PCIA Workshop 2

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PCIA Perspective

Energy Users Forum

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Overview of EUF

- EUF represents the interests of
  - Customers behind all 3 IOUs (and some munis)
  - Bundled and Direct Access (Pre-2009 and 2009+)
  - Majority of Accounts between 100 kW & 20 MW
  - Variety of end uses from non-profit to retail to processing to manufacturing

at

  - the CPUC and CAISO (primarily)

Purpose

- We asked to go last so that we could try to avoid being [too] repetitive.
- The presentation focuses on our key concerns and pieces of our perspective that might be unique.
- There are many important things we are not saying as we think they have probably already been said more than once.

PCIA Challenges

Real issues for all customers involved: Bundled, DA, CCA

- Not just Bundled Load and Departing Load, but also Departed Load (Pre-2009, 2009+)

No cost-shifting…

- But also between vintages. The current method segregates impact by vintage. Segregation by vintage must be protected.

Side note: [To extent applicable] *Cost of integration of intermittent resources should be assigned based on causation.* More later if time.

PCIA Challenges: Lost Value

Current Market Price Benchmark 3-Part Approach to Valuation of Electricity Misses Value:

- Provision of services to the CAISO, including but not limited to A/S and ramping
- Hedge Value
- + Other

Contract Value **>** Short Term Energy Value

- ✓A/S and other CAISO services not tied to RA Capacity
- ✓Option and Risk Premium

Contracts provide for different types of optionality. Those options have a value, even if they expire unused.

Value of Optionality

Example: LSE buys energy for period X, at which time the market expects there to be a slight deficiency in supply. The cost of the energy would include the cost at the expected supply/demand point, plus an additional risk or uncertainty premium. If, at time X, there is greater demand reduction than expected at time of purchase, the value of the energy will be lower than it was at the time of purchase:

(i) as there is less need for supply than was perceived at the time of purchase and

(ii) there no longer is uncertainty so the risk premium is closer to 0

Comments on Proposals

Categories of Proposals:

- Those that address Cost Allocation
- Those that reduce Total Portfolio Cost

  Solutions that purport to reduce total portfolio cost need to do so in a manner that does not disadvantage any customer group.

Caps

Caps should be tracked and paid by entity (Entity = DA Customer or CCA) *[if possible and not cost prohibitive, but by vintage at a minimum*]

Allocation of Assets

Loss of attributes is an issue:

- ✓ Category 1 REC value
- ✓ Long term contract attribute
- ✓ Value of energy contract in excess of short term value

Proposals: Allocation

Prorata Allocation

- Slice of the pie would be equitable (to the extent the size of the slice can be determined and no attributes are lost), but no feasible process has been identified yet, and…
- Prorata/Slice of Pie Allocation of assets does not work for all customers: supply portfolios of departed customers are most likely already determined to a significant extent.

Proposals: Allocation (cont'd)

<u>**Direct Assignment**</u>

We agree, in concept, with the idea of direct long term sales & voluntary "assignment" of excess IOU resources, but see a number of practical issues that create giant hurdles.

First, all entities must be treated equivalently

Not just: Bundled vs. CCA/DA

But also:

- Bundled vs. Departing vs. Departed
- CCA vs CCA
- CCA vs DA (Pre-2009) and CCA vs. DA (2009+)

Second, valuation and resource selection create HUGE parity issues

We are concerned about the equity of Resource-Specific Buy-Outs and Assignments

These transactions cannot be fair to all entities to the extent that:

(i) the exact value of an asset is unknown, or

(ii) there are a limited number of viable assets.

The customers of all other LSEs in the IOU footprint are impacted by LSE-specific alternatives, not just the IOU's bundled customers and the specific LSE's customers.

Even if the IOU and LSE Assignee agree on value of an asset, "real" value is different.

Proposals: Auctions

Auctions for Energy and RA Forwards

Forward Auctions May be a Partial Solution, but

Auctions undervalue assets without adequate buyer competition

- Barriers to Participation
- Process Timeline
- Timing of Sale vs Need
- T&Cs
- Certainty
- Information Asymmetry