Principles and Possible Approaches for Reforming the Power Charge Indifference Adjustment

The Utility Reform Network

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Three Key Considerations Guide TURN's Proposal

1) Need to preserve indifference for both bundled and CCA customers. Not just a good idea. It's the law

2) Reduce uncertainty/volatility of PCIA charge.
   - Impossible to forecast past the next calendar year with confidence.
   - Year-to-year volatility poses serious challenges to new and existing CCAs.
   - Reducing volatility would allow CCAs to engage in long-term portfolio planning and control costs.

3) Offer CCAs tools for managing cost responsibility and establishing longer-term value of IOU resources for purposes of PCIA computation.
   - Give CCAs choices in how the IOU resource commitments are valued.
   - Permit new CCAs to access a share of IOU clean/renewable resources for serving customer loads.

TURN offers four specific proposals consistent with these considerations.

1. Fix PCIA Methodology to Preserve Indifference

Current methodology uses "forecasts" of energy, capacity and REC prices. But

- Forecasts of capacity and REC prices are based on administratively determined values, not actual market behavior, and
- No true up to reflect actual revenues or values.

Reform market price benchmark inputs to rely on actual market revenues, not theoretical or administrative valuation techniques. Use annual true-up to ensure accuracy.

- <u>Energy revenues</u> from IOU resources should be calculated based on actual LMPs in Day Ahead market for actual generation.
- <u>Capacity/RA value</u> should be calculated by the CPUC based on actual reported sales prices for RA/capacity by the IOUs during the year (including zero value for any unsold RA)
- <u>REC value</u> should be based on pricing of reported purchases/sales of short-term renewable energy during the year (bundled and RECs). Reporting of short-term transaction pricing should be required for IOUs, CCAs and ESPs. CPUC Energy Division can maintain confidentiality, aggregate data, and develop public benchmarks for each year.

Observed prices/values from prior year (year 0) should be used to set forecast values for the prospective year (year 2). Could be adjusted to account for observed changes in electricity/gas prices.

2. Cap on PCIA Charge, with Balancing Account

To prevent excessive upward movement of the PCIA in an individual year, the maximum value could be capped. Any undercollections could be tracked in a balancing account and recovered from CCA customers in a future year.

Proposal similar to mechanism adopted by CPUC for the Cost Responsibility Surcharge for Direct Access customers in D.02-11-022. Interim cap was set at 2.7 cents/kWh in that situation and all undercollections were fully repaid (with interest).

Individual CCAs could request capping of the PCIA for their customers at a Commission-approved level, though still subject to a true-up.

Maximum undercollection amounts should be established to ensure rolling balances are not excessive.

3. Coordination on Forward Sales from IOU Resources

CCAs may request that IOUs engage in longer-term sales of energy, RA and RECs from IOU portfolios to lock in values for use as market price benchmarks.

- Could include single/multi-year sales based on market conditions.
- Could be physical or financial (hedges).

Forward sales could be exercised on a CCA-by-CCA basis or collectively for all CCAs.

- CCAs could be presented with options by the IOU.
- CCAs could decide after reviewing the results of solicitations or bilateral offers.
- Confidentiality issues need to be resolved.

Execution of forward sales would result in binding market price values that apply to PCIA calculations for the relevant portion of the IOU portfolio over the relevant time period.

Benefit includes predictability of PCIA for participating CCAs.

4. Voluntary Subscription to Some/All of IOU Portfolio

Individual CCAs may subscribe to IOU resources and be an off-taker for energy, capacity and RECs.

- Subscription could include some (but not all) legacy resource commitments. Many CCAs may be interested in hydro and RPS-eligible renewables, but not fossil or nuclear.
- Subscription involves forward sales of energy, RA, and RECs. Does not involve contract assignment/allocation.
- Similar to IOU PAM proposal, but voluntary and on an *á la carte* basis.

CCA payment of full costs for such resources would significantly reduce (or potentially eliminate) the PCIA applied to its customers.

CCA customers continue to pay PCIA for any unsubscribed IOU legacy resources.

Several key benefits for interested CCAs

- Substantial reduction (or elimination) of PCIA
- Access to portfolio of existing RPS + hydro resources for new CCAs.
- Procurement of RPS PCC 1 resources.
- Credit towards RPS 65% long-term contract obligation (starts in 2021) if CCA commits to a subscription period of at least 10 years. No need to demonstrate creditworthiness to obtain long-term contract credit.