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California Customer Choice Staff
California Public Utilities Commission
Submitted via email

Informal Comments of Southern California Edison Company, Pacific Gas & Electric Company and San Diego Gas & Electric Company on the October 31, 2017 California Public Utilities Commission (CPUC) California Customer Choice Project Workshop

Dear California Customer Choice Staff:

Introduction

Southern California Edison Company (SCE) respectfully submits these comments in response to the October 31, 2017 CPUC California Choice Project Workshop on behalf of itself, Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company (SDG&E) (collectively, the Joint Utilities). California's electric industry is in the midst of an exciting transformation as technological innovation, policy leadership, and sustainability awareness position the State to be a clear climate change leader. California is attempting to accomplish this transformation while continuing to provide affordable and reliable power to all customers.

Summary

In Summary, the IOUs recommend:

- **The Commission and Legislature should act quickly.** With the pace of bottom-up change, California's customer choice outcome may be decided by default while a preferred customer choice model is deliberated.
- **The Commission and Legislature should consider the tradeoffs between greenhouse gas (GHG) reduction goals and choice.** Policymakers and stakeholders should be mindful of how such customer choice will affect California's goal of reducing carbon emissions by 40% below 1990 levels by 2030 and 80% below 1990 levels by 2050 - and the necessary investments that will be required to achieve that goal.

- **<u>The Commission should undertake essential rate reform.</u>** Rate reform is necessary to address the challenges associated with current cost shifts (e.g., PCIA and NEM) and enable equitable allocation of going-forward policy investments. Any rate reform should ensure fair rates are paid by all customers, align with grid needs, and be customer-centric by aligning customer rates with the cost to serve customers.

More details are provided below.

General Comments

California has a demonstrated track record of success and is a recognized world leader in developing clean energy resources and significantly reducing electricity demand through aggressive energy efficiency measures. In addition, existing long-term, GHG-free procurement contract commitments by the Joint Utilities will result in close to 50% of the Joint Utilities' customer electric demand being served by renewable energy in the near future.[1] These noteworthy successes have been achieved through significant contracting and funding efforts by the Joint Utilities, consistent with legislatively-established policies and through Commission regulation, all informed by extensive public input. As the State considers how to potentially facilitate more customer choice, all policymakers and stakeholders should be mindful of how such customer choice will affect California's goal of reducing carbon emissions by 80% below 1990 levels by 2050, and the continued provision of reliable and affordable electricity to all customers.

Choice of supplier, including Community Choice Aggregation (CCA), has potential to expand local influence over environmental policy and renewable resources. The increasing pace and breadth of CCA growth in California in the short-term has profound long-term implications for State environmental policy regarding GHG emission reduction goals as additional long-term

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[1] CPUC. 2017 Annual Report: Renewables Portfolio Standard. The IOUs forecast that they will meet or exceed their 2020 RPS compliance period requirements, and meet the 2030 50% RPS requirement by 2020. Source: http://www.cpuc.ca.gov/uploadedFiles/CPUC_Website/Content/Utilities_and_Industries/Energy/Reports_and_White_Papers/Nov%202017%20-%20RPS%20Annual%20Report.pdf

contracts will be needed to facilitate the low carbon economy envisioned by the State. Increasing customer choice may impact the continued growth of renewable energy, in-State generation and procurement planning, grid reliability, and various other issues. Without the right rules, structures and oversight, de-centralized self-determination could lead to inconsistent implementation of State policy guiding energy planning in California, and potentially jeopardize reliability.

The Joint Utilities support customer choice, both choice of supplier and choice of technology. However, the Joint Utilities' support of customer choice is conditioned on the avoidance of cost shifting   in either direction   of costs incurred on behalf of customers who subsequently receive procurement service from a provider other than their Investor Owned Utility (IOU), such as a CCA or Energy Service Provider (ESP). The Commission and Legislature must also not lose sight of the unfortunate current byproduct of the substantial IOU load departure resulting from the growth of CCAs, in addition to existing Direct Access (DA) providers and increases in customer self-generation: shifting of historical procurement costs to the Joint Utilities' remaining retail customers. This shifting of costs   while clearly prohibited by statute and contrary to basic premises of fairness   is currently taking place and will continue to grow if not addressed promptly by the Commission and/or Legislature. It is illegal and inappropriate for any customer choice model to shift costs to the customers who do not   or cannot   exercise that choice.

Comments on "Key Questions" Identified by the California Customer Choice Project Staff

The California Customer Choice Project has identified three principles of affordability, de-carbonization and reliability and eight key questions to be considered in the scope of its white paper. Following the October 31 workshop, the California Customer Choice staff asked stakeholders to recommend any additional questions that the Project should consider. As discussed above, any customer choice model for the State must comply with the statutory requirement that utility bundled service customers must not experience an increase in costs when local governments decide to form a CCA, and likewise, departing load customers must not be allocated any costs of energy supply procurement that was not committed on their behalf.[2] Therefore, the Joint Utilities recommend an additional key question to be considered by the project: ***How does this choice model ensure that all customers (including IOU, CCA and ESP customers) are protected from cost shifts?***

In addition to the working paper key questions, the Project should quickly focus on the timeframes that must be accommodated to develop guidelines, rules, and policies to ensure customer choice achieves the identified principles of affordability, de-carbonization, and reliability. The Project has just begun gathering input to guide the evolution of the regulatory framework and many workshop participants referenced the significant time required to implement choice models. Yet, Californians are implementing their right to choose every day. Commissioner Picker began the workshop stating that California could see 40 percent of customers served by CCAs by the end of 2017. With the pace of bottom-up change, the Project faces the very real risk that the actual customer choice solution will have been decided long before the ideal customer choice model is determined.

The Joint Utilities respectfully provide the following comments on each of the proposed scoping questions for the Project staff to consider:

Question 1: How does this choice model ensure consumer protections?

While no single choice model has been suggested, any customer choice model adopted by the State must ensure adequate consumer protections for all customers regardless of their choice of supply or technology. Such protections at a minimum must include sufficient safeguards to ensure compliance with the statutory "customer indifference principle" through a thorough reform to the Commission's departing load ratemaking methodology (often referred to as the Power Charge Indifference Adjustment, or PCIA), as well as robust financial security/bond requirements for all existing and new Load-Serving Entities (LSEs). In addition, consumer

[2] California Public Utilities Code Sections 365.2 and 366.3

protection programs for low-income customers, and meeting the needs of disadvantaged communities (DACs) are responsibilities that must be shared by all.

To sustain customer technology choice, California must also consider new rate and compensation structures that enable customer technology adoption. The state's rate architecture needs to continue to evolve and ultimately transition to a system where customers pay for the network separately from paying for the electrons. Current rate design, and particularly residential rate design, is lagging as clean energy policy, technology and supply provider choice progress. Specifically, relying almost exclusively on bundled volumetric rates, even if differentiated by time of use, is not sustainable. Rates should be designed to charge customers equitably, and based fundamentally on the cost to serve them.

Question 2: How does this choice model support development and incorporation of innovations driven by customer demand?

The Joint Utilities believe that there are tremendous untapped opportunities to influence customer demand in a manner that will support a greener and more resilient grid (*i.e.,* behind-the-meter solutions). In other words, the Joint Utilities believe it is beneficial to flatten the "duck curve" by leveraging smart technology, rate structures that provide more accurate price signals, and competitive third-party forces to actively influence how customers use electricity, without adversely impacting those customers' energy experience. For example, the Joint Utilities are currently working with third parties through pilots and Energy Management and Technology (EM&T) programs to incorporate new innovations and plan to continue this collaborative approach to best serve the needs of customers while ensuring the reliability of the grid.

Other behind-the-meter customer choice options include solar PV, on-premises energy storage, plug-in electric vehicles, and efficient electrification, all of which can complement or be integrated into competitive smart DSM services. Further innovations driven by customer demand will likely manifest themselves in the marketplace regardless of which customer choice model is selected. In short, a large array of behind-the-meter customer choice opportunities exist that can be beneficial for customers and significantly contribute to a cleaner, affordable and more resilient electric grid.

Question 3: Does this choice model ensure universal electric service?

Although certain statutory rules obligate the CCAs (but not ESPs) to offer service to broad groups of customers, the Joint Utilities remain the Providers of Last Resort (POLRs) should any customer choose to return to bundled service, or should any CCA or ESP decide to cease service either to a single customer or all of its customers, and also have a universal obligation to serve all customers. The State must carefully consider the implications of this regulatory framework in light of the forecast potential departure of up to 85% of the Joint Utilities' retail load for "customer choice" options in the near future.[3] POLR structures, risk mitigation approaches, and compensation should be researched and evaluated. For example, several states, such as Connecticut and New Jersey, have implemented slice of load auctions or other similar tools to address the inherent risks of providing POLR service. In addition, it may be useful to draw from experiences in states that have relied on a quasi-governmental Special Purpose Entity or a centralized process with utility wires-charge cost recovery for procurement of resources needed for reliability (*e.g.*, CT, MA, NJ). Most importantly, the Joint Utilities agree with points made by The Utility Reform Network (TURN), Independent Energy Producers Association (IEP), and the Coalition of California Utility Employees during the October 31, 2017 California Customer Choice Project workshop the State cannot allow a repeat of the prior attempt at deregulation, as it can put customers, reliability, and State policy objectives at risk.

Question 4: How does the choice model leverage investment necessary to finance the evolution of the electric grid?

The model for choice in California should focus on the ability to attract and leverage the necessary financing to enable the evolution of an electric grid that is decarbonized. The choice

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[3] May 2017 CPUC Staff White Paper titled *Customer and Retail Choice, the Role of the Utility, and an Evolving Regulatory Framework* at p. 3. Available at http://www.cpuc.ca.gov/uploadedFiles/CPUC Public Website/Content/News Room/News and Updates/Retail%20Choice%20White%20Paper%205%208%2017.pdf

models discussed during the benchmarking panel operate in regulatory environments with less stringent renewables portfolio standard (RPS) compliance criteria and lower renewable penetration levels than California. None have had to face the complexity of simultaneously pursuing California's ambitious clean energy goals and implementing customer choice in the same way. If California is going to meet its carbon reduction goals, large amounts of capital will be needed to finance this transition and continue to invest in a safe, clean and reliable grid. These necessary investments will not be supportable if customer choice means that some customers can avoid these costs but still benefit from them.[4]

Question 5: How does this choice model consider the transition of utility obligations?

As previously stated in various public filings, the Joint Utilities cannot underscore enough the importance of first updating the current approach to allocating costs associated with legacy obligations entered into by the Joint Utilities on behalf of all of their then-bundled-service customers. Whatever path the Commission and California take on retail choice issues, a fundamental predicate must be ensuring the statutory mandate of customer indifference. As a matter of law, fairness, regulatory precedent, and public policy, any expansion of retail choice must be accompanied by mechanisms for equitable allocation of the costs and benefits of the Joint Utilities' power procurement portfolios between all customers on whose behalf they were procured. The Joint Utilities urge the Commission to act expeditiously to implement the necessary reforms to achieve customer indifference as a result of decisions to depart utility bundled service. Specifically, California Public Utilities (P.U.) Code Section 366.2 requires that "the implementation of a community choice aggregation program shall not result in a shifting of costs between the customers of the community choice aggregator and the bundled service

[4] In addition, the electric grid is operated on an instantaneous basis. Energy deliveries must match demand, or be stored in a manner in which it can be instantaneously called upon to meet demand. The grid also requires capacity attributes to meet necessary locational, flexibility, and voltage requirements. Any customer choice framework adopted must ensure that LSEs have the means and responsibility to provide capacity and energy that supports a well-functioning and reliable grid.

customers of an electrical corporation," and that departing load cost recovery mechanisms shall "prevent shifting of recoverable costs between customers."

The Joint Utilities agree with IEP that existing long-term contracts between IOUs and generator counter-parties should be respected. Undermining these contracts could hurt the larger electric generation market. Market certainty is critical, especially as additional long-term contracts will be needed in the future to facilitate the low carbon economy envisioned by the State.

Question 6: Does this choice model have competitively neutral rules among market participants?

Any customer choice model must adopt competitively neutral rules for all market-participant LSEs. This is necessary both to ensure that there is no cost-shifting between customers (*e.g.*, symmetrical procurement mandates across LSEs), and to maintain wholesale energy market integrity (*e.g.*, adequately maintaining the confidentiality of market-sensitive data). It should also be noted that IOUs do not currently provide behind-the-meter services to retail customers. Instead, they provide Commission-regulated tariff service offerings for retail procurement service (*i.e.*, in-front-of-the-meter energy procurement services).

The Joint Utilities do have concerns about the current failure to apply procurement and planning requirements universally to all LSEs. For example, the Commission's Integrated Resource Planning (IRP) requirements should be applied comprehensively and consistently to all LSEs in order to ensure that the State is able to maintain reliability and cost-effectively meet its energy policy goals (*e.g.*, increasing the use of renewable resources while simultaneously reducing GHG emissions). Integrated planning with equal participation by all LSEs is critical if load is spread across many LSEs to ensure that GHG reduction strategies are harmonized, resource investments are made efficiently, and California Independent System Operator (CAISO) market design enhancements (*e.g.*, renewable integration, locational effectiveness) are properly considered. More generally, mandated procurement requirements, if any, should apply equally to all LSEs. California P.U. Code Sections 454.51 and 454.52 established an IRP process that applies to all Commission-jurisdictional LSEs and the Commission should exercise its full statutory authority to implement equal IRP requirements for all LSEs. Holding all LSEs, including CCAs, to the same standards under the IRP will help ensure that statewide procurement is made in a coordinated, efficient and cost-effective manner, and in furtherance of California's energy policy goals. California may fail to achieve its environmental goals in a reliable and affordable manner if individual LSEs are allowed to make resource decisions independent of electric grid needs and constraints.

Question 7: Can customers determine their level of participation and are they informed to participate at their desired level?

The Joint Utilities note that under current law customers are defaulted into CCA service and must affirmatively opt out. DA service is currently capped.

Question 8: How does this choice model impact and benefit local communities?

Policymakers should consider both the potential benefits and risks associated with opportunities for local influence over environmental policy and renewable resources. Potential benefits may accrue if customer satisfaction grows or procurement supports local economic development, for example. Potential risks may arise if local priorities conflict with State policy or if serving load at the local level inhibits access to financing, credit, and market presence needed to secure attractive long-term contracts. For example, as CCAs asserted at the Retail Choice En Banc in May 2017, they are different from IOUs in that they are accountable only to their local government.

Conclusion

California's guiding principle should be to support electricity procurement customer choice where it can facilitate a cleaner, more resilient and affordable grid. Conversely, California should be cautious about encouraging such customer choice where doing so may prevent or make more difficult the achievement of these goals. The Joint Utilities agree with Commissioner

Rechtschaffen and stakeholder comments in the workshop that the guiding principles should not include choice for the sake of choice.

The Joint Utilities urge the Commission to act quickly to address current issues associated with customer choice through rate reform. Rate reform has the potential to fix the problems associated with current cost shifts and enable equitable allocation of going-forward policy investments. The Joint Utilities recommend that any rate reform should: 1) ensure fair rates are paid by all customers, regardless of their choice of provider or choice of technology, 2) align with grid needs, and 3) be customer-centric by aligning customer rates with the cost to serve customers.

Whatever choice the State ultimately makes with customer choice and rate reform, it must be fair to all electricity customers and continue to enable our shared clean energy future.

Sincerely,

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