retail sales in MWh}) \end{aligned}$$

- **Long-Term Contracting Requirement:** LSEs must procure 65 percent of their Procurement Quantity Requirement from long-term contracts, defined as contracts with terms of 10 or more years.
- **Portfolio Balance Requirement:** LSEs must balance their portfolios by complying with minimum and maximum quantities of procurement meeting the criteria of the RPS Portfolio Content Categories (PCCs) in each compliance period.

For more information: <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-power-procurement/rps/rps-compliance-rules-and-process/60-percent-rps-procurement-rules>

RPS Compliance Reporting Obligations

- Retail sellers must file an Annual RPS Compliance Report, due to CPUC Energy Division on August 1 each year.
 - The Compliance Report details all RPS procurement for the applicable compliance period.
- Retail sellers must file a Final RPS Compliance Report, due 30 days after the issuance of the California Energy Commission's (CEC) RPS Procurement Verification Report for the applicable compliance period.
 - The issuance of the CEC's Verification Report is not tied to a set schedule and may be released several years after the compliance period ends.
- The CEC must verify retail sellers' RPS procurement claims for each compliance period before the Energy Division can issue a compliance determination.

For more information: <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-power-procurement/rps/rps-compliance-rules-and-process/rps-compliance-and-reporting>

Deregistering Retail Sellers

- If an LSE stops serving load and seeks to deregister, it must continue providing Annual and Final RPS Compliance Reports until a compliance determination has been made by CPUC for the period when retail sales load was served.
 - If CPUC determines the LSE is non-compliant with RPS requirements for the compliance period, penalties will be levied pursuant to the RPS Compliance and Enforcement program (D.14-12-023 and D.18-05-026).
- For deregistering LSEs returning customers back to the POLR, the POLR's load forecast will increase, thus increasing its RPS procurement requirement for the compliance period.
 - The POLR must meet its increased RPS obligation through the procurement of additional RPS-eligible energy.

IRP Planning Track

- Once per IRP cycle, CPUC-jurisdictional LSEs are required to file individual integrated resource plans with the Commission
- LSE IRP filings are the vehicle by which the CPUC and stakeholders gain insight into individual LSEs' plans for meeting their GHG targets while maintaining reliability through a mix of contracted and planned resources
- LSE plans are then aggregated, assessed for compliance with electric sector emissions and reliability targets, and used to develop a Proposed Preferred System Portfolio for use in planning and procurement
- If an LSE fails after it has been assigned a GHG target and does not file a plan then the resources needed to meet their portion of load will not be included in aggregation, increasing the likelihood that the aggregated portfolio will fall short of the state's emissions and reliability targets

IRP Procurement Track

- The Commission has issued two IRP procurement orders:
 - D.19-11-016: ordered 3,300 MW net qualifying capacity (NQC) reliability procurement, to come online between 2021-2023
 - D.21-06-035: ordered 11,500 MW NQC reliability procurement, to come online between 2023-2026:
 - 7,000 MW NQC of preferred resources
 - 2,500 MW NQC from zero-emissions generation, generation paired with storage, or demand response, by 2025 to replace Diablo Canyon Power Plant
 - 1,000 MW NQC of long duration storage resources for 2026
 - 1,000 MW NQC of firm zero-emitting resources for 2026
- Both decisions contain a “backstop procurement” mechanism whereby in the event of LSE failure, the incumbent IOU will procure on behalf of a failing LSE
 - D.21-06-035 also establishes penalties for LSEs that fail to meet the procurement requirements set in that decision

Resource Adequacy – Overview

Showing	Annual (Year-Ahead) Filed on or around October 31	Monthly (Month-Ahead) Filed 45 days prior to compliance month
System	LSE must demonstrate procurement of 90% of System RA obligation for May – September of the coming compliance year	LSE must demonstrate procurement of 100% of its monthly System RA obligation
Local	For its 3-year forward obligation, LSE must demonstrate procurement of <ul style="list-style-type: none"> • Years 1-2: 100% of Local RA obligation for each month • Year 3: 50% of Local RA obligation for each month 	LSE must demonstrate procurement of 100% of its monthly Local RA obligation
Flexible	LSE must demonstrate procurement of 90% of its Flexible RA obligation for each month of coming compliance year	LSE must demonstrate procurement of 100% of its monthly Flexible RA obligation

Resource Adequacy Timeline

- **Year Ahead Process**
 - **March:** Historical load data due
 - **April/May:** Initial Year Ahead load forecasts due (monthly peaks)
 - **July:** CEC adjusts LSE initial forecasts; CPUC sends initial allocations
 - **August:** Final Year Ahead load forecasts due (monthly peaks)
 - **September:** CEC adjusts LSE final forecasts; CPUC sends final allocations
 - **October:** Year Ahead compliance filing due
- **Month Ahead Process**
 - Month Ahead RA filing due 45 days before compliance month.
 - Month ahead forecast for the following month (with load migration adjustments due at the same time)
- The Initial Year Ahead load forecast is binding for RA requirements. (D.19-06-026)
- LSEs must participate in all aspects of the Year Ahead RA process in order to serve load the following year. (D.18-06-030)

“On Behalf Of” RA Procurement

- LSEs are given credit for these resources to show in their RA filings
 - Cost Allocation Mechanism (CAM)
 - IOU dispatchable demand response (DR) programs
 - CAISO backstop procurement (RMR & CPM)
- **Recent change – Central Procurement Entity (CPE)**
 - D.20-06-002 established PG&E and SCE as the CPE for local capacity in their respective territories, starting in 2023.
 - LSEs with local capacity under contract may bid that capacity into the CPE solicitations or hold it to show against their own system and flexible requirements.
 - The net capacity costs of CPE procurement will be allocated through CAM

RA Penalties

Deficiencies that are cured **within 5 business days** incur penalties of:

- \$5,000 for a deficiency of 10 MW or less
- \$10,000 for a deficiency of greater than 10 MW
- These amounts are doubled for subsequent deficiencies in a calendar year

Deficiencies that are cured **after 5 business days** incur penalties of:

- \$8.88/kW-month for May-October and \$4.44/kW-month for other months for system capacity
- \$4.25/kW-month for local capacity
- \$3.33/kW-month for flexible capacity

Recent change – Escalating point system (D.21-06-029)

- Applicable to system RA deficiencies beginning 2022
- LSEs accrue 1 point for each instance in non-summer months and 2 points for each instance in summer months (May – October).
- Points do not accrue if the deficiency:
 - Is less than 1% of the LSE's system RA requirement
 - Is a year-ahead deficiency
- Penalties may increase 2x –3x based on accrual of penalty points
- POLR shall not accrue points for a deficiency resulting from unexpected load returns for which a system RA waiver is granted.

Questions to Consider

- What issues need to be addressed to ensure each of the procurement obligations are met under the condition of an LSE failure and return of customers to POLR service?
 - RPS: Meeting RPS obligations at the end of the compliance period?
 - IRP: Procurement orders, including the tracks that have been completed?
 - RA: Including consideration of Energy Division's compliance and waiver process.
- CCAs and ESPs will likely have outstanding RA, RPS, and IRP obligations in the event of a failure, and a failure could occur at any point in the calendar year.
 - What actions should CCAs and ESPs be required to take now to ensure these obligations are either met or transferred to the POLR before deregistering with the CPUC?
 - What is a reasonable time window for these actions to occur?



Financial Security Requirements (FSR) and Reentry Fees

David Oliver – Retail Choice

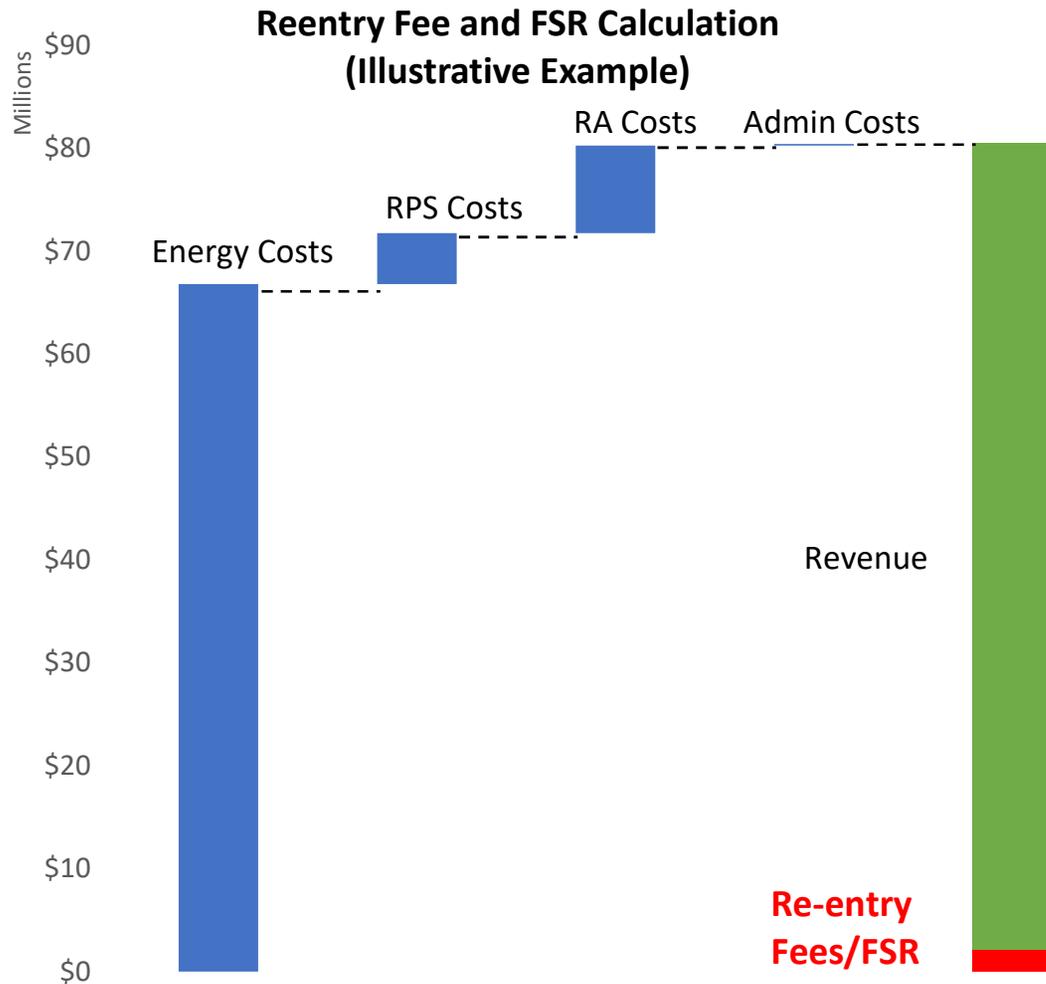
Background on Financial Requirements and Reentry Fees

Reentry Fees:

- Public Utilities Code 394.25(e): Any reentry fee imposed on that customer that the commission deems is necessary to avoid imposing costs on other customers of the electrical corporation shall be the obligation of the electric service provider or a community choice aggregator
 - Re-entry fees should recover six months of procurement costs
 - Re-entry fees will be binding and will not be tried up
 - LSEs should be given certainty as to what the re-entry fees would be.
 - Not expected to recover actual costs.

Financial Security Requirements:

- Public Utilities Code 394.25(e): An electric service provider or a community choice aggregator shall post a bond or demonstrate insurance sufficient to cover those reentry fees.
 - Since FSRs are meant to cover reentry fees to the extent that they can, the calculation methodology for FSRs is the same as for re-entry fees
 - However, since FSRs are only calculated twice a year there may still be residual reentry fees to be collected at the time of an involuntary mass return of customers to the POLR

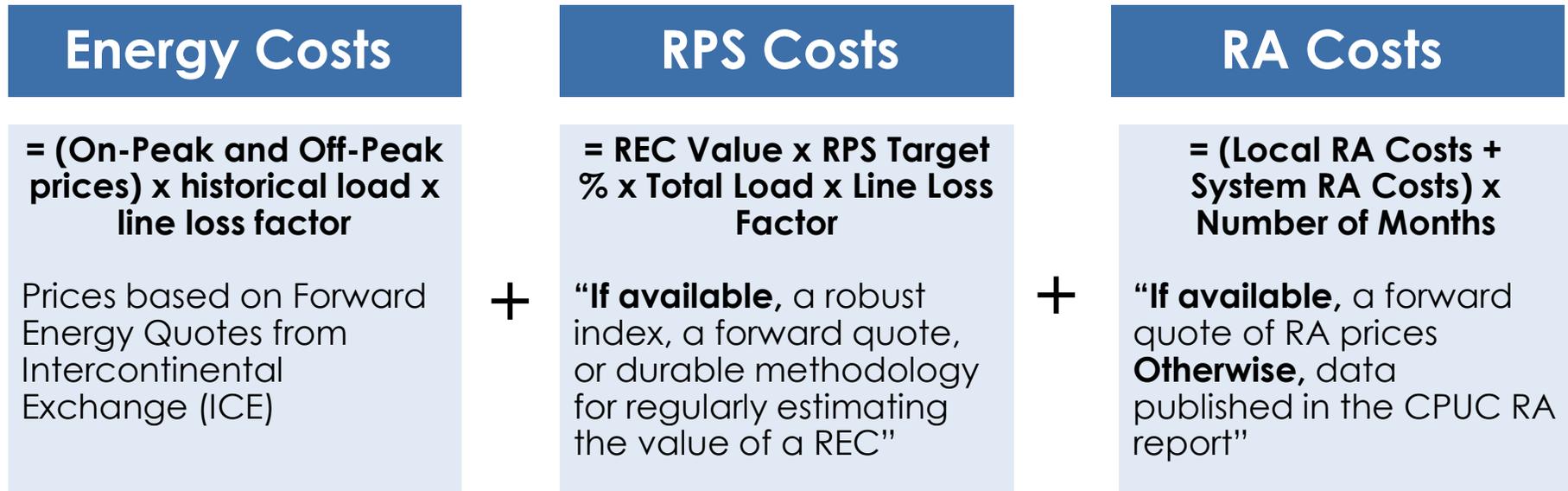


Basic Calculation

Re-entry Fee = (Incremental Procurement Costs + Administrative Costs) – Revenues

- Incremental Procurement Costs:
 - Energy Costs + RPS Costs + RA Costs
- Administrative Costs
 - Calculated on a per account basis
- Revenues
 - Based on the generation rate determined in ERRA
- Cannot be less than zero

Calculation of Incremental Procurement Costs



The IOUs have interpreted D.18-05-022 in different ways and use different sources to calculate the FSR amounts. The following sources should be used until the sources are updated in POLR:

PCIA RPS MPB

Most recent RA Report

Energy & RA prices can have significant impact on FSR amount

Illustrative Example of FSR Calculations with different prices	Baseline	+15% Forward Prices	RA PCIA MPB
On-Peak (Avg. \$/MWh)	\$75.00	\$86.25	\$75.00
Off-Peak (Avg. \$/Mwh)	\$45.83	\$52.71	\$45.83
Local RA (\$/kw-mo)	\$3.57	\$3.57	\$6.37
System RA	\$2.85	\$2.85	\$6.15

FSR Calculation:

Energy	\$63,890,775	\$73,474,391	\$66,760,200
RPS	\$4,936,525	\$4,936,525	\$4,936,525
RA	\$8,530,388	\$8,530,388	\$17,114,075
SUM: Incremental Procurement Costs	\$77,357,688	\$86,941,304	\$85,941,375
Admin Cost	\$156,250	\$156,250	\$156,250
Sum: Total Costs	\$77,513,938	\$87,097,554	\$86,097,625
Less: Total Revenues	\$77,830,000	\$77,830,000	\$77,830,000
Re-Entry Fees/FSR	\$147,000 (-\$316.062)	\$9,267,554	\$8,267,625



Energy Division Presentation on Existing Processes

Q&A



Panel Discussion of Current POLR Requirements, Gaps and/or Relevant Issues

Workshop #1: Provider of Last Resort (POLR)

October 29, 2021



Together, Building
a Better California



PG&E's Distribution Service Territory

Overview of PG&E's Service Territory

- As of the end of 2020, there were approximately:
 - 25 CPUC-jurisdictional load serving entities within PG&E's service territory with:
 - Total Customer Accounts: 5.57 M
 - PG&E Bundled Service Customers: 2.43 M
 - Departed Load Customers: 3.14 M

PG&E Bundled Service Needs

36,000 GWhs

Non-PG&E Service Needs

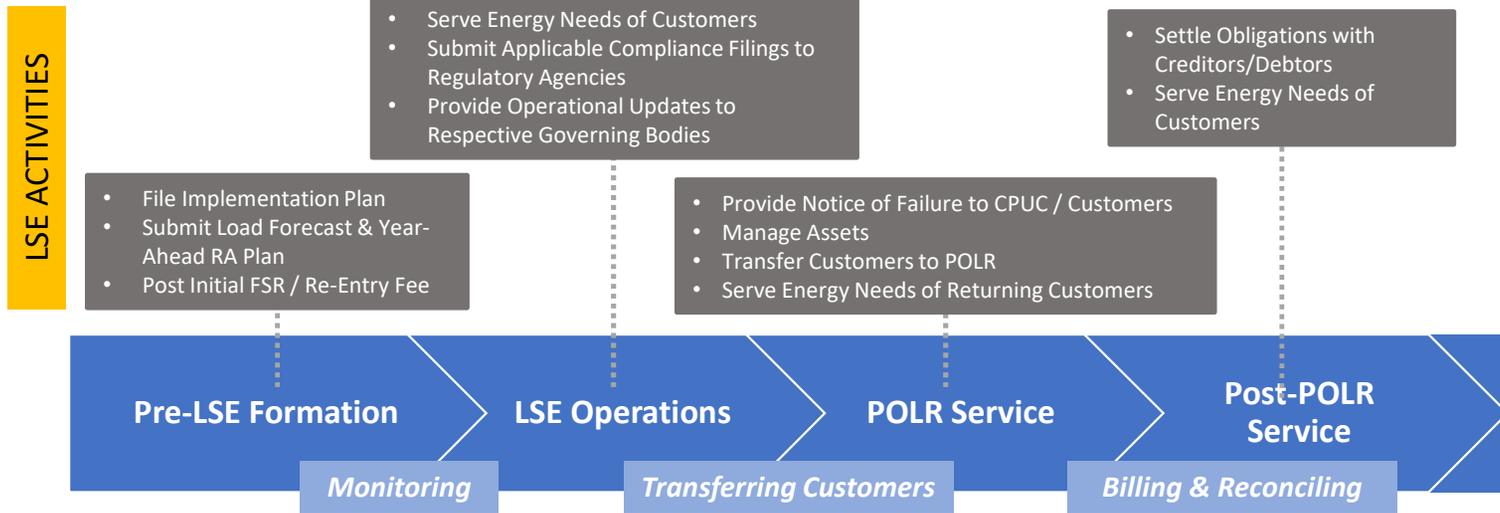
42,500 GWhs



Public – For discussion purposes only



Overview of LSE Formation / Operations / POLR Service



Working Well

- CCA registration process
- Clear designation on POLR entity
- Universal POLR service
- Limited POLR transition

Opportunities for Enhancements

- Responsibilities during implementation filing/launch period
- FSR calculation
- Mass systemic failure preparation
- Comprehensive cost recovery
- Minority load service provider as POLR
- Consumer protections
- Financial reporting/strength testing
- Compliance obligation ambiguity



PG&E's Guiding Principles for a Durable POLR Framework

PG&E believes it is important to set guiding principles in developing a durable POLR framework to: (1) ensure the continuity of reliable electric service, (2) maintain customer indifference, and (3) provide customer protection.

- **Clear Standards & Level Playing Field**
- **Broad & Equitable Cost Allocation**
- **Enhanced Consumer Protections**
- **Compliance Flexibility**



POLR OIR

Phase 1 – IOU POLR Service Workshop #1

Joshua Copenhaver,
Director, Portfolio Planning & Analysis

October 29, 2021

Basic Framework Today

POLR service

- IOU bundled procurement service provided to customers who voluntarily or involuntarily return to the IOU's procurement service

Customer Elected Return

- <6 months notice: TBS service -> Bundled Service
- With 6 months advance notice: Bundled Service

Mass Involuntary Return / LSE Election

- Bundled service + Re-entry Fee not recovered directly from failed LSE
- FSR and Re-entry fee are tariff based / formulaic approach

- Intended to protect customers from market exposure
- Bundled Service customers should not bear cost of LSE failure
- FSR intended to protect customers

FSR / Re-Entry Fees Methodology is Inadequate

Current approach to FSR and Re-Entry Fees is inadequate...

- FSR does not reflect current cost to serve customers
 - Currently methodology points to ED RA report and 2019 RA prices
- FSR / Re-Entry Fees do not account for customer share of PCIA / legacy contract cost
- Should re-entry fees account for actual RA obligations?

... ultimately leaving customers holding the bag.

- Recovering Re-Entry Fees, over and above FSR, from failed LSE is challenging, leaving customers exposed
- Bundled service customers shouldering PCIA costs

- FSR and Re-Entry Fee should reflect cost to serve
- Currently both LSE customers and Bundled Service customers are exposed to risk of LSE failure

Other POLR Considerations

Resource Adequacy

- POLR waiver available
- Timing of transition of obligations to POLR provider
- Potential conflicts between RA rules and timelines vs. orderly transition of customers
- Issues with deregistration of non-operational CCAs

RPS

- No RPS compliance waiver for POLR
- Large LSE failure could result in long-term deficiency and require multi-year catch up

IRP

- Transition and timing of IRP procurement obligations

CAISO Considerations

- LSE failure could cause systemic risk if transition to POLR service is not timely
- CRRs: Customer migration tracked in arrears / not prospectively

Appendix

Other Switching Rules

- With some adjustments, the other switching rules work continue to maintain indifference and prevent arbitrage / gaming
 - Six-month advance notice for returns to bundled portfolio service (BPS)
 - Transitional Bundled Service (TBS)
 - TBS can be used as a 60-day safe harbor and/or 6-month advance notice period
 - Safe Harbor
 - Absent a cap on the amount of load that can migrate to POLR service, safe harbor should remain 60 days
 - Minimum stay on BPS
 - However, CCA one-year minimum stay period should run from the date the customer returns to BPS, not TBS
 - Absent a cap on the amount of load that can migrate to POLR service, because of forward RA requirements customers should be required to remain on BPS for at least one year

SDG&E's territory



- SDG&E provides service to **3.6 million people through 1.4 million business and residential accounts** in 25 communities across San Diego and Southern Orange counties
- In 2020, SDG&E served over 14,000 GWh to bundled customers.
- In 2025, SDG&E forecasts serving less than 25% of the region's load due to load departure.



Current POLR Requirements



What Works

- Simplicity – clear POLR designation
- Non-emergency customer transitions

What Needs Improvement

- Definition of POLR role and requirements
- Defined cost recovery
- Risk associated with serving as POLR when minority LSE

Guiding Principles



Emergency Only	<ul style="list-style-type: none">• POLR service should be permitted only in limited circumstances.
Short-Term Bridge	<ul style="list-style-type: none">• POLR service is a temporary state to prepare a customer to transition to a long-term LSE service.• POLR should not be required to undertake front-stop procurement.
Risks and Costs	<ul style="list-style-type: none">• Risks associated with POLR service offering relative to load service offering should be mitigated appropriately.• Net costs of POLR service should be imposed on the appropriate customers and the process for cost recovery should be clear.
POLR Entity	<ul style="list-style-type: none">• The POLR framework must not pre-judge the Phase 2 question of whether the IOUs will continue in the POLR role in their respective distribution service territories.



Considerations in Refining the Existing POLR Framework



R.21-03-011
CPUC Staff Workshop
October 29, 2021

Overview

- A combination of regulatory mechanisms, including potential POLR design, may result in “hedging” CCA financial risk multiple times
- Requiring the POLR to meet state policy goals would duplicate LSE responsibilities
- Existing requirements for CCA expansion inhibit possible alternatives to POLR reliance
- Recent involuntary and voluntary customer returns offer the Commission and stakeholders the opportunity for a practical assessment of the POLR framework to inform solutions

Mechanisms Contemplated Will “Hedge” CCA Risk Multiple Times

The Commission has emphasized the importance of financial hedging for all LSEs

- Hedging has an explicit cost to customers
 - Call Option Premium – Price paid for the right to strike the option even if it never is never struck
 - Fixed Price Energy Contract Premium - Payment above expected average market prices to limit volatility
 - Tolling Agreement Premium - Assumption of market revenue risk in exchange for bidding control and capacity

The PCIA creates the risk of double hedging for CCA customers

- If power prices increase , the PCIA market price benchmarks increase and the PCIA declines; the PCIA reduction offsets some or most of a CCA's procurement cost increases
- If the same load is traditionally hedged, the PCIA effectively doubles the hedge
- The same dynamic does not hold for IOU bundled customers; as the PCIA declines, the “at market” portion of the bundled rate commensurately increases

The POLR framework could further increase hedging complexity and costs for CCAs

- The Financial Security Requirement and, if necessary, the Reentry Fee, implicitly “hedge” market risk to the IOU portfolio for CCA customers to shield bundled customers in the event of customer return at a cost to CCA customers
- Asking the POLR, further, to procure supply as insurance against customer return and charging these costs to CCAs would add yet another layer of “hedge”

POLR Design Could Place a Higher Cost on CCA Customers

Hedge Mechanism	CCA Customers	IOU Customers	Scope of Cost
Traditional market price hedge	✓	✓	“Premium” (See slide 2)
Power Charge Indifference Adjustment	✓	✓	Energy, Capacity, RPS
Financial Security Requirement	✓		Financing and Liquidity
POLR backstop procurement	TBD	TBD	Energy, Capacity, RPS

POLR service design, including limiting POLR procurement and service to the short term, is key in avoiding unnecessary costs

Requiring the POLR to Meet State Policy Goals Would Duplicate LSE Roles

- LSEs should be responsible for ensuring that the resources on the grid meet reliability and state policy goals
 - RA, RPS, and IRP processes should effectively evaluate immediate and long-term grid needs
 - Progress in meeting RA, RPS, and IRP needs should inform the Commission on the efficacy of such plans
- By ensuring that LSEs are viable and are meeting reliability and policy goals, the Commission will not need the POLR to perform such roles
 - POLR should therefore be limited to a short duration to procure energy and short-term RA for those customers

Existing Rules Inhibit Solutions That Might Reduce the Need for POLR

- Under some circumstances, incorporating the customer load from an otherwise “returning” CCA into an existing CCA through expansion may prevent the customer return
- The current rules would not accommodate a timely CCA-to-CCA load migration
 - Resolution E-4907 requires a minimum of one year from plan implementation to service of load for new CCAs and CCAs seeking to expand the scope of their service
 - One year may be too long in involuntary or more urgent voluntary returns
- Other details for a more abbreviated expansion process would need definition

Recent Events Must Be Considered in Refining the POLR Framework

- The Western Community Energy involuntary customer return and the anticipated voluntary return of Baldwin Park customers offer an opportunity to examine POLR framework in action
- CalCCA and its members are evaluating measures that could be deployed within the CCA community to reduce the likelihood of future customer returns



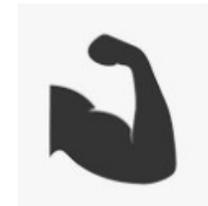
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CPUC POLR Workshop
R.21-03-011

Who We Are - AReM

- 3 of the 4 largest Electric Service Providers
 - Calpine Solutions
 - Constellation New Energy
 - Direct Energy
- ~15 TWh of load, growing under SB 237
 - 3.3+ TWh/year of long-term RPS contracts
- Trade association pronounced “ARM”



Who We Are - DACCC

- Direct Access Customer Coalition (DACCC) is the leading voice for Direct Access customers
 - Educational, governmental, commercial and industrial customer members
- DACCC members are served by ESPs as well as other LSEs

ESP Risk Management and POLR

- AReM member business models centered around managing risk
 - Hedging and trading
 - Active management of RPS and RA positions
 - Some integrated generation and retail
- AReM members are highly capitalized to literally weather storms

"NRG is committed to helping Texans recover from the impacts of Winter Storm Uri and working with our stakeholders on lasting solutions to improve resilience in the ERCOT market," said Mauricio Gutierrez, NRG President and Chief Executive Officer. "We remain focused on advancing our customer-centric strategy and strengthening our platform."

Customer Transitions Under ESPs

- With no set service territory, easy to transfer service to an alternate provider without POLR
- Just Energy, AmericanPowerNet, and Tiger Natural Gas ceased providing DA service as of January 2021 (~600 GWh/yr)
 - No POLR needed
 - Easy for customers to switch to other competitive providers
- POLR should be seen as a safe harbor only; customers should be allowed to choose any eligible supplier

POLR Aspects Working Well

- General cost allocation and recovery
 - Covered in GRC and ERRA proceedings
 - Re-entry fee structure and calculation
- Procurement requirements
 - RA/RPS/IRP guidance sufficient for procuring aggregate resources needed
 - Could be timing issues based on when customers move to POLR

POLR Aspects Working Well

- ESP Financial Security and Re-entry Requirements
 - Established by D.11-12-018 and D.13-01-021
 - Residential and small commercial customers:
 - Incremental procurement cost exposure (power, RA, and RPS) + admin costs
 - Large C&I customers bear their own risks
 - No cost shift to bundled customers due to Transitional Bundled Service tariff

POLR In Texas Competitive Markets

- Customers of failing providers often absorbed by other retailers before POLR is called. No default provider.
- Two types: voluntary (VREP) and non-voluntary (LSPs, typically largest providers)
 - VREPs may offer by customer class and service area
 - Allocated based on pro-rata offer (VREP) or market share (LSP)
- POLR pricing
 - VREP must be “market based”, but no defined calculation
 - Formulaic LSP pricing defined by PUCT
- PUCT reviews financial strength for VREPs



Thank you!

*Scott Olson, Director, Western US Regulatory Affairs,
NRG*

scott.olson@nrg.com



Mike Campbell

Program Manager

Electricity Pricing & Customer Programs



California ISO

CAISO Coordination on Provider of Last Resort

R.21-03-011 - Order Instituting Rulemaking to Implement Senate Bill 520 and Address Other Matters Related to Provider of Last Resort

Delphine Hou

Director, California Regulatory Affairs

October 29, 2021

Coordination with CAISO Processes

- CAISO processes can take several months so please notify the CAISO as soon as possible
 - Even more urgent under stressed conditions such as bankruptcies
- Main CAISO processes affected by load migration are resource adequacy and congestion revenue rights
- The CAISO has specific tariff provisions to address Direct Access customers (tariff section 4.5.6) but also a more generic load migration process

Coordination with the CAISO – For Migrating Load

- **Scheduling Coordinator (SC)** – First point of contact. SC for the migrating load should immediately notify: SCRequests@caiso.com
- **Resource Adequacy** – The CAISO will work with the CPUC and CEC to ensure the resource adequacy requirement is reassigned to the Provider of Last Resort (POLR). Resource adequacy showings are due 45 days before the month.
 - POLR is responsible for showing sufficient resources to meet increased resource adequacy requirement.
 - The CAISO does not have any contractual relationship with suppliers.
 - CAISO backstop authority **should not** be relied upon to cure any resource adequacy deficiencies due to load migration.

Coordination with the CAISO – For Provider of Last Resort (POLR)

- **Congestion revenue rights (CRRs)** – responsibility of the POLR to reach out to the CAISO at: CRRdata@caiso.com
 - CRR process requires approximately 2 months
 - For example:
 - If load migration occurs in January, the POLR typically notifies the CAISO in February.
 - Per CAISO processes, CRR load migration will take affect for the following month in March.



Panel Discussion of Current POLR Requirements, Gaps and/or Relevant Issues

Q&A



LUNCH

The Workshop will resume at 1:00



Presentations on Emerging Issues with Deregistration



CPUC Perspectives on Recent CCA Deregistration Activity

Dina Mackin– Retail Choice

Recent CCA Deregistration

Several CCAs deregistered before serving load:

- Santa Paula, Montebello, Hanford, Commerce
 - Deregistration process has not been formalized but CPUC has begun to establish procurement compliance requirements based on the stage of registration

Western Community Energy (WCE)

- Organized as a Joint Power Authority
- Filed for Bankruptcy May 24, 2021, returned customers to SCE July 10, 2021¹

Baldwin Park (BPROUD) (*anticipated*)

- Organized as a City Enterprise
- On October 6, 2021 the Baldwin Park City Council voted to deregister their CCA in a public meeting
- Intends to return customers to SCE February 2022²

¹ https://www.cpuc.ca.gov/-/media/cpuc-website/transparency/voting-meetings/presentations-archive/2021/6-24-2021_commeeting.pdf?sc_lang=en&hash=12BFCFE066A7BF61209A4AE6F093CB2D

² http://baldwinpark.granicus.com/GeneratedAgendaViewer.php?view_id=10&clip_id=2730

Observations

- Financial challenges can compound quickly with following factors:
 - Tight resource adequacy market
 - Customer arrearages
 - Default on procurement contracts
 - Exposure in a volatile energy market, which can accelerate financial insolvency
 - Rate increases substantially higher than IOU to recover deficits
- Insolvency leads to rapid involuntary return and potentially high reentry fees
- Deregistration can be managed better with advanced warning
- Bridge loans with temporary rate increases to recover costs.
 - A planned return date can help mitigate reentry fees
- Actual procurement costs for involuntarily returned customers are challenging to estimate but may be significantly higher than the reentry fees
- Recent examples of CCA's deregistering have been small enough that they could be absorbed by SCE without much additional procurement

Western Community Energy

October 29, 2021

Revenue/Financial

- Determined WCE had revenue issues
- Determined WCE needed to file bankruptcy
- A CCA about to declare bankruptcy must keep it confidential before the declaration
-and, we can't talk about bankruptcy details now

WCE Background

- 115,000 customers
- Half of the load is residential, half is non-residential
- Large industrial users
- Water Districts and Public Agencies were also customers
- 40% of the customers are CARE/FARA
- 15% are NEM
- Six cities, representing about 400,000 total population
- Unpaid accounts increased from \$500K to \$6M in a matter of months

Voluntary vs. Involuntary Transfer

- Concerned with voluntary vs. involuntary transfer of customers and the financial impacts
 - Started initial discussions about customer transfer details with SCE
 - Determined involuntary transfer was the process for customer transition for WCE's situation
- WCE and SCE concerned about impacts on customer rates and customer service during the transition
 - Many WCE customers did not realize they were WCE customers and not full service SCE customers

Customer Transfers

- Prior to bankruptcy, WCE customers were penalized if they transferred from WCE to SCE
- Penalty was in the use of transitional bundled service rate vs normal bundled service rates (“penalty box rates”)
- We were concerned that a transfer from WCE to SCE would trigger the higher rates
- We were able to work with SCE and CPUC to identify a pathway forward so that customers paid the same rates as other SCE customers
- Customer transition treated as an involuntary transfer

Coordination with SCE

- SCE was wonderful in the customer transition process
 - They quickly determined it would be best to handle the transition with a few days of initial testing
 - Then transfer of entire customer base over several more days
 - Turned out to be easiest for the customers, and customer service staff to explain to customers or anyone else.

WCE Customer Outreach

- Contacted our large industrial customers and utility customers directly
- Press releases, social media, and our website to communicate with residential customers
- Coordinated messaging with SCE
- WCE Staff attended City Council meetings to provide updates on the transition process

Re-Entry Fees

- WCE is liable for payment of re-entry fees
- Re-entry fees are additional costs incurred by SCE as customers are returned

Customer Transition

- Had customer billing exceptions that existed before transition
 - Spent 120 days working on all of them
 - Exacerbated by the earlier implementation of the new SCE customer service/billing system
 - SCE and WCE billing related staff held prescheduled meeting 1 to 5 times each week to discuss issues during the transition process
- NEM customers are an issue and represent about 14% of WCE residential customers
 - Need to create a process where these renewable resources are paid for to customers in their entirety

Current Challenges

- Significant confusion among customers about the relationship between WCE and SCE
- Some customers have asked to come back to WCE
- Other customers were not even aware they were in WCE
- Customers are unsure about their liability for costs incurred while WCE customers
- SCE Billing system transition has also created confusion among customers

Customer Experience

- Have had issues where customers have contacted WCE about SCE billing questions
- We have directed them back to SCE
- Still some confusion about who is responsible for what
- We have worked closely with SCE to share information about customer service issues

Bottom Line

- Difficult process
- Customer return process has been both smooth and challenging at times
- Much of the difficulty derives from customers not knowing they were members of a CCA
- Transition occurred in June of 2021, challenges remain
- But, everyone's power stayed on and nobody lost service



POLR OIR

Phase 1 – IOU POLR

Workshop #1

Michael B. Williams
Principal Manager, Business Customer Division Operations

October 29, 2021

Background / Questions Presented

- **Purpose of panel:**
 - To discuss experience with the mass involuntary return process involving the former customers of Western Community Energy (WCE).
- **Prepared Question for panel:**
 - What lessons have we learned from recent CCA de-registrations, including those that result from the WCE bankruptcy?
 - How is the COVID-19 pandemic and current energy resource supply availability impacting CCA financial stability?

WCE and Baldwin Park CCA De-Registrations

WCE	Baldwin Park's CCA (BPROUD)
Joint Powers Authority	City Agency
Started serving load: April 2020	Started serving load: October 2020
Entered Ch. 9 Bankruptcy 5/24/2021	Contacted SCE in Aug 2021 to discuss program cessation; Oct 6 – City leaders vote to stop CCA
<ul style="list-style-type: none"> Continued to seek reorganization until it could no longer operate; Gave SCE five days advance notice of the mass involuntary return of its customers 	<ul style="list-style-type: none"> Continuing to operate its CCA program while planning its market exit with SCE; Timing its exit to mitigate incremental cost exposure Gave SCE more than 3 months advance notice of the mass involuntary return of its customers
All customer service accounts were switched to SCE's BPS on 6/15/2021 (off cycle)	SCE plans to switch BPROUD customers to BPS on their regularly scheduled meter read dates starting in Feb 2022, mitigating bill issues
Re-Entry Fees calculated during high-priced summer months	Re-Entry Fees calculated well in advance of the mass involuntary return
Substantial effort required of SCE personnel to administer the mass involuntary return	Expect less strain on administrative resources because of the planned exit

SCE Key Lessons Learned

1. Unplanned exits will occur during times of market stress / high prices
 - The FSR needs to be robust enough to be reasonably effective in catastrophic failures
 - Advanced notice to the POLR of a load-serving entity (LSE) exit is the most effective way to mitigate incremental costs
 - Should CPUC monitor financial health of other LSEs as another mitigation measure?
2. An LSE that sets rates based on SCE's rates may not meet its revenue requirements
 - SCE's costs are recovered over a broad customer base, and may not suffice to cover the costs of service for another LSE
3. Power purchase agreements (PPAs) can be terminated in bankruptcy, leaving the LSE unhedged and unable to meet compliance needs
 - Reorganizing can be challenging in bankruptcy for this reason
 - LSE needs to act decisively to address liquidity issues (i.e., raise capital and/or rates)

SCE Key Lessons Learned, cont'd

4. A failing LSE should seek to return customers to POLR service expeditiously, otherwise it could result in increased risk
 - May need a Load Transfer Agreement with the POLR and CAISO to transfer load
 - Otherwise, its Scheduling Coordinator may be responsible for scheduling the load and/or all customers may bear costs of keeping the power flowing upon the LSE's exit
5. Hope a catastrophic failure does not occur during a major system re-platform like SCE's CSR; but plan for it
 - Sudden reversion was not a fully tested system function
 - WCE customers were impacted by system defects resulting in program enrollment and preference errors (e.g., CARE/FERA, SDP, MBL)
 - NEM customers were returned with credits due from the CCA
 - Bill Blocks were necessary to make corrections resulting in billing delays / customer confusion
 - Switching accounts outside of the regular meter read date, triggers off-cycle bills / customer confusion; perception of under- or over- charging
6. Coordinated customer communications are critical



Presentations on Emerging Issues with Deregistration

Q&A



Emerging Questions for Consideration in POLR Phase I

Dina Mackin– Retail Choice

Key Issue Areas in Phase I of POLR

Seeking party proposals to present at Workshop 2 on the following topics:

LSE Deregistration Compliance Requirements

Establish the deregistration process to ensure procurement compliance requirements are met

Financial Security Requirements/ Reentry Fees

Review the current framework and determine whether any revisions are necessary

POLR Requirements to ensure continuity of service

To ensure procurement is met during a major market event or under conditions where load from CCA cannot be easily absorbed by POLR

Existing requirements for Non-IOU LSEs

What changes, if any, should be made to the current POLR framework to implement the requirements of Section 387(b), which confirmed that the provider of last resort shall be the electrical corporation in its service territory unless provided otherwise pursuant to Section 387(c)?

Existing Framework Issues

Deregistration Compliance Requirements

- In the event of an involuntary return of customers, what are the responsibilities of the POLR and the deregistering LSE with respect to CPUC regulatory requirements (e.g., RA, IRP, RPS)? Are any clarifications needed to these requirements?
- What needs to be included in the checklist to specify the process for deregistration of a CCA?

FSR/Reentry Fees Calculation and Recovery

- In light of the impacts caused by updated inputs, what changes, if any, should be made to the FSR calculation methodology and/or reentry fees?
- Are there any other costs the POLR would need to recover aside from reentry fees?

POLR Requirements for Continuity of Service

PROBLEM STATEMENT:

LSEs playing an increasingly crucial role in maintaining system reliability. While they may be able to absorb individual or small CCA failures, the failure of larger LSEs, or the possibility of multiple concurrent LSE failures due to a major market shortage, may potentially contribute to a reliability crisis that would be challenging for the POLR to absorb.

Seeking Party Proposals:

- What types of mechanisms or requirements for the POLR should be considered to ensure that the POLR has access to procurement resources in the event of LSE failure?
- To fulfill POLR service duties, can the POLR rely on purchasing energy on the CAISO market or should the POLR be ordered to do some advance procurement/hedging?

Costs of Serving As POLR

PROBLEM STATEMENT:

If the POLR must do advance procurement or a significant level of procurement during a major market event, the POLR may incur costs that exceed the capacity of the reentry fees to cover.

Seeking Party Proposals:

Do the electric IOUs, as the statutory designated POLRs, have additional costs that should be shared and recovered from all ratepayers in their respective territories? If so, what are these costs? If not, why not?

Notice and Monitoring of Load-Serving Entity (LSE) Financial Health

PROBLEM STATEMENT:

The CPUC has little insight into CCA operations. While the CCAs do have public meetings and disclosures, there are no requirements to make the CPUC or the IOU informed of the financial or energy positions of the CCAs (apart from the RA filings), potentially until it is too late. While CCAs have rate-making authority, the CPUC is ultimately responsible for making sure that the ratepayers are protected.

Seeking Party Proposals:

How much advance notice should the CPUC receive from an LSE about their financial health if it is causing them to fall short of meeting their procurement obligations?

Should the CPUC monitor each LSE's financial health on a continuous basis?



Emerging Questions for Consideration in POLR Phase I

Q&A



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