

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Continue Implementation and Administration, and Consider Further Development, of California Renewables Portfolio Standard Program.

Rulemaking 15-02-020
(Filed February 26, 2015)

**2016 RENEWABLES PORTFOLIO STANDARD
PROCUREMENT PLAN OF
DIRECT ENERGY BUSINESS, LLC**

PUBLIC VERSION
(Appendix A Redacted)

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August 8, 2016

Attorneys for Direct Energy Business, LLC

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(Appendix A Redacted)

In accordance with the May 17, 2016 *Assigned Commissioner and Assigned Administrative Law Judge's Ruling Identifying Issues and Schedule of Review for 2016 Renewables Portfolio Standard Procurement Plans* ("Assigned Commissioner's Ruling"), Direct Energy Business, LLC ("Direct Energy") hereby submits this 2016 Renewables Portfolio Standard ("RPS") Procurement Plan.

Direct Energy is an electric service provider ("ESP") registered with the California Public Utilities Commission ("Commission" or "CPUC") to serve retail customers in California participating in the direct access program. Direct Energy is in full compliance with its procurement obligations under the RPS and resource adequacy ("RA") programs, and all other terms and conditions required of a registered ESP. Unlike the investor owned utilities ("IOUs"), Direct Energy's load is fully contestable such that at the end of a customer's contract term, the customer could renew with Direct Energy, switch to another ESP, or return to utility service. Therefore, all forecast load data is subject to change in light of customer migration, and forecast procurement data is subject to change based on decisions by Direct Energy to revise the wholesale contracts used to serve such loads, with increased uncertainty associated with forecasts beyond the next

three- to five-year period where there are much fewer customer commitments. Pursuant to these qualifications, Direct Energy undertakes its procurement activities to meet regulatory and commercial obligations while managing market and regulatory risks.

I. Assessment of RPS Portfolio Supplies and Demand - § 399.13(a)(5)(A)

Section 6.1 of the Assigned Commissioner’s Ruling requests:

“Provide a written description assessing annual and multi-year portfolio supplies and demand in relation to RPS requirements, the RPS program, and the RPS program’s overall goals to determine the retail seller’s optimal mix of eligible renewable energy resources.

The assessment should consider, at a minimum, a 20-year time frame with a detailed 10-year planning horizon that takes into account both portfolio supplies and demand. This written description must include the retail seller’s need for RPS resources with specific deliverability characteristics, such as, peaking, dispatchable, baseload, firm, and as-available capacity as well as any additional factors, such as ability and/or willingness to be curtailed, operational flexibility, etc. It must also explain how the quantitative analysis provided in response to section 6.5 supports the assessment.

This written description must also explain how the proposed renewable energy portfolio will align with expected load curves and durations, as well as how it optimizes cost, value and risk for the ratepayer. Where applicable, assessment should also identify and incorporate impacts of overall energy portfolio requirements (not just RPS portfolio requirements), recent legislation, other Commission proceedings (e.g., R.13-12-010, the long-term procurement plans proceeding), other agencies requirements, and other policies or issues that would impact RPS demand and procurement.

The written description should also explicitly and specifically address, both qualitatively and quantitatively, to the extent possible, how the buyer intends to increase the diversity in its portfolio overall, to address issues of grid integration, potential for over-generation, and ratepayer value.

Additionally, the assessment should describe and incorporate RPS lessons learned over the past year, including RPS trends and potential future trends. Lastly, it should describe how procurement (or sales) planned for the period covered by the 2016 RPS plans is consistent with the assessment of supplies and demand.”

Response from Direct Energy:

Direct Energy procures RPS supply based on the term of its retail customer contracts, with the majority of contracted load being within a rolling 36-month time horizon. For the 2014-to-2016 compliance period, Direct Energy is approximately 100% hedged against a forecast compliance period RPS obligation (weighted average of all three portfolio content categories). Direct Energy has completed a long-term (ten-year) contract to meet the minimum long-term contract requirement for the 2014-to-2016 compliance period. Direct Energy does not hedge fixed price energy exposure through RPS contracts but does have some contracts with energy price exposure. Direct Energy's procurement approach will change to account for the long-term contracting requirement for load served starting with the 2021 to 2024 compliance period. Contracts of at least ten years in duration will be used to cover at least 65% of Direct Energy's RPS obligations.

II. Project Development Status Update - § 399.13(a)(5)(D)

Section 6.2 of the Assigned Commissioner's Ruling requests:

“Provide a written status update on the development schedule of all eligible renewable energy resources currently under contract but not yet delivering generation. This written status update should differentiate status updates based on whether projects are pre-construction, in construction, or post construction. The status updates provided in the written description must be reflected in the quantitative analysis provided in response to Section 6.5, below. Given this analysis, discuss how the status updates will impact the retail seller's net short and its procurement decisions for the next two years and on a ten-year planning horizon.”

Response from Direct Energy:

Direct Energy has not contracted with any renewable energy resources that are not already in commercial operation.

III. Potential Compliance Delays - § 399.13(a)(5)(B)

Section 6.3 of the Assigned Commissioner's Ruling requests:

“Describe in writing any potential issues that could delay RPS compliance,

including, but not limited to, inadequate transmission capacity, permitting delays, insufficient eligible renewable energy resources supply, unanticipated curtailment, unanticipated increase in retail sales, and the relationship, if any, to project development delays, reduced generation, and compliance delays. Describe the steps taken to account for and minimize these potential compliance delays. The potential compliance delays included in the written description must be reflected in the quantitative analysis provided in response to Section 6.5. Given this analysis, discuss how the potential compliance delays will impact the retail seller's RPS net short and its procurement decisions."

Response from Direct Energy:

Direct Energy is not aware of any operational issues with any of its RPS qualifying energy suppliers. All contracted units have achieved commercial operations.

IV. Risk Assessment - § 399.13(a)(5)(F)

Section 6.4 of the Assigned Commissioner's Ruling requests:

"Provide a written assessment of the risk in the RPS portfolio in relation to RPS compliance requirements. Risk assessment should describe risk factors such as those described above regarding compliance delays, as well as, but not limited to, the following: lower than expected generation, variable generation, resource availability (e.g., biofuel supply, water, etc.), and impacts to eligible renewable energy resource projects currently under contract. The risk assessment provided in the written description must be reflected in the quantitative analysis provided in response to section 6.5. Given this analysis, discuss how the risk assessment will impact the retail seller's net short and its procurement decisions."

Response from Direct Energy:

Direct Energy does not perceive any risks to meeting its RPS compliance requirements for compliance period 2, 33% by 2020, or 40% by 2024 requirement.

V. Quantitative Information - §§ 399.13(a)(5)(A), (B), (D) and (F)

Section 6.5 of the Assigned Commissioner's Ruling requests:

"In addition to the written descriptive responses to Sections 6.1 through 6.4, provide quantitative data, methodologies, and calculations relied upon to assess the retail seller's RPS portfolio needs and RPS procurement net short. This quantitative analysis must take into account, where appropriate, the quantitative discussion requirement by Sections 6.1-6.4, above. Any RPS-eligible procurement that has or will occur outside of

the RPS program should also be included. As stated above, the portfolio assessment should be for a minimum of 20 years in the future. The responses must be clear regarding the quantitative progress made towards RPS requirements and the specific risks to the electrical corporation's RPS procurement portfolio. Risks may include, but are not limited to, project development, regulatory, and market risks. The quantitative response must be provided in an Excel spreadsheet based on the most recently directed renewable net short methodology."

Response from Direct Energy:

Direct Energy provides its quantitative response using the standardized renewable net short ("RNS") template, attached here to as Appendix A.

VI. Bid Solicitation Protocol, Including Least-Cost Best-Fit Methodologies - § 399.13(a)(5)(C) and D.04-07-029

Section 6.7 of the Assigned Commissioner's Ruling requests:

"Pursuant to § 399.13(a)(5)(C), 2016 RPS Procurement Plans must include a bid solicitation protocol setting forth the need for eligible renewable energy resources. If selling eligible renewable energy is part of a 2016 RPS Procurement Plan, then a solicitation protocol setting forth the available eligible renewable energy should also be included. Solicitations shall be consistent with portfolio assessment provided in Sections 6.1 through 6.5 and the retail seller's renewable net short position. Additionally, solicitations should be specific regarding what quantity of

products are being requested (or offered) and the required deliverability characteristics, online dates, term lengths, and locational preferences.

The bid solicitation protocols should include, an overview of the solicitation process, a solicitation schedule, pro forma agreement(s), and a detailed description of the utility's least-cost best-fit (LCBF) methodology. If the renewable auction mechanism (RAM) procurement process is planned to be used, then a pro forma agreement for that process should be included. Additionally, if any sales, or other types of procurement is planned and needs a specific pro forma agreement (e.g. short-term procurement), then it should also be included. The LCBF methodology should be consistent with D.04-07-029, D.11-04-030, D.12-11-016, and D.14-11-042. Also, it should clearly describe criteria (e.g., energy value, congestion cost, locational preference, term length, ability to be curtailed, operational flexibility, etc.) and how bids will be valued and evaluated based on the LCBF methodology. Any qualitative measures that will be used in LCBF methodology should also be described, both in terms of the criteria and how they will be used in the methodology.

As noted in the Amended Scoping Memo and Ruling of the Assigned Commissioner (February 5, 2016), the Commission will be revising and updating LCBF. The issues that will be addressed in examining LCBF include, but are not limited to: capacity value, energy-only, and time-of-delivery factors. As such, parties will have an opportunity in the near future to provide detailed comments regarding LCBF issues in response to a ruling and staff paper. Thus, parties are encouraged to comment on the particulars of the IOUs' currently proposed LCBF methodologies in their comments on this ruling, and to provide more in-depth comments on LCBF issues in response to subsequent rulings focused on LCBF reform."

Response from Direct Energy:

Direct Energy does not utilize a bid solicitation protocol and does not apply a LCBF methodology.

VII. Workforce Development - § 393.13(a)(4)(A)(iv)

Section 6.7.1 of the Assigned Commissioner's Ruling requests:

"SB 2 (1X) added the requirement that the criteria for ranking and selecting of least-cost, best-fit renewable energy resources shall include "the employment growth associated with the construction and operation of eligible renewable energy resources."²³ Accordingly, the 2016 RPS Procurement Plans shall include a description of a proposed approach for assessing and differentiating the ability of different bids to contribute to employment growth. Pursuant to statute, the approach should address both the construction and operational phases of the project."

Response from Direct Energy:

Section 6.7.1 is inapplicable to Direct Energy since it does not apply a LCBF methodology.

VIII. Disadvantaged Communities - § 393.13(a)(7)

Section 6.7.2 of the Assigned Commissioner's Ruling requests:

"SB 2 (1X) additionally added the requirement that preference shall be given "to renewable energy projects that provide environmental and economic benefits to communities afflicted with poverty or high unemployment, or that suffer from high emission levels of toxic air contaminants, criteria air pollutants, and greenhouse gases."²⁴ Consequently, the 2016 RPS Procurement Plans shall include a description of their methodology for preferring projects that provide the benefits described in 399.13(a)(7). The description should clearly articulate how a project's benefits to communities are determined or obtained and how that information influences offer selection."

Response from Direct Energy:

Section 6.7.2 is inapplicable to Direct Energy since it does not participate in renewable energy project site selection.

IX. Consideration of Price Adjustment Mechanisms - § 399.13(a)(5)(E)

Section 6.8 of the Assigned Commissioner’s Ruling requests:

“Pursuant to § 399.13(a)(5)(E), describe how price adjustments (e.g., index to key components, index to Consumer Price Index, price adjustments based on exceeding transmission or other cost caps, etc.) will be considered and potentially incorporated into contracts for RPS-eligible projects with online dates occurring more than 24 months after the contract execution date. Discuss how the price adjustments will maximize value for ratepayers and minimize potential risks to ratepayers.”

Response from Direct Energy:

Direct Energy may or may not consider price adjustment mechanisms as part of its future procurement efforts. To date, Direct Energy has not previously considered transactions with price adjustment mechanisms.

X. Important Changes to Plans

Section 6.12 requests:

“A statement identifying and summarizing the important changes between the 2015 and 2016 RPS Procurement Plans must be included. This summary should not be a reprint of the two plans with strike-out and underlined inserts. In addition to identifying and summarizing the important changes, the plan should also include an explanation and justification of reasonableness for each important change from 2015 to 2016.”

Response from Direct Energy:

There are no material changes between Direct Energy’s 2015 and 2016 reports.

XI. Redlined Comparison with 2015 Procurement Plan

Section 6.13 of the Assigned Commissioner’s Ruling requests that a version of the 2016 RPS Procurement Plan that is “redlined” to identify the changes from the 2015 plan must be included

with the 2016 RPS Procurement Plans.

Response from Direct Energy:

Appendix B provides the requested redlined version.

XII. Safety Considerations - D.13-11-024

Section 6.15 of the Assigned Commissioner’s Ruling requests:

“As stated in D.13-11-024, all entities filing RPS Procurement Plans must incorporate a section on safety considerations.”

Response from Direct Energy:

Direct Energy purchases RPS supply from third parties and does not control any RPS qualifying generation directly. The company does have a “Safety First” culture and has well established safety programs.

XIII. RPS Compliance Risk - Appendix D of May 21, 2014 Net Short ALJ Ruling

a. How do current and historical performance of online resources in your RPS portfolio impact future projections of RPS deliveries and your subsequent RNS?

The majority of Direct Energy’s RPS supply purchases are for a fixed quantity of supply. If the RPS supply generated from the resources under this contract produce less energy than expected, Direct Energy will procure additional RPS supply prior to the end of compliance period 2 to make up for any shortfall.

b. Do you anticipate any future changes to the current bundled retail sales forecast? If so, describe how the anticipated changes impact the RNS.

Direct Energy is only able to serve customers that are part of the direct access market and therefore has a limited ability to contract with new customers in the State of California. Direct Energy expects to add additional customers to its current base, but also expect to lose some existing customers to competitors. Depending on the new load migration Direct Energy will have to procure more or less than currently projected on the RNS table.

c. Do you expect curtailment of RPS projects to impact your projected RPS

deliveries and subsequent RNS?

Direct Energy's existing contracts are all with generators whose facilities that have achieved commercial operation. Therefore, Direct Energy does not expect any impact on projected RPS deliveries and subsequent RNS from RPS project curtailment.

d. Are there any significant changes to the success rate of individual RPS projects that impact the RNS?

Direct Energy's existing contracts are all with generators whose facilities that have achieved commercial operation. Therefore, there are no significant changes to the success rate of individual RPS projects that would impact Direct Energy's RNS.

e. As projects in development move towards their COD, are there any changes to the expected RPS deliveries? If so, how do these changes impact the RNS?

Direct Energy's existing contracts are all with generators whose facilities have already achieved commercial operation. Therefore, this question is inapplicable to Direct Energy's current RNS.

XIV. RECs Above the PQR - Appendix D of May 21, 2014 Net Short ALJ Ruling

f. What is the appropriate RECs above the PQR to maintain? Please provide a quantitative justification and elaborate on the need for maintaining banked RECs above the PQR.

Direct Energy must balance the avoidance of a penalty for under-procurement of RPS supply with the avoidance of over-procurement of RPS supply that is unnecessary to meet the PQR. Banking is restricted to the point of being unusable for ESPs. Current regulations effectively make banking possible only where 100% of a retail seller's RPS supply comes from contracts of 10-years or longer in duration. If any amount of shorter term RPS supply is procured then it will be counted last and will not be bankable. The majority of direct access customers only sign contracts of, at most, 3 years in length, leaving the ESPs without contracted customers to cover long-term RPS supply contracts. RPS banking regulations are biased toward the IOU business

model. Direct Energy would maintain a margin of over-procurement if it were able to bank the supply into a subsequent compliance period. Alternatively, the regulations could be amended to allow PCC1 and PCC2 qualified RECs to be traded post-generation so that ESPs could efficiently balance their RPS positions.

- g. What are your strategies for short-term management (10 years forward) and long-term management (10-20 years forward) of RECs above the PQR? Please discuss any plans to use RECs above the PQR for future RPS compliance and/or to sell RECs above the PQR.*

Direct Energy does not have any RECs above the PQR for any future compliance periods.

XV. VMOP - Appendix D of May 21, 2014 Net Short ALJ Ruling

- h. Provide VMOP on both short-term (10-years forward) and long-term (10-20 years forward) basis. This should include a discussion of all risk factors and quantitative justification for the amount of VMOP.*

Direct Energy does not intend to maintain a VMOP until the banking regulations are modified to permit the banking of RPS supply obtained under short-term contracts.

- i. Please address the cost-effectiveness of different methods for meeting any projected VMOP procurement need, including application of forecast RECs above the PQR.*

This question is not applicable to Direct Energy due to the fact that it does not intend to maintain a VMOP and has no RECs above the PQR for any future compliance period. See response to Section XIII(a) above.

XVI. Cost-Effectiveness - Appendix D of May 21, 2014 Net Short ALJ Ruling

- j. Are there cost-effective opportunities to use banked RECs above the PQR for future RPS compliance in lieu of additional RPS procurement to meet the RNS?*

Direct Energy procures its RPS supply through short-term contracts such that the banking regulations effectively prevent banking of any excess supply. This question is inapplicable to Direct Energy's current operation and RPS procurement.

- k. How does your current RNS fit within the regulatory limitations for PCCs? Are there opportunities to optimize your portfolio by procuring RECs across*

different PCCs?

Direct Energy works to meet RPS supply procurement compliance at the lowest possible cost. This may include the procurement of PCC2 and PCC3 RECs within the portfolio balance limitations.

XVII. Conclusion

Direct Energy provides this submission in compliance with the May 17, 2016 Assigned Commissioner's Ruling. As described herein, Direct Energy takes its RPS energy procurement compliance obligations seriously and is actively engaged with the Commission's processes in developing the RPS implementation requirements.

Respectfully submitted,

/s/ Dana P. Palmer

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Dated: August 8, 2016

Attorneys for Direct Energy Business, LLC

APPENDIX A

Renewable Net Short Data

Variable	Calculation	Item	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast	2031 Forecast	2032 Forecast	2033 Forecast	2034 Forecast	2035 Forecast
		Annual RPS Requirement		3,762	4,085	4,075	3,620	4,427	4,790	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800
A		Residual State Self-Financing (RSTF)		3,762	4,085	4,075	3,620	4,427	4,790	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800
B		RPS Procurement Quantity Requirement (%)		2015	2015	2015	2015	2175	2175	2175	2175	2175	2175	2175	2175	2175	2175	2175	2175	2175	2175	2175	2175	2175	2175
C	A/B	Given RPS Procurement Quantity Requirement (QRM)		712	881	881	2,234	987	1,403	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402
D		Voluntary Margin of Over-procurement																							
E	$C-D$	Net RPS Procurement Need (QRM)		712	881	881	2,234	987	1,403	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402
		RPS Rights Procurement																							
Fa		Bank-Adjusted RECs from Online Generation		444	469	742	2,315	744	3,206	280	280	35	35	4	5	5	5								
Fb		Forecast Failure Rate for Online Generation (%)																							
Fc		Bank-Adjusted RECs from RPS Facilities in Development																							
Fd		Forecast Failure Rate for RPS Facilities in Development (%)																							
Fe		Over-Approved Capacity RECs																							
Ff		Excessed RECs Sales																							
Fg	$Fa + Fb + Fc + Fd$	Total RPS Rights Procurement (QRM)		444	469	742	2,315	744	3,206	280	280	35	35	4	5	5	5								
g		Category 1 RECs		126	-	-	126	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
h		Category 2 RECs		277	382	382	1,111	448	487	280	280	35	35	4	5	5	5								
i		Category 3 RECs			126	411	386	128	88																
j		Category 4 RECs		24	24	24	141	141	249																
		Given RPS Facilities (Physical Not Short)																							
ka	$F-G$	Annual Given RPS Position (QRM)		444	469	742	2,315	744	3,206	280	280	35	35	4	5	5	5								
kb	F/G	Annual Given RPS Position (%)		475	215	415	205	175	275	45	45	15	15	05	05	05	05	05	05	05	05	05	05	05	05
		Application of Bank																							
la	$ka - kb$ (minus over-procurement)	Banking Banked RECs above the PQR																							
lb		RECs above the PQR added to bank																							
lc		Bank-Adjusted RECs above the PQR																							
ld	$la + lb$	Given Balance of RECs above the PQR																							
le		Planned Application of RECs above the PQR to meet RPS Compliance																							
lf		Planned Release of RECs above the PQR																							
lg	$le - lf$	Net Release of RECs above the PQR																							
lh		Category 1 RECs																							
li		Category 2 RECs																							
lj		Category 3 RECs																							
lk		Category 4 RECs																							
		Applying Contracts																							
ka		RECs from Existing RPS Contracts																							
kb		Net RPS Position (Physical Not Short)																							
lc	$ka - kb - la$	Annual Net RPS Position after Bank Optimization (QRM)		444	469	742	2,315	744	3,206	280	280	35	35	4	5	5	5								
ld	$lc - kb - la - lb$	Annual Net RPS Position after Bank Optimization (%)		47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47

Note: Values in grey are protected as Confidential under CPUC Confidentiality Rules

Note: Values are shown in QRM

*Note: The column aggregating banks for Compliance Period 3 (years 2017 to 2020) has been adjusted to reflect only bids for the year 2020 in this public version.

APPENDIX B

Redlined Comparison with 2015 RPS Procurement Plan

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August ~~4, 2014~~8, 2016

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~~2015~~2016 Renewables Portfolio Standard Procurement Plans ("Assigned Commissioner's
Ruling") and the June 30, 2015 E-Mail Ruling Revising Schedule for the ~~2015 RPS Procurement
Plans extending the time to file 2015 Renewable Portfolio Standard ("RPS") Procurement
Plans,~~ Direct Energy Business, LLC ("Direct Energy") hereby submits this ~~2015~~2016
Renewables Portfolio Standard ("RPS") Procurement Plan.

Direct Energy is an electric service provider ("ESP") registered with the California Public Utilities Commission ("Commission" or "CPUC") to serve retail customers in California participating in the direct access program. Direct Energy is in full compliance with its procurement obligations under the RPS and resource adequacy ("RA") programs, and all other terms and conditions required of a registered ESP. Unlike the investor owned utilities ("IOUs"), Direct Energy's load is fully contestable such that at the end of a customer's contract term, the customer could renew with Direct Energy, switch to another ESP, or return to utility service.

Therefore, all forecast load data is subject to change in light of customer migration, and forecast procurement data is subject to change based on decisions by Direct Energy to revise the wholesale contracts used to serve such loads. ~~Uncertainty, with increased uncertainty~~ associated with forecasts beyond the next ~~3-5-three- to five-~~year period ~~increases~~ where there are much fewer customer commitments. Pursuant to these qualifications, Direct Energy undertakes its procurement activities to meet regulatory and commercial obligations while managing market and regulatory risks.

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The assessment should consider, at a minimum, a 20-year time frame with a detailed 10-year planning horizon that takes into account both portfolio supplies and demand. This written description must include the retail seller’s need for RPS resources with specific deliverability characteristics, such as, peaking, dispatchable, baseload, firm, and as-available capacity as well as any additional factors, such as ability and/or willingness to be curtailed, operational flexibility, etc. It must also explain how the quantitative analysis provided in response to section 6.5 supports the assessment.

This written description must also explain how the proposed renewable energy portfolio will align with expected load curves and durations, as well as how it optimizes cost, value and risk for the ratepayer. Where applicable, assessment should also identify and incorporate impacts of overall energy portfolio requirements (not just RPS portfolio requirements), recent legislation, other Commission proceedings (e.g., R.13-12-010, the long-term procurement plans proceeding), other agencies requirements, and other policies or issues that would impact RPS demand and procurement.

The written description should also explicitly and specifically address, both qualitatively and quantitatively, to the extent possible, how the buyer intends to increase the diversity in its portfolio overall, to address issues of grid integration, potential for over-generation, and ratepayer value.

Additionally, the assessment should describe and incorporate RPS lessons learned over the past year, including RPS trends and potential future trends. Lastly, it ~~must also explain~~should describe how procurement (or sales) planned for the quantitative analysis provided in response to section 6.5 supportsperiod covered by the 2016 RPS plans is consistent with the assessment of supplies and demand.”

~~Because retail suppliers typically do not have retail customer contract commitments that exceed 36 months, 10-year and 20-year forecasts are difficult to make and subject to change. Due to this forecasting uncertainty, Direct Energy procures RPS supply from the competitive regional markets, and structures its purchases to hedge its retail commitments with corresponding supply commitments. Based on its best estimate of customer demand, Direct Energy undertakes RPS procurement consistent with the regulatory obligation compliance horizon, and its ability to manage the market risks associated with longer term purchases. Consistent with its risk management practices, Direct Energy builds its portfolio consistent with regulatory obligations, and corresponding customer commitments.~~

~~Specifically,~~

Response from Direct Energy:

Direct Energy procures RPS supply based on the term of its retail customer contracts, with the majority of contracted load being within a rolling ~~24~~36-month time horizon. For the 2014-~~to~~-2016 compliance period, Direct Energy is approximately ~~95~~100% hedged against a forecast compliance period RPS obligation (weighted average of all three ~~(3)~~ portfolio content categories). Direct Energy has ~~not~~ completed a long-term (~~10~~ten-year) contract to meet the minimum long-term contract requirement for the 2014-~~to~~-2016 compliance period. Direct Energy does not hedge fixed price energy exposure through RPS contracts ~~so the~~ but does have some contracts with energy price ~~in all contracts is at index exposure.~~ Direct Energy’s procurement approach ~~would not~~will change ~~under a 40%~~to account for the long-term contracting requirement ~~by~~for load served starting with the 2021 to 2024 compliance period.

Contracts of at least ten years in duration will be used to cover at least 65% of Direct Energy's RPS obligations.

II. Project Development Status Update - § 399.13(a)(5)(D)

Section 6.2 of the Assigned Commissioner's Ruling requests:

“Provide a written status update on the development schedule of all eligible renewable energy resources currently under contract but not yet delivering generation. This written status update should differentiate status updates based on whether projects are pre-construction, in construction, or post construction. The status updates provided in the written description must be reflected in the quantitative analysis provided in response to Section 6.5, below. Given this analysis, discuss how the status updates will impact the retail seller's net short and its procurement decisions for the next two years and on a ~~10~~ten-year planning horizon.”

~~This Section 6.2 is inapplicable to Response from Direct Energy since all of its RPS supply;~~

~~Direct Energy has not contracted with any renewable energy resources ~~have achieved full~~that are not already in commercial operation.~~

III. Potential Compliance Delays - § 399.13(a)(5)(B)

Section 6.3 of the Assigned Commissioner's Ruling requests:

“Describe in writing any potential issues that could delay RPS compliance, including, but not limited to, inadequate transmission capacity, ~~delayed substation construction, financing, permitting delays, insufficient eligible renewable energy resources supply, unanticipated curtailment, unanticipated increase in retail sales,~~ and the relationship, if any, to ~~deliveries and~~ project development delays, reduced generation, and compliance delays. Describe the steps taken to account for and minimize these potential compliance delays. The potential compliance delays included in the written description must be reflected in the quantitative analysis provided in response to Section 6.5. Given this analysis, discuss how the potential compliance delays will impact the retail seller's RPS net short and its procurement decisions.”

~~Response from Direct Energy ~~contracts for resources from the regional markets to supply its load and meet regulatory requirements. As noted above in Section III, Direct Energy only contracts with RPS supply resources that have already achieved full commercial operations.~~;~~

Direct Energy is not aware of any operational issues with any of its RPS qualifying

energy suppliers ~~since all~~. All contracted units ~~are commercially operational~~ have achieved commercial operations.

IV. Risk Assessment - § 399.13(a)(5)(F)

Section 6.4 of the Assigned Commissioner's Ruling requests:

“Provide a written assessment of the risk in the RPS portfolio in relation to RPS compliance requirements. Risk assessment should describe risk factors such as those described above regarding compliance delays, as well as, but not limited to, the following: lower than expected generation, variable generation, ~~regulatory risk~~, resource availability (e.g., biofuel supply, water, etc.), ~~load changes~~, and impacts to eligible renewable energy resource projects currently under contract. The risk assessment provided in the written description must be reflected in the quantitative analysis provided in response to section 6.5. Given this analysis, discuss how the risk assessment will impact the retail seller's net short and its procurement decisions.”

~~The risks described in Section 6.4 are not applicable to Direct Energy since all of its RPS supply resources have achieved full commercial operation.~~ **Response from Direct Energy:**

Direct Energy does not perceive any risks to meeting its RPS compliance requirements for compliance period ~~two~~², 33% by 2020, or 40% by 2024 requirement.

V. “Quantitative Information” - §§ 399.13(a)(5)(A), (B), (D) and (F)

Section 6.5 of the Assigned Commissioner's Ruling requests:

“In addition to the written descriptive responses to Sections 6.1 through 6.4, provide quantitative data, methodologies, and calculations relied upon to assess the retail seller's RPS portfolio needs and RPS procurement net short. This quantitative analysis must take into account, where appropriate, the quantitative discussion requirement by Sections 6.1-6.4, above. Any RPS-eligible procurement that has or will occur outside of the RPS program should also be included. As stated above, the portfolio assessment should be for a minimum of 20 years in the future. The responses must be clear regarding the quantitative progress made towards RPS requirements and the specific risks to the electrical corporation's RPS procurement portfolio. Risks may include, but are not limited to, project development, regulatory, and market risks. The quantitative response must be provided in an Excel spreadsheet based on the most recently directed renewable net short methodology.”

Response from Direct Energy:

Direct Energy provides its quantitative response ~~to Section 6.5~~ using the standardized renewable net short (“RNS”) template, attached ~~heret~~here to as Appendix A.

VI. “Minimum Margin” of Procurement – Bid Solicitation Protocol, Including Least-Cost Best-Fit Methodologies -

VI. § 399.13(a)(4)(D)5(C) and D.04-07-029

Section 6.67 of the Assigned Commissioner’s Ruling requests:

~~“Section Pursuant to § 399.13(a)(4)(D) provides, in part, that the Commission shall adopt, by rulemaking, “[a]n appropriate minimum margin of procurement above the minimum procurement level necessary to comply with the renewable portfolio standard to mitigate the risk that renewable projects planned or under contract are delayed or canceled.”~~

~~This ruling directs PG&E, SCE, and SDG&E to identify in their proposed 20155)(C), 2016 RPS Procurement Plans the assumed minimum margin of procurement above the minimum procurement level necessary to comply with the RPS program to mitigate the risk that renewable projects under contract are delayed or terminated.~~

~~Each proposed 2015 must include a bid solicitation protocol setting forth the need for eligible renewable energy resources. If selling eligible renewable energy is part of a 2016 RPS Procurement Plan shall include a methodology and inputs regarding the utility’s proposed minimum margin of over procurement metric. The methodology should be representative of and, then a solicitation protocol setting forth the available eligible renewable energy should also be included. Solicitations shall be consistent with the utility’s inputs and assumptions in section 6.5. Also, the metric should be used to calculate the utility’s procurement needs pursuant to section 6.5 portfolio assessment provided in Sections 6.1 through 6.5 and the retail seller’s renewable net short position. Additionally, use of any sensitivities or scenarios solicitations should be described. If the utility’s assumed minimum margin of over procurement is not used to calculate a utility’s net short provided in response to section 6.5, then the utility should clearly describe the reasons and any assumptions or other additional methodologies used to calculate the utility’s proposed over procurement. Reasons and assumptions should be supported with quantitative information to the extent possible.”specific regarding what quantity of~~

~~Section 6.6 is inapplicable to Direct Energy because all of its RPS supply resources have achieved full commercial operations. Banking is restricted to the point that it cannot be utilized by ESPs. Effectively, banking is only allowed if 100% of an ESP’s RPS supply comes from~~

~~contracts of ten years or longer in duration. Supply contract terms less than ten (10) years will be counted last and will not be bankable. The majority of direct access customers only sign contracts of, at most, three years in length, leaving the ESPs without contracted customers to cover long term RPS supply contracts required for banking. RPS banking regulations are biased toward the IOU business model. Direct Energy would maintain a margin of excess procurement if it were able to bank the supply into a subsequent compliance period. Alternatively, the regulations could be amended to allow PCC1 and PCC2 qualified RECs to be traded after they are generated so that ESPs could efficiently balance their RPS portfolio positions.~~

~~VII. Important Change to Plans Noted~~

~~Section 6.13~~products are being requested (or offered) and the required deliverability characteristics, online dates, term lengths, and locational preferences.

The bid solicitation protocols should include, an overview of the solicitation process, a solicitation schedule, pro forma agreement(s), and a detailed description of the utility's least-cost best-fit (LCBF) methodology. If the renewable auction mechanism (RAM) procurement process is planned to be used, then a pro forma agreement for that process should be included. Additionally, if any sales, or other types of procurement is planned and needs a specific pro forma agreement (e.g. short-term procurement), then it should also be included. The LCBF methodology should be consistent with D.04-07-029, D.11-04-030, D.12-11-016, and D.14-11-042. Also, it should clearly describe criteria (e.g., energy value, congestion cost, locational preference, term length, ability to be curtailed, operational flexibility, etc.) and how bids will be valued and evaluated based on the LCBF methodology. Any qualitative measures that will be used in LCBF methodology should also be described, both in terms of the criteria and how they will be used in the methodology.

As noted in the Amended Scoping Memo and Ruling of the Assigned Commissioner (February 5, 2016), the Commission will be revising and updating LCBF. The issues that will be addressed in examining LCBF include, but are not limited to: capacity value, energy-only, and time-of-delivery factors. As such, parties will have an opportunity in the near future to provide detailed comments regarding LCBF issues in response to a ruling and staff paper. Thus, parties are encouraged to comment on the particulars of the IOUs' currently proposed LCBF methodologies in their comments on this ruling, and to provide more in-depth comments on LCBF issues in response to subsequent rulings focused on LCBF reform."

Response from Direct Energy:

Direct Energy does not utilize a bid solicitation protocol and does not apply a LCBF methodology.

VII. Workforce Development - § 393.13(a)(4)(A)(iv)

Section 6.7.1 of the Assigned Commissioner’s Ruling requests:

“SB 2 (1X) added the requirement that the criteria for ranking and selecting of least-cost, best-fit renewable energy resources shall include “the employment growth associated with the construction and operation of eligible renewable energy resources.”²³ Accordingly, the 2016 RPS Procurement Plans shall include a description of a proposed approach for assessing and differentiating the ability of different bids to contribute to employment growth. Pursuant to statute, the approach should address both the construction and operational phases of the project.”

Response from Direct Energy:

Section 6.7.1 is inapplicable to Direct Energy since it does not apply a LCBF methodology.

VIII. Disadvantaged Communities - § 393.13(a)(7)

Section 6.7.2 of the Assigned Commissioner’s Ruling requests:

“SB 2 (1X) additionally added the requirement that preference shall be given “to renewable energy projects that provide environmental and economic benefits to communities afflicted with poverty or high unemployment, or that suffer from high emission levels of toxic air contaminants, criteria air pollutants, and greenhouse gases.”²⁴ Consequently, the 2016 RPS Procurement Plans shall include a description of their methodology for preferring projects that provide the benefits described in 399.13(a)(7). The description should clearly articulate how a project’s benefits to communities are determined or obtained and how that information influences offer selection.”

Response from Direct Energy:

Section 6.7.2 is inapplicable to Direct Energy since it does not participate in renewable energy project site selection.

IX. Consideration of Price Adjustment Mechanisms - § 399.13(a)(5)(E)

Section 6.8 of the Assigned Commissioner’s Ruling requests:

“Pursuant to § 399.13(a)(5)(E), describe how price adjustments (e.g., index to key components, index to Consumer Price Index, price adjustments based on exceeding transmission or other cost caps, etc.) will be considered and potentially incorporated into contracts for RPS-eligible projects with online dates occurring more than 24 months after the contract execution date. Discuss how the price adjustments will maximize value for ratepayers and minimize potential risks to ratepayers.”

Response from Direct Energy:

Direct Energy may or may not consider price adjustment mechanisms as part of its future procurement efforts. To date, Direct Energy has not previously considered transactions with price adjustment mechanisms.

X. Important Changes to Plans

Section 6.12 requests:

“A statement identifying and summarizing the important changes between the ~~2014~~2015 and ~~2015~~2016 RPS Procurement Plans must be included. This summary should not be a reprint of the two plans with strike-out and underlined inserts. In addition to identifying and summarizing the important changes, the plan should also include an explanation and justification of reasonableness for each important change from ~~2014~~2015 to ~~2015~~2016.”

~~Section 6.13 is inapplicable to **Response from Direct Energy** since all of its RPS supply resources have achieved full commercial operations. :~~

There are no ~~important~~material changes between Direct Energy’s ~~2014 RPS Procurement Plan and this~~ 2015 and 2016 reports.

XI. Redlined Comparison with 2015 Procurement Plan

Section 6.13 of the Assigned Commissioner’s Ruling requests that a version of the 2016 RPS Procurement Plan, that is “redlined” to identify the changes from the 2015 plan must be included with the 2016 RPS Procurement Plans.

Response from Direct Energy:

Appendix B provides the requested redlined version.

VIII.XII. Safety Considerations - D.13-11-024

Section 6.15 of the Assigned Commissioner's Ruling requests:

“As stated in D.13-11-024, all entities filing RPS Procurement Plans must incorporate a section on safety considerations.”

Response from Direct Energy:

Direct Energy purchases ~~all of its~~ RPS supply from third parties and does not control any RPS qualifying generation directly. The company does have a “Safety First” culture and has well ~~established safety programs in place. At Direct Energy, safety is our first priority. We must work together to prevent work-related injuries and occupational illnesses. We maintain effective health, safety and wellness programs and strive to continually improve our safety performance. We comply with all related legislation, laws, regulations and industry leading practices including Federal (i.e. U.S. Occupational Safety and Health Standard 29 C.F.R. 1910.119) and state regulations.~~ established safety programs.

IX.XIII. RPS Compliance Risk - Appendix D of May 21, 2014 Net Short ALJ

Ruling

- a. How do current and historical performance of online resources in your RPS portfolio impact future projections of RPS deliveries and your subsequent RNS?*

The majority of Direct Energy's RPS supply purchases are for a fixed quantity of supply. ~~For the 2014-2015 year period, Direct Energy has a one (1) unit contingent supply contract.~~ If the RPS supply generated from the resources under this contract produce less energy than expected, Direct Energy will procure additional RPS supply prior to the end of compliance period 2 to make up for any shortfall.

- b. Do you anticipate any future changes to the current bundled retail sales*

forecast? If so, describe how the anticipated changes impact the RNS.

Direct Energy is only able to serve customers that are part of the direct access market and therefore has a limited ability to contract with new customers in the State of California. Direct Energy expects to add additional customers to its current base, but also expect to lose some existing customers to competitors. Depending on the new load migration Direct Energy will have to procure more or less than currently projected on the RNS table.

c. Do you expect curtailment of RPS projects to impact your projected RPS deliveries and subsequent RNS?

Direct Energy's existing contracts are all with generators whose facilities that have achieved commercial operation. Therefore, Direct Energy does not expect any impact on projected RPS deliveries and subsequent RNS from RPS project curtailment.

d. Are there any significant changes to the success rate of individual RPS projects that impact the RNS?

Direct Energy's existing contracts are all with generators whose facilities that have achieved commercial operation. Therefore, there are no significant changes to the success rate of individual RPS projects that would impact Direct Energy's RNS.

e. As projects in development move towards their COD, are there any changes to the expected RPS deliveries? If so, how do these changes impact the RNS?

Direct Energy's existing contracts are all with generators whose facilities have already achieved commercial operation. Therefore, this question is inapplicable to Direct Energy's current RNS.

~~X~~.XIV. _____ RECs Above the PQR - Appendix D of May 21, 2014 Net Short ALJ

Ruling

~~a~~.f. What is the appropriate RECs above the PQR to maintain? Please provide a quantitative justification and elaborate on the need for maintaining banked RECs above the PQR.

Direct Energy must balance the avoidance of a penalty for under-procurement of RPS

supply with the avoidance of over-procurement of RPS supply that is unnecessary to meet the PQR. Banking is restricted to the point of being unusable for ESPs. Current regulations effectively make banking possible only where 100% of a retail seller's RPS supply comes from contracts of ~~ten~~10-years or longer in duration. If any amount of shorter-er-term RPS supply is procured then it will be counted last and will not be bankable. The majority of direct access customers only sign contracts of, at most, ~~three~~3 years in length, leaving the ESPs without contracted customers to cover long-term RPS supply contracts. RPS banking regulations are biased toward the IOU business model. Direct Energy would maintain a margin of over-procurement if it were able to bank the supply into a subsequent compliance period. Alternatively, the regulations could be amended to allow PCC1 and PCC2 qualified RECs to be traded post-generation so that ESPs could efficiently balance their RPS positions.

***b.g.** What are your strategies for short-term management (10 years forward) and long-term management (10-20 years forward) of RECs above the PQR? Please discuss any plans to use RECs above the PQR for future RPS compliance and/or to sell RECs above the PQR.*

Direct Energy does not have any RECs above the PQR for any future compliance periods.

XI.XV. VMOP - Appendix D of May 21, 2014 Net Short ALJ Ruling

***a.h.** Provide VMOP on both short-term (10-years forward) and long-term (10-20 years forward) basis. This should include a discussion of all risk factors and quantitative justification for the amount of VMOP.*

Direct Energy does not intend to maintain a VMOP until the banking regulations are modified to permit the banking of RPS supply obtained under short-term contracts.

***b.i.** Please address the cost-effectiveness of different methods for meeting any projected VMOP procurement need, including application of forecast RECs above the PQR.*

This question is not applicable to Direct Energy due to the fact that it does not intend to maintain a VMOP and has no RECs above the PQR for any future compliance period. See

response to Section ~~XXIII~~(a) above.

~~XX~~XVI. **Cost-Effectiveness - Appendix D of May 21, 2014 Net Short ALJ Ruling**

~~a.i.~~ *Are there cost-effective opportunities to use banked RECs above the PQR for future RPS compliance in lieu of additional RPS procurement to meet the RNS?*

Direct Energy procures its RPS supply through short-term contracts such that the banking regulations effectively prevent banking of any excess supply. This question is inapplicable to Direct Energy's current operation and RPS procurement.

~~b.k.~~ *How does your current RNS fit within the regulatory limitations for PCCs? Are there opportunities to optimize your portfolio by procuring RECs across different PCCs?*

Direct Energy works to meet RPS supply procurement compliance at the lowest possible cost. This may include the procurement of PCC2 and PCC3 RECs within the portfolio balance limitations.

~~XXIII~~XVII. **Conclusion**

Direct Energy provides this submission in compliance with the May ~~22, 2015~~17, 2016 Assigned Commissioner's Ruling. As described herein, Direct Energy takes its RPS energy procurement compliance obligations seriously and is actively engaged with the Commission's processes in developing the RPS implementation requirements.

Respectfully submitted,

/s/ Dana P. Palmer

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| Dated: August ~~4, 2015~~, 2016

Attorneys for Direct Energy Business, LLC

APPENDIX A

Renewable Net Short Data
(see attached)

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APPENDIX B

Redlined Comparison with 2015 RPS Procurement Plan

VERIFICATION

I, Dana P. Palmer, counsel for Direct Energy Business, LLC, am authorized to make this Verification on its behalf. I declare under penalty of perjury that the statements in the foregoing 2016 Renewables Portfolio Standard Procurement Plan filed in Rulemaking 15-02-020 are true of my own knowledge, except as to matters which are therein stated on information or belief, and as to those matters I believe them to be true.

Executed on August 8, 2016, at Los Angeles, California.

/s/ Dana P. Palmer

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