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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Review, Revise, and Consider Alternatives to the Power Charge Indifference Adjustment.	Rulemaking 17-06-026 (Filed June 29, 2017)

FINAL REPORT FOR WORKING GROUP 2 (PREPAYMENT) SUBMITTED BY SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E), AND THE DIRECT ACCESS CUSTOMER COALITION AND THE ALLIANCE FOR RETAIL ENERGY MARKETS

Daniel W. Douglass
DOUGLASS & LIDDELL
4766 Park Granada, Suite 209
Calabasas, California 91302
Telephone: (818) 961-3001
Facsimile: (818) 961-3004
Email: douglass@energyattorney.com
Attorney for
Direct Access Customer Coalition
Alliance For Retail Energy Markets

Aimee M. Smith
8330 Century Park Court, CP32
San Diego, California 92123
Telephone: (858) 654-1644
Facsimile: (858) 654-1586
Email: amsmith@semprautilities.com
Attorney for
San Diego Gas & Electric Company

December 9, 2019

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In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission") and the direction set forth in the *Phase 2 Scoping Memo and Ruling of Assigned Commissioner* issued in the instant proceeding ("Phase 2 Scoping Memo), San Diego Gas & Electric Company ("SDG&E"), and the Direct Access Customer Coalition ("DACC") and the Alliance for Retail Energy Markets ("AReM")[1/] (together, "DACC/AReM"), respectfully submit the attached Final Report of Working Group Two (Prepayment).[2/]

Respectfully submitted this 9th day of December, 2019.

/s/ *Aimee M. Smith*
AIMEE M. SMITH
8330 Century Park Court, CP32
San Diego, CA 92123
Telephone: (858) 654-1644
Facsimile: (858) 654-1586
E-mail: amsmith@semprautilities.com

Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY

[1/] AReM is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

[2/] Pursuant to Rule 1.8(d), counsel for SDG&E confirms that counsel for DACC/AReM has authorized SDG&E to file this Joint Motion on its behalf.

<u>Final Report</u>

Rulemaking 17-06-026 (Phase 2)
Power Charge Indifference Adjustment

Working Group 2 – Prepayment

December 9, 2019

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I. INTRODUCTION AND BACKGROUND

A. Procedural History

On October 11, 2018, the California Public Utilities Commission ("CPUC" or "Commission") issued Decision ("D.) 18-10-019 modifying the Power Charge Indifference Adjustment ("PCIA") Methodology. D.18-10-019 determined that a second phase of the proceeding would be opened to establish a "working group" process to enable parties to further develop proposals for consideration by the Commission. On February 1, 2019, the Commission issued a scoping memo in Rulemaking (R.) 17-06-026 directing the parties to convene three working groups to further develop PCIA-related proposals for consideration by the Commission ("Phase 2 Scoping Memo").

The Phase 2 Scoping Memo designates San Diego Gas & Electric Company ("SDG&E"), the Alliance for Retail Energy Markets and Direct Access Customer Coalition ("AReM/DACC") (together, the "Co-Chairs") as co-chairs of Working Group 2, addressing issues surrounding potential prepayment of a customer's PCIA obligation.[1] The Co-Chairs were tasked with scheduling working group meetings, leading discussion at those meetings and filing the reports required by the Phase 2 Scoping Memo.

B. Scope

The Phase 2 Scoping Memo establishes the scope of Working Group 2 as including the following four issues:

1. Which criteria should the Commission adopt for evaluating and approving prepayments?
2. Should the Commission require any utility accounting treatments to reflect prepayments, and if so, what are these utility accounting treatments?

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[1] Phase 2 Scoping Memo, p. 10.

3. What should be the time periods over which the prepayment can be made?

4. What should be the regulatory approval process and dispute resolution process governing the prepayment option?

The Phase 2 Scoping Memo anticipates a Proposed Decision on Working Group 2 issues in the first quarter of 2020.

II. SUMMARY OF CO-CHAIR ACTIVITIES

The Co-Chairs, led by Elsa Valay (SDG&E), and Mark Fulmer (AReM/DACC), have held several meetings for the purpose of developing a joint prepayment proposal. Meetings have been collaborative in nature, with each party bringing forth proposals and concepts vetted by their respective constituents. The collaboration process began with two separate presentations (one prepared by each Co-Chair) setting forth initial positions and then evolved to a shared presentation that has been further developed through revisions and input from both Co-Chairs. The proposal development process has involved discussion and suggested edits/new additions to the proposal by the Co-Chairs, separate meetings between each Co-Chair and its constituencies, and review of stakeholder feedback provided at the Working Group 2 workshops and in post-workshop written comments. The Co-Chairs have met regularly to review work completed, and to identify areas of alignment and areas where additional discussion is needed.

Co-Chair Meeting Dates:

- Initial Discussion: February 20 – telephonic
- Working Session #1: March 12 – telephonic
- Working Session #2: March 19 – telephonic
- Working Session #3: March 26 – in-person
- Working Session #4: March 29 – telephonic
- Working Session #5: April 2 – telephonic

- Working Session #6: April 30 – telephonic
- Working Session #7: May 21 – telephonic
- Working Session #8: July 12 – telephonic
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- Working Session #10: October 15 - telephonic
- Working Session #11: October 24 – telephonic
- Working Session #12: October 30 - telephonic

III. SUMMARY OF WORKING GROUP ACTIVITIES

A. Scheduling and Meeting Notification

- ***First Workshop***

The Phase 2 Scoping Memo directed that the first Working Group 2 workshop be held in March, 2019.[2] The Co-Chairs requested leave to hold the first Working Group 2 workshop on April 4, 2019.[3] A number of parties expressed support for this request,[4] which was granted on March 22, 2019, via email ruling from Administrative Law Judge ("ALJ") Nilgun Atamturk.

SDG&E served notice on the R.17-06-026 service list on March 27, 2019, that the first Working Group 2 workshop would be held on April 4, 2019. The notification included a web conference option for parties unable to attend in-person. The materials to be reviewed at the first working group meeting were sent to the service list on April 3, 2019.

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2 Phase 2 Scoping Memo, p. 8

3 *Joint Motion of San Diego Gas & Electric Company, The Direct Access Customer Coalition and the Alliance for Retail Energy Markets for Extension of Time to Schedule the Initial Workshop for Working Group 2 (Prepayment) on April 4, 2019*, filed March 18, 2019 ("Motion").

4 *See* Motion, p. 2.

- ***Second Workshop***

SDG&E served notice on the R.17-06-026 service list on May 17, 2019, that the second Working Group 2 workshop would be held on May 31, 2019. The original notification included the location and noted that a web conference option would be distributed in advance of the workshop. On May 30, 2019, SDG&E provided the service list with the web conference information and provided the material to be reviewed at the second working group meeting.

- ***Third Workshop***

SDG&E served notice on the R.17-06-026 service list on October 31, 2019, that the third Working Group 2 workshop would be held on November 4, 2019. The notification included the web conference information and provided the co-chair presentation to be reviewed at the third working group meeting. Additional parties presenting at the workshop circulated materials in advance of the workshop.

B. <u>Description of Workshop Meetings</u>

- ***First Workshop***

The first Working Group 2 workshop meeting took place on April 4, 2019, from 10:00 AM to 12:00 PM in the Golden Gate Room at the Commission's San Francisco location. Nineteen individuals attended the meeting in-person, representing nine parties. A web conference option was provided for parties attending remotely. Additional participants joined the workshop meeting telephonically using the web conference option.

The first workshop was focused on the following questions identified in the Phase 2 Scoping Memo:

➢ Which criteria should the Commission adopt for evaluating and approving prepayments? (Issue 1)

- What should be the time periods over which the prepayment can be made? (Issue 3)

Elsa Valay and Mark Fulmer led the discussion at the first workshop meeting. At the conclusion of the workshop meeting, parties were invited to submit informal written comments by April 19, 2019.

- ***Second Workshop***

The second Working Group 2 workshop meeting took place on May 31, 2019, from 10:00 AM to 12:00 PM in the Courtyard Room at the Commission's San Francisco location. Sixteen individuals attended the meeting in-person, representing seven parties. Another thirty-one individuals attended remotely via the web conference option.

The second workshop was focused on the following questions identified in the Phase 2 Scoping Memo:

- Which criteria should the Commission adopt for evaluating and approving prepayments? (Issue 1)
- What should be the time periods over which the prepayment can be made? (Issue 3)

Additionally, the second workshop included discussion of the following questions from the Scoping Memo:

- Should the Commission require any utility accounting treatments to reflect prepayments, and if so, what are these utility accounting treatments? (Issue 2)
- What should be the regulatory approval process and dispute resolution process governing the prepayment option? (Issue 4)

Elsa Valay and Mark Fulmer led the discussion at the second workshop meeting. At the conclusion of the workshop meeting, parties were invited to submit informal written comments by June 14, 2019. At the request of a party, the co-chairs sent a notice to the service list on June 14, 2019 extending the deadline for informal comments to June 21, 2019.

- ***Third Workshop***

The third Working Group 2 workshop meeting took place on November 4, 2019 from 11:00 AM to 1:30 PM in the Auditorium at the Commission's San Francisco location. Twenty-four individuals attended the meeting in-person, representing eleven parties. Another 20 individuals attended remotely via the web conference option.

The third workshop was focused on the following questions identified in the Phase 2 Scoping Memo:

- ➢ Should the Commission require any utility accounting treatments to reflect prepayments, and if so, what are these utility accounting treatments? (Issue 2)
- ➢ What should be the regulatory approval process and dispute resolution process governing the prepayment option? (Issue 4)

Additionally, the third workshop reviewed the following topics previously discussed:

- ➢ Which criteria should the Commission adopt for evaluating and approving prepayments? (Issue 1)
- ➢ What should be the time periods over which the prepayment can be made? (Issue 3)

Elsa Valay and Mark Fulmer led the discussion at the third workshop meeting of the prepayment proposal to be submitted to the Commission. The presentation made by Ms. Valay and Mr. Fulmer is attached to this report as Appendix B. In addition, Pacific Gas and Electric Company ("PG&E"), Sonoma Clean Power ("SCP") and the Utility Consumers' Action Network ("UCAN") made presentations on concepts that, while differing from the type of prepayment arrangement contemplated in D.18-10-019, were of potential interest to some workshop participants. These proposals are discussed in Section IX below. Workshop presentations related to the concepts discussed are included in Appendix C for informational purposes. At the conclusion of the workshop meeting, parties were invited to submit informal written comments by November 14, 2019.

IV. EVALUATION/APPROVAL CRITERIA FOR PREPAYMENT (ISSUE 1)

A. Overview

The first deliverable established by the Scoping Memo is a set of criteria to be used by the Commission for evaluation and approval of proposed prepayment transactions. Recognizing that the adopted prepayment approach must be feasible for a wide range of potential prepayers, the Co-Chairs did not attempt to define a prescriptive, "one-size fits all" construct for prepayment. Rather, the Co-Chairs' proposal includes a general prepayment framework, with many agreement terms to be defined through bilateral negotiations that will reflect the perspectives and priorities of the parties to each transaction. The Co-Chairs developed a set of "Guiding Principles" to identify specific risks and to provide guidance for the negotiation; through discussion of the Guiding Principles, a set of evaluation/approval criteria were developed and are summarized in Appendix A. The Co-Chairs achieved consensus on many aspects of the proposed framework. Those areas that require resolution by the Commission are discussed below and are reflected in italics in Appendix A.

The Guiding Principles are grouped by the following topics:

1. Market Forecast-Related Risk;
2. Volumetric Risk;
3. Regulatory Risk;
4. Credit/Commercial/Administrative Risk.

B. Proposed Framework for Prepayment

The Co-Chairs propose that the PCIA prepayment amount be equal to the present value ("PV") of the customer's forecasted PCIA obligation based on customer vintage for the contractually-identified Direct Access ("DA") meter(s) or Community Choice Aggregator ("CCA") customer load. To determine this amount, the proposed prepayment methodology would establish a "starting point" for calculation of the PCIA prepayment price using a combination of data provided by the investor-owned utility ("IOU"), publicly-available information and, if relevant, data from the prepayer, as noted below. To the extent confidential information is exchanged, such information will be protected under a non-disclosure agreement.

Once the starting point for the calculated prepayment price is established, each negotiating party would then conduct independent modeling and analysis to further develop its proposed prepayment price, each considering its own proprietary assumptions regarding forward pricing and risk. Parties would then negotiate a mutually-agreeable final prepayment price, which the Commission must then determine complies with the statutory requirement of customer indifference. Parties will bilaterally negotiate the other contract terms and conditions of the prepayment agreement. When the parties have reached agreement, the IOU will submit the application requesting approval of the prepayment contract to the Commission.

The methodology used to derive the prepayment price and illustrative examples of calculation of the prepayment process are presented in Appendix B, Slides 58-67. The components of the prepayment calculation include:

i. Forecast of prepayer's PCIA obligation, based on:
   - Total portfolio costs (PCIA-eligible resources) for relevant vintage
   - Estimated brown power costs and volumes
     - Starting point for calculation is Brown Power Final Adder from the most recent Energy Resource Recovery Account ("ERRA") filing

    - Negotiating parties will utilize industry-acceptable forward curve to estimate brown power revenues and costs
  - Estimated Renewable Energy Credit ("REC") costs and volumes
    - Starting point for calculation is REC Final Adder from most recent ERRA filing
  - Estimated Resource Adequacy ("RA") costs and volumes
    - Starting point for calculation is RA Final Adder from most recent ERRA filing

ii. Customer Load

  - Three-year historical average customer load, unless otherwise justified
  - If applicable, the prepayer must provide information related to reasonably foreseeable future plans that could have a material impact on load (*e.g.*, plans to expand a factory served by the DA meter, or plans for a CCA to add additional communities, etc.)

iii. Discount Rate

C. <u>Proposed Guiding Principles</u>

The Guiding Principles developed by the Co-Chairs fall into four main categories: (i) market forecast risk; (ii) volumetric risk; (iii) regulatory risk; and (iv) credit, commercial and administrative procedures. These Guiding Principles serve as the basis for the evaluation criteria developed by the Co-Chairs and summarized in Appendix A. While the Co-Chairs agree on the Guiding Principles, they encountered two areas of disagreement regarding proposed prepayment rules intended to achieve the Guiding Principles. The proposed rules at issue, as well as the concerns related to the proposed rules, are described briefly below and in detail in Section D.

(i) Market Forecast Risk Guiding Principles

Market forecast risk relates to the potential for market prices to change over time – potentially dramatically – and the absence of tools to accurately forecast future pricing of PCIA components (most notably, RECs and RA), which may make it challenging to calculate a prepayment price that accurately reflects future pricing and complies with cost indifference requirements. The proposed consensus Guiding Principles related to market forecast risk include the following:

- Principle #1: Forecast methodologies must be consistent with CPUC energy policy goals and mandates;
- Principle #2: Prepayments are "forward looking" estimates; not a look-back at what was already paid;
- Principle #3: Forecasts should account for all elements of PCIA and use publicly-available forward market information to the extent practical;
- Principle #4: Parties may, but are not required to, agree to prepayment of a specific time segment that is shorter than the full PCIA obligation period (*e.g.*, prepay 5 years of a 20-year PCIA obligation period, after which the customer would return to paying the PCIA or negotiate a subsequent prepay agreement); and
- Principle #5: Market uncertainty will be addressed during individual negotiations.

To address Guiding Principle #5, SDG&E proposed a Non-Prepayer Protection Reserve ("NPPR") concept, which is opposed by AReM/DACC. The NPPR construct is an open issue and is discussed further in Section D below.

(ii) Volumetric Risk Guiding Principles

The PCIA is a volumetric rate. Volumetric risk describes the potential for a material and unanticipated increase or decrease in the prepayer's load after it had prepaid (*i.e.*, a significant increase or decrease in load at the customer meter or CCA community defined in the prepayment agreement). The proposed consensus Guiding Principles related to volumetric risk include the following:

- Principle #1: Prepayment is based on a 3-year historical average load as a starting point.
- Principle #2: Prepayment of a 3-year historical average load is not inclusive of new DA customer meters or new communities added to a CCA. New load will be subject to the PCIA of the relevant vintage or a new PCIA prepayment negotiation.

Guiding Principle #2 reflects the consensus position that each prepayment contract must specifically define what/who the prepayment arrangement covers (*e.g.*, the specific DA meter(s) or CCA community/customers/entities). A PCIA obligation that is not specifically covered in the prepayment contract will be collected in the standard fashion, based on the PCIA of the relevant vintage.

During the workshop process, SDG&E expressed the concern that volumetric risk creates the potential for cost shifting. In some cases, the IOUs procure for future load growth. In addition, since the PCIA is allocated on a per-kWh basis, a significant increase in load at a prepaying DA customer's meter – for example, if a factory expansion occurred at a specific meter after that customer had prepaid – the result would be a situation where the prepayment amount does not fully cover the PCIA payment due for each additional kWh being consumed by the prepayer, and non-prepaying customers would instead absorb those costs.[5]

[5] It was generally agreed that the prepayer would be fully at risk for any overpayments due to load reductions, such as from energy efficiency or other behind-the-meter actions.

AReM/DACC contend that the serving utility would not have procured to serve this increased load, and therefore that no PCIA would be owed. Furthermore, the potential exists for a DA customer to have its load reduced or eliminated due to operational requirements or market conditions. In this case, it can be postulated that there is a cost shift that benefits non-prepaying customers as the prepaid PCIA would be in excess of the amount that would otherwise have been due from the customer. The point to be recognized here is that volumetric risk cuts both ways, and the Co-Chairs recognize that a primary benefit of the prepayment option is achieving certainty of cost obligation.

SDG&E proposed its NPPR construct to address the dual issues of certainty of cost obligation and prevention of cost shift; AReM/DACC oppose the NPPR concept as a true-up that does not comply with the directive in Ordering Paragraph 11 of D.18-10-019 and fails to achieve its intended objectives. The NPPR concept and AReM/DACC's opposition to it are discussed in more detail in Section D below.

(iii) Regulatory Risk Guiding Principles

Regulatory risk generally encompasses the idea that future changes in law or regulations may make the IOUs' PCIA-eligible portfolios either materially more or less "above-market" than is currently contemplated, thus making any pre-payment made in advance of such potential changes potentially risky. The proposed consensus Guiding Principles related to regulatory risk include the following:

- Principle #1: Prepayment contracts must be approved by the Commission via an application process;

- Principle #2: Where negotiating parties mutually agree, prepayment contracts may address a process for amendment to reflect cost impacts of statutory and/or regulatory changes.

(iv) Credit, Commercial and Administrative Procedures Guiding Principles

The proposed consensus Guiding Principles related to credit, commercial and administrative procedures include the following:

- Principle #1: Administrative processes for handling prepayment requests will be established by each IOU. This shall include the type of standard due diligence commercial entities do prior to a transaction;
- Principle #2: IOUs shall take no credit risk for any prepayment agreement;
- Principle #3: For a 2-5 year levelized annual prepayment arrangement, prepaying entities must provide sufficient financial information to evaluate and establish creditworthiness, and, if requested, provide reasonable collateral to qualify. A one-time lump sum payment would not require a credit review.
- Principle #4: Should either party default during the agreement, the defaulting party would owe damages under the agreement.

Regarding Guiding Principle #1, SDG&E proposes that the prepayment administrative process developed by each IOU include an initial viability review prior to commencement of negotiation to examine commercial risk beyond a counterparty' credit profile. AReM/DACC are opposed to this proposal and submit that given that the DA customer or CCA has already shown its viability as a going concern, additional preconditions should not be necessary to commence negotiations. This area of disagreement is discussed in more detail in Section D below.

D. <u>Areas of Non-Consensus</u>

As noted above, while the Co-Chairs reached agreement on the basic framework for the prepayment arrangement, as well as the Guiding Principles that serve as the basis for the evaluation criteria developed through Working Group 2, they failed to achieve consensus regarding two proposed prepayment rules: (i) inclusion of a NPPR component in the prepayment price; and (ii) conducting of an initial viability screen prior to commencement of negotiations. These proposed rules are discussed below.

(i) ***Non-Prepayer Protection Reserve***

a. **SDG&E Position**

The Non-Prepayer Protection Reserve ("NPPR") is a one-time, refundable escrow-like payment intended to offer a solution (albeit imperfect) to the problem of forecast uncertainty and the resulting potential for unlawful cost-shift to non-prepaying customers. As the Commission has acknowledged, discrepancies between forecast and actual values are common.[6] Practically speaking, it would be virtually impossible to perfectly forecast a prepayer's future PCIA obligation, particularly where the forecast period could extend decades into the future. The NPPR operates to minimize the risk of cost-shift to non-prepaying customers due to forecast uncertainty, thereby mitigating market and volumetric risk. The NPPR is necessary to protect non-prepaying customers (bundled service customers <u>*and*</u> non-prepaying CCA/DA customers) and will better enable the Commission to comply with its statutory obligation to ensure cost indifference for non-prepaying customers.

As illustrated in Figure 1, the proposed approach involves a contractual PCIA prepayment amount that is comprised of the following two components: (i) a negotiated, non-

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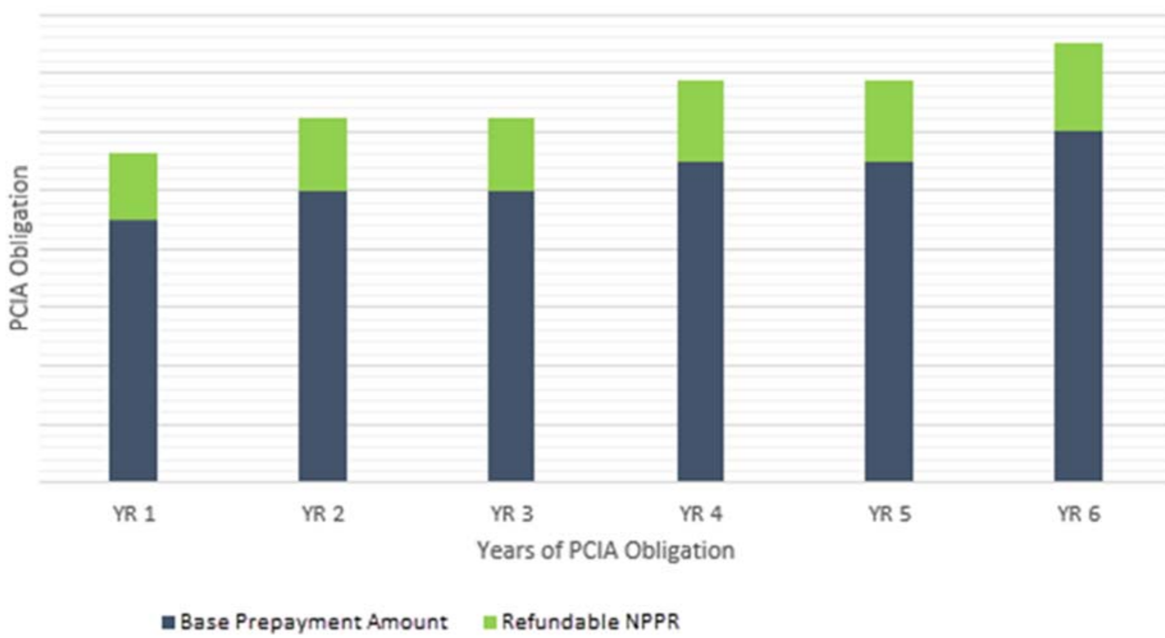
6 *See, e.g.*, D.18-10-019, p. 75.

refundable prepayment amount (the "base prepayment amount") representing a conservative estimate of the net present value of the prepayer's PCIA obligation using high-probability assumptions; and (ii) the negotiated, refundable NPPR, which is incremental to the base prepayment amount and reflects the outside estimate of the prepayer's PCIA obligation, taking into account market and volumetric uncertainty. The base prepayment amount and NPPR together comprise the PCIA prepayment obligation.

Figure 1



In essence, the NPPR acts as insurance against the possibility that the base prepayment amount is less than the prepayer's actual long-term PCIA obligation, which would result in an unlawful cost shift from the prepayer to non-prepayers. The proposal accounts for the reality that any forecast of a prepayer's PCIA obligation will be incorrect shortly after the time it is produced. To the extent the prepayer's actual (versus forecasted) PCIA obligation exceeds the base prepayment amount and the base prepayment amount is exhausted prematurely, the NPPR would operate to cover the under-collection and would prevent an unlawful cost-shift to non-prepaying customers. An NPPR can help protect against inequitable and unlawful cost shift to non-prepaying customers, while being refundable (rather than fixed) in order to protect the prepayer.

The NPPR effectively balances two key objectives identified in D.18-10-019:

(i) The statutory requirement to prevent cost shift;[7] and

(ii) The policy goal of promoting certainty by allowing the prepayer to make an upfront, one-time prepayment based upon a forecast of future PCIA costs.[8]

Regarding the first of these objectives, compliance with the statutory mandate to ensure cost indifference, the NPPR proposal provides a useful tool to address the challenge inherent in accurately forecasting long-term Renewable Portfolio Standard ("RPS") and Resource Adequacy ("RA") prices and future compliance obligations driven by regulatory structure changes. Over time, deviations from the forecast will be magnified and may result in a substantial underpayment of a prepayer's PCIA obligation, which would shift unrecovered costs to non-prepaying customers. The NPPR construct will give the Commission greater confidence that approved prepayment agreements will continue to conform to the indifference requirement over time, and that approval of such agreements does not violate the Commission's statutory obligation to prevent cost-shift.

[7] *See, e.g.*, California Public Utilities Code §365.2. Unless otherwise specified, all references to "Section" are to the Public Utilities Code.

[8] D.18-10-019, pp. 91-92.

There are four possible outcomes of SDG&E's proposed prepayment framework:

	SCENARIO	APPLICATION OF PREPAYMENT	COST SHIFT?
1	Prepayer's PCIA obligation is less than the base prepayment amount	The full amount of the NPPR is refunded to the prepayer; the unused position of the base prepayment amount is not refunded.	Prepayer voluntarily assumes risk of overpayment
2	Prepayer's PCIA obligation is equal to the base prepayment amount	The full amount of the NPPR is refunded to the prepayer	None
3	Prepayer's PCIA obligation exceeds the base prepayment amount, but is less than the NPPR	A portion of NPPR funds are used to ensure cost indifference; the remaining, unused portion of the NPPR is refunded to the prepayer	None
4	Prepayer's PCIA obligation exceeds the base prepayment amount and exceeds the NPPR	The entire NPPR is used; the prepayer's PCIA obligation in excess of the NPPR is recovered from non-prepaying customers	Involuntary cost shift to non-prepaying DA/CCA customers and bundled service customers

Parties who expressed opposition to the NPPR during the workshop process suggested that it is inequitable because it protects non-prepaying customers, while offering no protection to the prepayer if its actual PCIA obligation is less than the base prepayment amount (Scenario 1 above). As a threshold matter, this assertion frames the issue incorrectly. The risks and protections afforded to the prepayer and non-prepayers, respectively, must be assessed on the basis of SDG&E's proposed approach as a whole rather than focused solely on the NPPR component. While it is correct that the NPPR component is intended to protect non-prepayers, the prepayer's ability to negotiate a lower non-refundable payment (the base prepayment amount component) offers protection to the prepayer. Absent the NPPR, the fixed, nonrefundable amount paid by the prepayer will almost certainly be much higher since the IOUs would be required to include a large risk premium in the base prepayment calculation to protect non-prepayers. In this situation, the entire prepayment amount would be nonrefundable. Compared to the NPPR construct, this could have a chilling effect on any potential prepayment deals.

Under SDG&E's proposed approach, *both* the prepayer and non-prepayers accept some level of cost-shift risk, as noted in Scenarios 1 and 4 above. This risk is symmetrical and unavoidable.

Moreover, it is important to remain mindful of the fact that prepayment is a **voluntary decision** by the prepayer. Any DA customer that elects to prepay and assume the risk of overpayment (or a CCA that does not have a PCIA obligation to begin with but assumes that risk on behalf of its customers), does so voluntarily. The risk of an underpaid PCIA obligation is borne solely by non-prepaying customers (non-prepaying CCA/DA customers and bundled service customers alike), who did not voluntarily assume that risk. Accordingly, any small degree of asymmetry that may exist is appropriate given the necessity of protecting non-prepaying customers and upholding statutory indifference.

Regarding the second objective, promoting certainty for the prepayer, it is clear that the NPPR construct proposed by SDG&E satisfies this objective. The NPPR component is part of the negotiated contractual prepayment amount. It is paid <u>once</u> on an upfront basis; the IOU may not return to the prepayer at a later point for additional payment if the base prepayment amount plus NPPR is inadequate to cover the prepayer's actual PCIA obligation.

While some workshop participants have suggested that the NPPR is an impermissible true up under D.18-10-019, this claim makes little sense. Parties point to the prohibition on a "true-up" for prepayments discussed in D.18-10-019, but omit any context for the limitation and, in doing so, misstate the Commission's intent. The rationale cited in Phase 1 to support the prepayment proposal included that "educational, governmental, commercial and industrial DA customers desire certainty as to energy costs," that "there should be a clear end to a customer's ongoing exit fee obligations," and that "there is significant value to be gained by a known, one-time prepayment of charges."[9] Parties opposing the NPPR have failed to demonstrate that the proposed construct interferes in any way with the certainty the prepayment approach is designed to provide.

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[9] D.18-10-019, pp. 88, 90, 91-21.

It is clear from the context of D.18-10-019 that the "true-up" envisioned by the Commission in Phase 1 and prohibited in the prepayment context differs markedly from the NPPR. The Commission explained in D.18-10-019 that it would adopt "an annual true-up requirement to ensure that any forecast-related errors in the annual PCIA are reconciled and cost-shifting is prevented."[10] In other words, the true-up contemplated in Phase 1 involves an reconciliation process that occurs on an annual basis to reconcile forecasts to actuals; the NPPR, by contrast, involves neither aspect. First, the NPPR does not change once the prepayment contract has been approved by the Commission. It is clear that the Commission's intent was to ensure that once DA customer or CCA prepays, there should not be an annual process to relitigate the prepaid amount in response to changes in market pricing. The NPPR is not the type of true-up contemplated in Phase 1 because it is not an adjustment to a previously agreed-upon prepayment amount and no further litigation would be required.

Second, the NPPR does not guarantee reconciliation of a forecast to actuals. While the NPPR is designed to significantly reduce the potential for cost shift, the mechanism does not ensure that cost recovery will perfectly match the prepayer's actual PCIA obligation, as noted in Scenarios 1 and 4 above. Put simply, the purpose of the NPPR is to provide a prepaid reserve amount to offer a measure of protection (but not complete protection) to non-prepayers in the likely event that the prepayer's forecasted PCIA obligation is not accurate; it is not intended to operate as an annual payment adjustment to reconcile forecasts to actuals. Accordingly, it is not a "true-up" prohibited under D.18-10-019.

The mechanics and accounting process for the NPPR are discussed in Section V below.

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10 *Id*., p. 62.

b. AReM/DACC Position

AReM/DACC opposes the NPPR construct, finding that the NPPR is essentially a true-up, which Decision 18-10-019 explicitly forbade at Ordering Paragraph 11.c. AReM/DACC believe the Commission's approval of the prepayment option was premised on the decision's statement at Finding of Fact 25, "An option to prepay would provide simplicity and predictability for departing load customers." The NPPR proposal adds unnecessary complexity and undercuts, rather than enhances, predictability. The proposal is inconsistent with the Commission's clear directive and should be rejected.

Furthermore, the NPPR proposal is one-sided in its effect and operation because it offers protection only to non-prepaying customers in the event the prepayment amount jointly negotiated and approved by the Commission proves to be lower than the PCIA that might otherwise have been due. However, it offers no protection whatsoever to the prepaying DA customer or CCA in the event that the negotiated prepayment proves to be *higher* than the PCIA amount that would otherwise have been due. The Commission decision rejected a true-up because such a process is fundamentally inconsistent with the requirement that the prepayment process offer simplicity and predictability for the customer. The NPPR is at its essence a true up that will complicate the prepayment negotiation process and prolong uncertainty for the DA customer or CCA as to exactly what its PCIA obligation will be. This is a case where the aphorism that the perfect is the enemy of the good applies. The NPPR seeks an unnecessary perfection that is unnecessary and will discourage DA customer and CCA prepayment efforts.

(ii) ***Initial Viability Review***

a. SDG&E Position

An initial viability review to examine commercial risks beyond a counterparty's credit profile is a common element of many IOU energy market transactions. Such viability reviews at the outset of a negotiation are critical to ensure serious interest and determine the viability of potential DA/CCA counterparties. For example, the Federal Energy Regulatory Commission ("FERC") recently issued a notice of proposed rulemaking ("NOPR") for the Public Utility Regulatory Policies Act of 1978 ("PURPA") in which it proposes that qualifying facilities ("QFs") must demonstrate commercial viability and financial commitment before a utility has a legally enforceable obligation.[11]

These are common initial steps in any commercial due diligence review and, as such, are not unduly burdensome to potential CCA/DA pre-payment counterparties. Accordingly, the IOUs should be permitted to establish an initial viability screen as part of the prepayment application process. In addition, for a levelized annual prepayment arrangement, prepaying entities would also be required to provide additional financial information to evaluate commercial, liquidity and administrative risk.

b. AReM/DACC Position

AReM/DACC believes that the "viability review" is an unnecessary "belt and suspenders" proposal that can be subsumed within the IOU's credit review. First, the very term itself is undefined and leads to the suspicion that an IOU might decline to negotiate any prepayment arrangements with a vague claim that the prepayer(s) did not satisfy its "viability"

[11] *Qualifying Facilities Rates and Requirements; Implementation Policies Under the Public Utilities Regulatory Policies Act of 1978*, 168 FERC ¶ 61,184 (2019).

criteria. Second, the would-be prepayer will already be a party that has a longstanding commercial arrangement with the IOU. A credit review is of course reasonable where other than a lump sum prepayment is under consideration. But where the DA customer or CCA passes an industry standard credit review, there should be no other undefined "escape clause" that permits an IOU to reject a prepayment candidate.

V. IOU ACCOUNTING TREATMENTS TO REFLECT REPAYMENTS (ISSUE 2)

The Co-Chairs agree that the utility accounting treatment should offer a means of tracking prepayments to ensure that the process is transparent and auditable. The basic regulatory accounting process would operate as follows: the prepayment amount would be placed in an interest-bearing balancing account, as required by D.18-10-019.[12] Each month, the IOU would calculate a "shadow bill" (*i.e.*, the PCIA amount the prepayer would have owed for that month if it had not prepaid). The "shadow bill" will be calculated by taking the prepayer's total monthly consumption and multiplying it by the current PCIA rate for the prepayer's vintage. The "shadow bill" amount will then be transferred from the prepayer's balancing account to the portfolio allocation balancing account ("PABA"). The rationale for monthly transfer of the "shadow bill" amount from the prepayment balancing account to PABA is that doing so will prevent swings in the PABA balance. Alternative approaches would be to pay the entire prepayment amount into the PABA at one time, to make equal installment payments from the prepayer's balancing account, etc., but these or similar options could cause a skew in the PABA balance that could impact non-prepayers.

While the Co-Chairs agree on the basic regulatory accounting process described above, because AReM/DACC is opposed to SDG&E's NPPR proposal it does not agree to the elements

[12] D.18-10-019, Ordering Paragraph 13.

of the proposed regulatory accounting process that relate to the NPPR. Accordingly, the NPPR-related aspects of the regulatory accounting proposal described below do not reflect a consensus approach.

Under the proposed NPPR approach, the two components of the prepayment – *i.e.*, the NPPR and the base prepayment amount – will be tracked separately in the prepayment balancing account to ensure transparency and ease of tracking. As a practical matter, SDG&E believes that inclusion of the NPPR does not change the mechanics of the accounting process; it simply changes the composition of the prepayer's balancing account to include two "buckets" rather than one. The monthly "shadow bill" payment will be deducted first from the non-refundable base prepayment amount. Under SDG&Es' proposal, if the non-refundable base prepayment amount is eventually exhausted, the monthly "shadow bill" payment would thereafter be deducted from the NPPR.

If the NPPR is exhausted before the conclusion of the prepayer's period of PCIA obligation (based on the prepayer's vintage), no further payment would be due from the prepayer and future "shadow bill" amounts would be collected from non-prepaying customers. If the prepayer's period of PCIA obligation ends and there are funds remaining in the SDG&E-proposed NPPR, those funds would be refunded to the prepayer. Amounts remaining, if any, in the base prepayment amount are not refundable and would be transferred into the PABA.

The proposed regulatory accounting approach is addressed in Appendix B, Slides 32-37.

VI. TIME PERIODS OVER WHICH PREPAYMENT CAN BE MADE (ISSUE 3)

It became clear through the workshop process that divergent opinions exist among stakeholders regarding the nature of the question raised in Scoping Memo Issue 3. Some parties understand the question to refer to the *structure* of the prepayment (*e.g.*, whether payment of the full PCIA obligation may be made over a set time period rather than in a lump sum). D.18-10-

019 answers this question by providing that prepayment may be a one-time payment or a levelized payment over two-five years.

Scoping Memo Issue 3 also could be interpreted as referring to the question of the *period* of prepayment as distinguished from the *structure* of the prepayment (*e.g.*, whether payment may be for a portion of or the full time period of the PCIA obligation). The Co-Chairs propose that parties to a prepayment arrangement address the period of the prepayment in the prepayment contract. The contract could provide for payment of the entire PCIA obligation (*i.e.*, the full 20 years of a 20-year obligation) or, and only upon mutual agreement by the parties, a "segment" of the PCIA obligation (*e.g.*, a customer might seek to pay five years of its 20-year PCIA obligation, and then return to paying the PCIA or negotiate a new prepay arrangement after the five-year period of prepayment has elapsed). Limitation of the prepayment amount to a segment of the prepayer's PCIA obligation must be mutually-agreed to; <u>no party is required to agree to a shortened period (*i.e.*, "segment") payment approach</u>.

VII. REGULATORY APPROVAL PROCESS (ISSUE 4)

The Phase 1 decision requires that proposed prepayment agreements be submitted for Commission approval by the IOU counterparty via an application. The Co-Chairs propose that the Commission's evaluation of the reasonableness of proposed prepayment arrangements be conducted on the basis of the evaluation criteria set forth in Appendix A.

VIII. DISPUTE RESOLUTION PROCESS GOVERNING THE PREPAYMENT OPTION (ISSUE 4)

The process for contract dispute resolution will be addressed in each individual prepayment agreement. The Co-Chairs propose that disputes be resolved in mediation followed by binding arbitration.

IX. OTHER PROPOSALS

In addition to discussion of the four Working Group #2 issues identified in the Phase 2 Scoping Memo, Working Group #2 stakeholders articulated concepts that, while perhaps differing from the type of prepayment arrangement contemplated in D.18-10-019, were of potential interest to some working group participants. These include:

- PG&E and Coalition of California Utility Employees ("CUE") discussed a "bank financing" approach that would involve a financing transaction between a DA customer or CCA and a bank to cover its PCIA obligation and would not involve the utilities in the transaction or require Commission approval of the arrangement.

- SCP described the concept of a "slice of load" PCIA prepayment, in which a DA customer or CCA pre-pays for only a fraction of their forecast PCIA (*e.g.*, for only *Y*% of their anticipated PCIA or for the PCIA associated with only *X* MWhs/year of their departed load.

- TURN detailed a "circuit breaker" approach that would trigger a symmetrical true-up recalculation in cases of material changes (high or low) in assumptions used to develop the prepayment. For example, if the forecast PCIA obligation deviated from the actual PCIA obligation by over OR under 10%, the true-up recalculation would be triggered.

- UCAN outlined an approach in which the LSE could assume the PCIA obligation on behalf of all or a subset of their customers and directly pay the IOU for the PCIA on a regular basis rather than have the customer pay the PCIA. The IOU would receive the same payment each month to cover these customers' PCIA obligations, but would only have to verify a single financial transaction from the LSE under this mechanism, and could revert to billing and tracking receipts on an individual customer basis in future given advanced notification from the LSE. LSEs that voluntarily assume their customers' PCIA obligation would subsequently be free to independently arrange for a variety of prepayment options — including, but not limited to, the transaction contemplated by the PG&E / CUE proposal — and/ or to operationalize additional portfolio optimization strategies. UCAN and interested parties have indicated an intent to pursue this option further in Working Group #3 as it relates to portfolio optimization and cost reduction, and also under Working Group #1 in regard to retail allocation and bill presentation.

While the focus of the workshops and the Co-Chairs' activity was the four deliverables identified in the Scoping Memo for Working Group 2, parties may wish to offer proposals related to these concepts in future Commission proceedings.

X. INFORMAL COMMENTS FOLLOWING THIRD WORKSHOP

Informal comments on the third workshop and associated presentation were served by the following parties and are attached hereto as Appendix D.

1. SDG&E, PG&E and Southern California Edison Company (Joint Utilities)
2. CUE
3. TURN
4. Public Advocates Office (Cal Advocates)
5. California Community Choice Association (CalCCA)
6. Protect Our Communities Foundation (POC)

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Appendix A

Proposed Evaluation Criteria and Open Issues

Summary of Co-Chair Consensus Proposal and Open Issues

I. Introduction

In D.18-10-019, the Commission directed parties to utilize a "working group" process to develop proposed guidelines for implementation of the PCIA prepayment option described in the decision. In its PCIA Phase 2 Scoping Memo ("Scoping Memo"), the Commission identified the issues within the scope of the prepayment working group ("Working Group 2"):

1. Which criteria should the Commission adopt for evaluating and approving prepayments?
2. Should the Commission require any utility accounting treatments to reflect prepayments, and if so, what are these utility accounting treatments?
3. What should be the time periods over which the prepayment can be made?
4. What should be the regulatory approval process and dispute resolution process governing the prepayment option?

As discussed in detail in the attached Final Report, the Working Group 2 Co-Chairs have worked collaboratively, taking into account stakeholder feedback, to achieve consensus regarding several components of the prepayment framework. These areas of consensus are summarized herein. In addition, open issues that require Commission resolution are noted in *italics* herein; the substantive arguments regarding each such issue are set forth in the Final Report.

II. ISSUE ONE: Which criteria should the Commission adopt for evaluating and approving prepayments

The Scoping Memo directs the Co-Chairs to propose a set of criteria to be used by the Commission to evaluate proposed prepayment transactions. As a starting point for development of a proposal to meet this objective, the Co-Chairs established a basic framework for prepayment agreements. The Co-Chairs then identified the criteria to be used by the Commission to evaluate such prepayment arrangements. To develop the evaluation criteria, the Co-Chairs relied upon a set of "Guiding Principles" that identify risks and requirements related to prepayment. These Guiding Principles are grouped into four main areas: (i) market forecast-related risk; (ii) volumetric risk; (iii) regulatory risk; and (iv) credit/commercial/administrative risk. The proposed framework for prepayment agreements, as well as proposed evaluation criteria to be used by the Commission in considering whether to approve such agreements, are described below.

A. Proposed Framework for Prepayment

The Co-Chairs propose that the PCIA prepayment amount be equal to the present value ("PV") of the customer's forecasted PCIA obligation based on customer vintage for the contractually-identified Direct Access ("DA") meter(s) or Community Choice Aggregator ("CCA") customer load. To determine this amount, the proposed prepayment methodology would establish a "starting point" for calculation of the PCIA prepayment price using a combination of data provided by the investor-owned utility ("IOU"), publicly-available information and, if relevant, data from the prepayer as noted below. To the extent confidential information is exchanged, such information would be protected under a non-disclosure agreement.

Once the starting point for the calculated prepayment price is established, each negotiating party will then separately conduct independent modeling and analysis to further develop its proposed prepayment price, each relying upon its own proprietary assumptions regarding forward market pricing and risk. Parties will then negotiate to determine a mutually-agreeable final prepayment price, which must comply with the statutory requirement of customer indifference. Parties will bilaterally negotiate the other contract terms and conditions of the prepayment agreement. When the parties have reached agreement, the IOU will submit the application requesting approval of the prepayment contract to the Commission.

The components of the prepayment calculation include:

i. Forecast of prepayer's PCIA obligation, based on:

- Total portfolio costs (PCIA-eligible resources) for relevant vintage
- Estimated brown power costs and volumes
- Estimated Renewable Energy Credit ("REC") costs and volumes
- Estimated Resource Adequacy ("RA") costs and volumes

ii. Customer Load

- Three-year historical average customer load, unless otherwise justified
- If applicable, the prepayer must provide information related to reasonably foreseeable future plans that could have a material impact on load (*e.g.*, plans to expand a factory served by the DA meter, etc.)

iii. Discount Rate

> ***OPEN ISSUE: The Co-Chairs did not achieve consensus regarding the best approach for ensuring cost indifference. SDG&E proposes a negotiated, one-time, refundable Non-Prepayer Protection Reserve ("NPPR") that is paid upfront and would reflect the outside estimate of the PCIA cost obligation. (See Final Report, Section IV.D(i)a). AReM/DACC do not support the NPPR and instead propose negotiated determination of a specified, fixed cost obligation that is paid upfront. (See Final Report, Section IV.D(i)b).***

B. Proposed Criteria for Adopting and Approving Prepayment Agreements

To develop the evaluation criteria, the Co-Chairs identified Guiding Principles covering four broad areas – (i) market forecast-related risk; (ii) volumetric risk; (iii) regulatory risk; and (iv) credit/commercial/administrative risk – and created evaluation criteria to reflect these Guiding Principles. The Co-Chairs agree on the majority of the evaluation criteria. Open issues that require Commission resolution are noted in italics and are discussed in more detail in Section IV.D of the Final Report. The proposed evaluation criteria include the following:

Evaluation Criteria Related to Market Forecast Risk

- Is forecast methodology used to develop prepayment amount consistent with CPUC energy goals and mandates? (Market Risk Guiding Principle #1)
- Is prepayment amount a forward-looking estimate and not a look-back at what was already paid? (Market Risk Guiding Principle #2)
- Does the forecast used to develop the prepayment amount account for all elements of PCIA and use publicly-available forward market information to the extent practicable? (Market Risk Guiding Principle #3)
- If the prepayment agreement does not cover the full time period of the PCIA obligation, do both parties agree to the shorter time segment? (Market Risk Guiding Principle #4)[1]
- Do the individually-negotiated provisions of the prepayment agreement adequately address market uncertainty? (Market Risk Guiding Principle #5)[2]

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1 Market Risk Guiding Principle #4: Parties may, but are not required to, agree to prepayment of a specific time segment that is shorter than the full PCIA obligation period (*e.g.,* prepay 5 years of a 20-year PCIA obligation period, after which the customer would return to paying the PCIA or negotiate a subsequent prepay arrangement.

2 Market Risk Guiding Principle #5: Market uncertainty will be addressed during individual negotiations.

OPEN ISSUE: In connection with the market uncertainty criterion, SDG&E submits that the NPPR component of the prepayment price is necessary to protect non-prepaying customers (both non-prepaying departed load and bundled service customers) from cost shift given inherent market volatility and the impossibility of perfectly predicting market prices over the long term. (See Final Report, Section IV.D(i)a). AReM/DACC believe that the NPPR is essentially a true-up prohibited under D.18-10-019, that it adds unnecessary complexity and undercuts predictability, and that fails to protect the prepayer from overpaying. AReM/DACC assert that market uncertainty should be addressed through negotiated determination of a specified, fixed cost obligation that is paid upfront. (See Final Report, Section IV.D(i)b).

<u>Evaluation Criteria Related to Volumetric Risk</u>

- Did parties use the three-year historical average as a starting point for negotiation of the prepayment amount? (Volumetric Risk Guiding Principle #1)
- Does the prepayment agreement sufficiently identify the DA customer meter(s) or CCA customer load covered by the prepayment amount? (Volumetric Risk Guiding Principle #2)[3]

[3] Volumetric Risk Guiding Principle #2: Prepayment of a 3-year historical average load is not inclusive of new DA customer meters or new communities added to a CCA. New load will be subject to the PCIA of the relevant vintage or a new PCIA prepayment negotiation.

OPEN ISSUE: SDG&E submits that the NPPR component of the prepayment price is necessary to protect non-prepaying customers (both non-prepaying departed load and bundled service customers) from cost shift associated with volumetric risk. (See Final Report, Section IV.D(i)a). AReM/DACC believe that volumetric uncertainty should be addressed through negotiated determination of a specified, fixed cost obligation that is paid upfront. (See Final Report, Section IV.D(ii)b).

Evaluation Criteria Related to Regulatory Risk

- Is approval for the prepayment agreement being sought via an application? (Regulatory Risk Guiding Principle #1)[4]
- If the prepayment agreement includes a process for amendment to reflect cost impacts of statutory and/or regulatory changes, do both parties agree to the proposed process? (Regulatory Risk Guiding Principle #4)[5]

Evaluation Criteria Related to Credit, Commercial and Administrative Risk

- Did the IOU conduct adequate due diligence – *i.e.*, the type of standard due diligence that commercial entities conduct prior to a transaction? (Credit, Commercial & Admin. Guiding Principle #1)[6]

[4] Regulatory Risk Guiding Principle #1: Prepayment contracts must be approved by the Commission via an application process.

[5] Regulatory Risk Guiding Principle #2: Where negotiating parties mutually agree, prepayment contracts may address a process for amendment to reflect cost impacts of statutory and/or regulatory changes.

[6] Credit, Commercial & Admin. Guiding Principle #1: Administrative process for handling prepayment requests will be established by each IOU. This is intended to be the type of standard due diligence commercial entities do prior to a transaction.

OPEN ISSUE: SDG&E requests Commission guidance regarding the appropriate level of due diligence. SDG&E proposes that the prepayment administrative process developed by each IOU include an initial viability review prior to commencement of negotiation to examine commercial risk beyond a counterparty' credit profile. (See Final Report, Section IV.D(ii)a). AReM/DACC submit that given that the DA customer or CCA has already shown its viability as a going concern, additional hoops should not be necessary to commence negotiations. (See Final Report, Section IV.D(ii)b).

- Does the prepayment agreement protect IOU bundled service customers from credit risk related to the prepayment? (Credit, Commercial & Admin. Guiding Principle #2)[7]
- For a 2-5 year levelized annual prepayment agreement, has the prepaying entity provided sufficient financial information to evaluate and establish creditworthiness, as well as reasonable collateral, if requested? (Not necessary for one-time payment). (Credit, Commercial & Admin. Guiding Principle #3)
- Does the prepayment agreement establish adequate damages in the event of default by either party? (Credit, Commercial & Admin. Guiding Principle #4)[8]

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7 Credit, Commercial & Admin. Guiding Principle #2: IOUs shall take no credit risk for any prepayment agreement.

8 Credit, Commercial & Admin. Guiding Principle #4: Should either party default during the agreement, the defaulting party would owe damages under the agreement.

III. ISSUE TWO: What will be the utility accounting treatments to reflect prepayments?

The basic regulatory accounting process would operate as follows: the prepayment amount would be placed in an interest-bearing balancing account, as required by D.18-10-019. Each month, the IOU would calculate a "shadow bill" (*i.e.*, the PCIA amount the prepayer would have owed for that month if it had not prepaid). The "shadow bill" will be calculated by taking the prepayer's total monthly consumption and multiplying it by the current PCIA rate for the prepayer's vintage. The "shadow bill" amount will then be transferred from the prepayer's balancing account to the portfolio allocation balancing account ("PABA"). This process will occur on a monthly basis.

If the NPPR construct is adopted by the Commission, the mechanics of the accounting process remain the same, but the composition of the prepayer's balancing account would change to include two "buckets" rather than one. The two components of the prepayment – *i.e.*, the NPPR and the base prepayment amount – would be tracked separately in the prepayment balancing account to ensure transparency and ease of tracking. The monthly "shadow bill" payment would be deducted first from the non-refundable base prepayment amount. If the non-refundable base prepayment amount is eventually exhausted, the monthly "shadow bill" payment would thereafter be deducted from the NPPR. If the NPPR is exhausted before the conclusion of the prepayer's period of PCIA obligation (based on the prepayer's vintage), no further payment would be due from the prepayer and future "shadow bill" amounts would be collected from non-prepaying customers.

If the prepayer's period of PCIA obligation ends and there are funds remaining in the NPPR, those funds would be refunded to the prepayer. Amounts remaining in the base prepayment amount fund, if any, at the conclusion of the prepayer's period of PCIA obligation are not refundable.

IV. ISSUE THREE: What should be the time periods over which the prepayment can be made?

It was not clear to parties whether this question set forth in the Scoping Memo refers to the *structure* of the prepayment (*e.g.*, payment of the full PCIA obligation being made over a negotiated period of time, which under D.18-10-019 could be a one-time payment or a levelized payment over two-five years) or instead refers to the *period* of prepayment (*e.g.*, payment being made for only the first 5 years of a 20-year PCIA obligation). To address both of these scenarios, the Co-Chairs propose the following:

- In accordance with D.18-10-019, prepayment may be structured as a one-time payment or a levelized payment over two-five years; and
- The period of prepayment will be negotiated and must be mutually agreed-to by the parties to the negotiation. The contract will provide for payment of the entire PCIA obligation (*i.e.*, the full 20 years of a 20-year obligation) or, <u>upon mutual agreement by the parties</u>, a "segment" of the PCIA obligation. Under the "segment" payment approach, a customer might seek to pay a portion of its prepayment obligation (*i.e.*, the first five years of its 20-year PCIA obligation), and then return to paying the PCIA or negotiate a new prepayment arrangement after the period of prepayment has elapsed. Limitation of the prepayment amount to a segment of the prepayer's PCIA obligation must be mutually-agreed to; no party is obligated to agree to a segment payment approach.

V. ISSUE FOUR: What should be the regulatory approval process and dispute resolution process governing the prepayment option?

The Co-Chairs propose the following:

- In accordance with D.18-10-019, proposed prepayment agreements will be submitted for Commission approval by the IOU counterparty via an application.
- The process for contract dispute resolution will be addressed in each individual prepayment agreement. Disputes related to executed contracts will be resolved in mediation followed by binding arbitration.

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Appendix B

Workshop #3 Co-Chair Presentation

PCIA Phase 2 Working Group #2
Prepayment, 3rd & Final Workshop

November 4, 2019

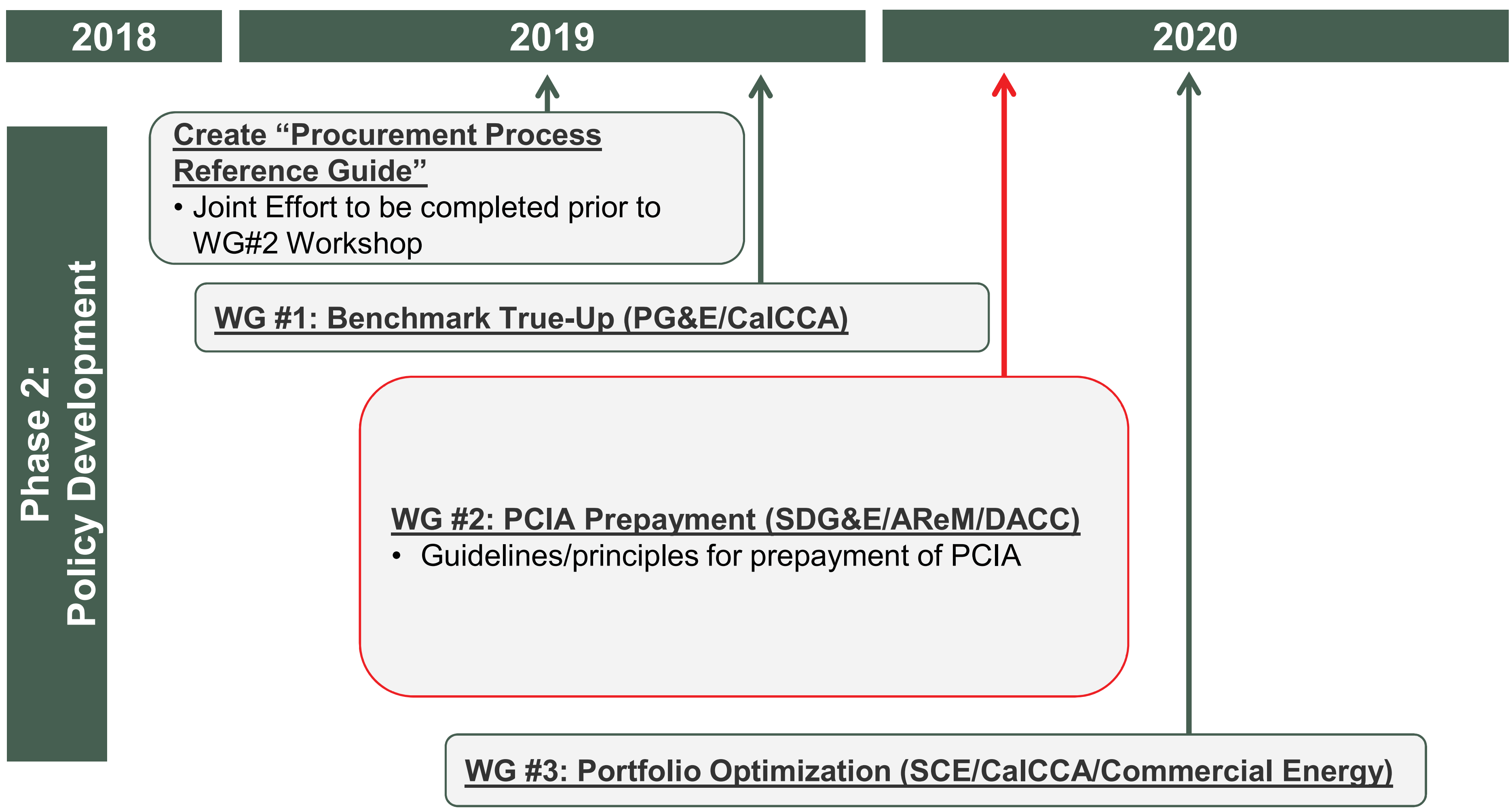
Opening Remarks

- Scope of Working Group 2 is established in Phase 2 Scoping Memo:
  - Criteria for evaluating and approving the prepayment option described in D.18-10-019;
  - Utility accounting treatments to reflect prepayments;
  - Time periods over which prepayments can be made;
  - Regulatory approval process and dispute resolution process governing the prepayment option.
- Final Workshop Report will address these deliverables.
- Co-chairs would welcome additional proposals of interest to stakeholders being presented at workshops, time permitting.

Agenda

- Safety (9-1-1, AED, CPR)
- PCIA Prepayment Scoping Memo Issues
  - Scoping Memo Issue #1: Proposed criteria to be used by the Commission for evaluating and approving prepayments
  - Scoping Memo Issue #2: Utility accounting treatments to reflect prepayments
  - Scoping Memo Issue #3: Time periods over which the prepayment can be made
  - Scoping Memo Issue #4: Regulatory approval process and dispute resolution process
- Application Framework and Exchange of Information Rules
- Stakeholder Proposals
- Next Steps
  - Co-chair Proposal for Final Workgroup Report (12/9/2019)

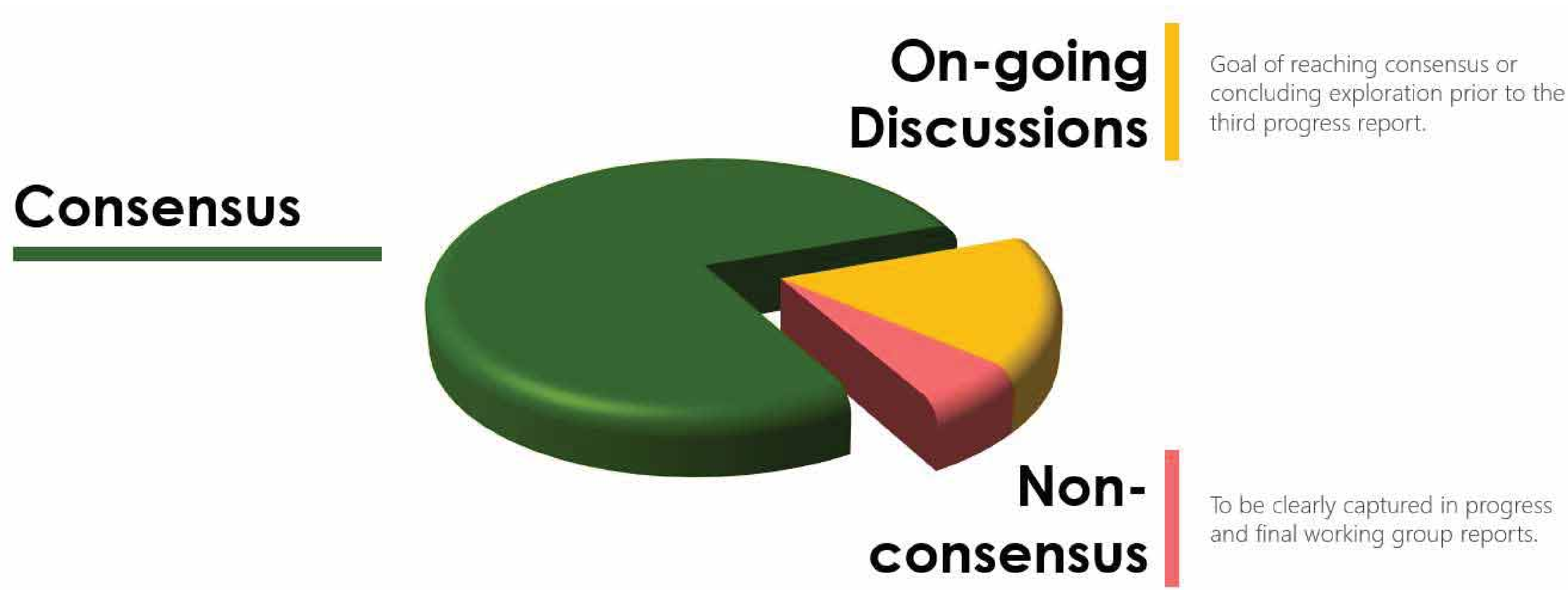
Schedule – Outline



Schedule – Prepayment Workgroup

Dates	Activity
April 4, 2019	Initial workshop
April 19, 2019	Parties' written comments/proposals
May 24, 2019	First Progress Report
May 31, 2019	Second workshop
June 14, 2019	Parties' written comments/proposals
July 26, 2019	Second Progress Report
November 4, 2019	Third & Final Workshop
November 14, 2019	Parties' written comments/proposals
December 9, 2019	Final Working Group Report
Q1 2020	Proposed Decision
30 days after Proposed Decision	Commission Voting Meeting

Consensus, Non-Consensus & On-going Discussions



SCOPING MEMO ISSUE 1

"Which criteria should the Commission adopt for evaluating and approving prepayments?"

Spectrum of Approaches

Suggested Approach to Prepayment (1 of 2)

- PCIA prepayment price for contractually identified DA meter(s)/CCA determined using the following process:
  - Prepayment methodology operates to establish a "starting point" [1] for calculating the prepayment price;
  - Each negotiating party then conducts independent modeling and analysis to further develop its proposed prepayment price; and
  - Parties then negotiate to determine a mutually-agreeable final prepayment price.
- Prepayment agreement does not change the statutory requirement of customer indifference.
- Parties bilaterally negotiate contract terms.
- IOU submits application to Commission requesting approval of proposed prepayment agreement.

[1] The starting point for each prepayment component is defined in Appendix B.

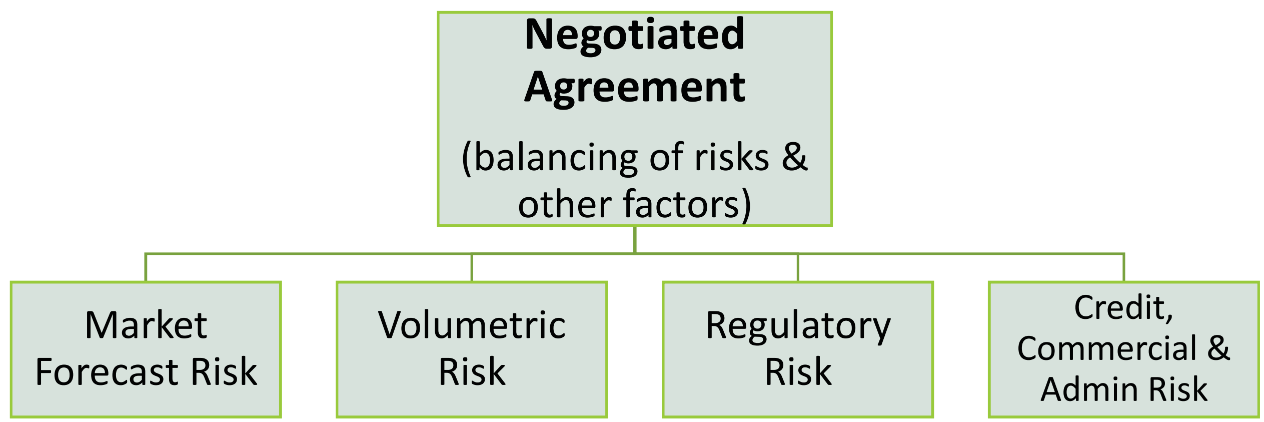
Suggested Approach to Prepayment (2 of 2)

- Market/volumetric uncertainty to be addressed in contract.
  - <u>SDG&E position:</u> Market/volumetric uncertainty (*i.e.*, PCIA cost volatility) addressed through a one-time, <u>refundable</u> Non-Prepayer Protection Reserve (NPPR), which reflects the outside estimate of PCIA cost obligation. NPPR balances the objectives of (1) protecting non-prepayers from cost-shift; and (2) allowing the prepayer to make an upfront, one-time prepayment (preserve certainty of payment amount). Refundable nature of NPPR also prevents overpayment by prepayer.*
  - <u>AReM/DACC position</u>: The NPPR is a pre-paid true-up that is not necessary and is contrary to D.18-10-019. Market/volumetric uncertainty should be addressed through negotiated determination of a specified fixed cost obligation that is paid upfront.

*See slides 17-22 for detailed description of NPPR.

Guiding Principles

Guiding Principles
4 Major Components



Market Forecast Risk

Consensus:
Guiding Principles, Market Forecast Risk

- Principle #1: Forecast methodologies must be consistent with CPUC energy policy goals and mandates.
- Principle #2: Prepayments are "forward looking" estimates; not a look-back at what was already paid.
- Principle #3: Forecasts should account for all elements of PCIA and use publicly available forward market information to the extent practical.
- Principle #4: Parties may, <u>but are not required to</u>, agree to prepayment of a specific time segment that is shorter than the full PCIA obligation period (*e.g.*, pre-pay 5 years of a 20-year PCIA obligation period, after which the customer would return to paying the PCIA, or negotiate a subsequent prepay arrangement).

Non-Consensus:

Suggested Guiding Principles, Market Forecast Risk (1 of 2)

- Principle #5: Market uncertainty to be addressed during individual negotiations (cont.).

SDG&E position: Prepayment should include a "Non-Prepayer Protection Reserve" (NPPR) amount.

- Upfront, one-time, refundable, escrow-like payment
- Incremental payment that reflects the outside estimate of PCIA cost obligation (accounts for forecast risk)
- Used to recover under-collections due to prepayment arrangement, thereby protecting *all* non-prepaying customers from cost-shift (*i.e.*, non-prepaying departing load customers and bundled service customers)
- One-time, upfront payment by the prepayer achieves goal of certainty
- NPPR is a tool that mitigates the prepayer's risk of overpaying its refundable, PCIA obligation.

Stakeholder comment(s):

- Stakeholder views on the NPPR were mixed (see comments in Appendix A).

Non-Consensus:

Suggested Guiding Principles, Market Forecast Risk (2 of 2)

- Principle #5: Market uncertainty to be addressed during individual negotiations (cont).

AReM/DACC position: Does not support the NPPR.

- Market/volumetric uncertainty should be addressed through negotiated determination of a specified fixed cost obligation that is paid upfront.
- The NPPR does not protect the prepayer from overpaying.
- NPPR is essentially a true-up, which Decision 18-10-019 explicitly forbade at Ordering Paragraph 11.c.
- The Commission's approval of the prepayment option was premised on the decision's statement at Finding of Fact 25, "An option to prepay would provide simplicity and predictability for departing load customers." The NPPR proposal adds unnecessary complexity and undercuts, rather than enhances, predictability.
- The proposal is inconsistent with the Commission's clear directive and should be rejected

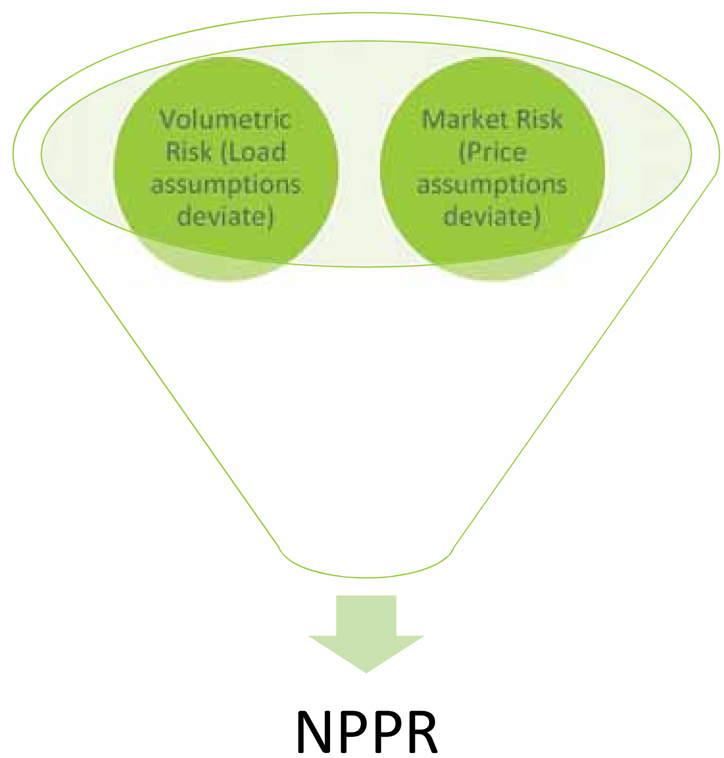
Stakeholder comment(s):

- Stakeholder views on the NPPR were mixed (see comments in Appendix A).

SDG&E's Refundable
Non-Prepayer Protection Reserve (NPPR)

Draft for PCIA Phase 2
Working Group -
Discussion Purposes Only

SDG&E: NPPR Considerations



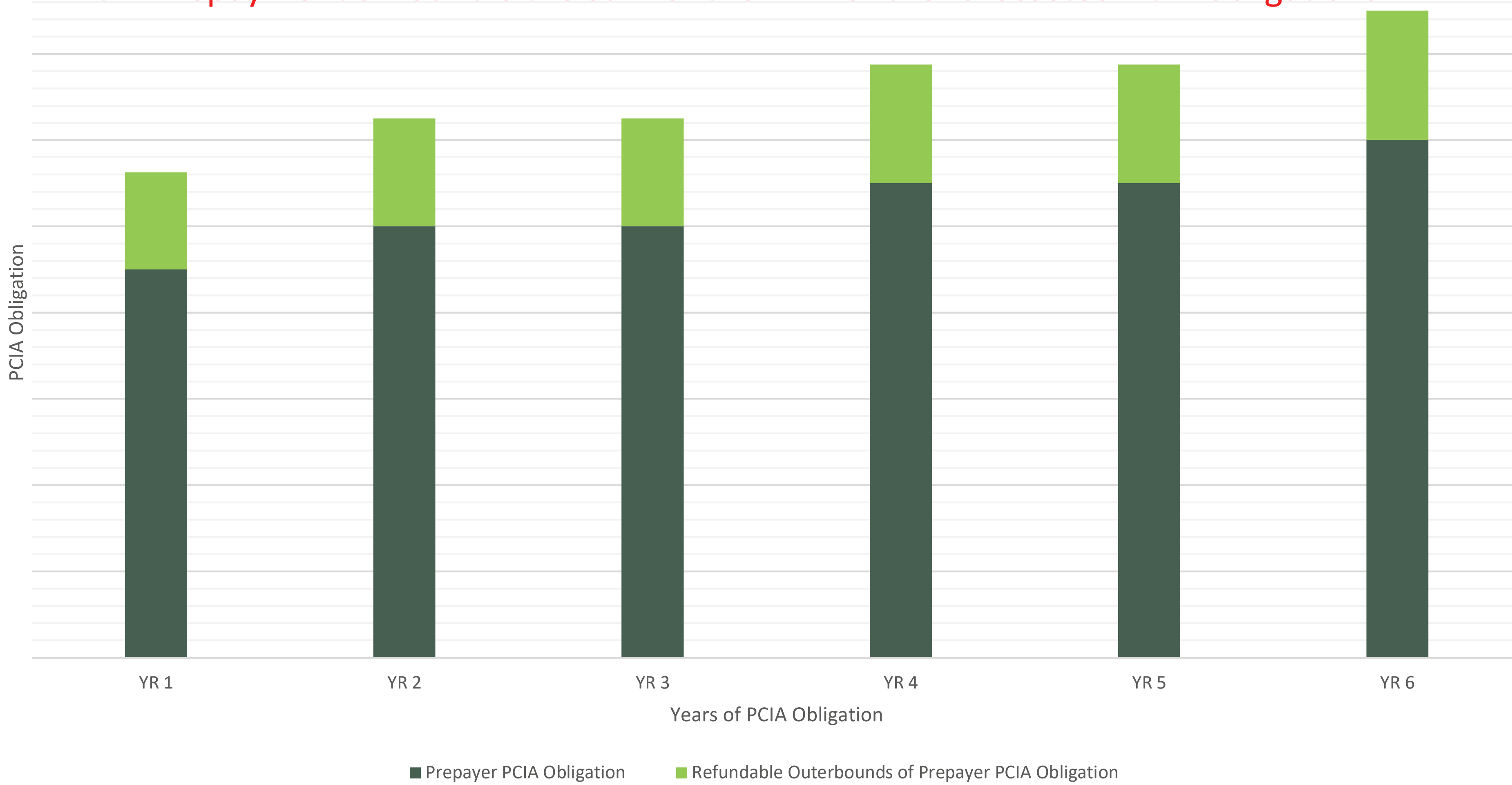
SDG&E: PCIA Prepayment = NRP + NPPR

- Due to forecast uncertainty, future PCIA obligation is difficult to measure.
- Forecast uncertainty that amplifies with time can cause a cost shift from prepayer to non-prepayers.
- To meet statutory cost indifference requirement, the PCIA prepayment mechanism must address forecast uncertainty.
- PCIA prepayment = non-refundable payment ("NRP") equal to parties' reasonable estimate of PCIA obligation + incremental, refundable NPPR that reflects the outside possibility of what the PCIA obligation could be.
- These components together represent the PCIA Prepayment obligation.

Draft for PCIA Phase 2 Working Group - Discussion Purposes Only

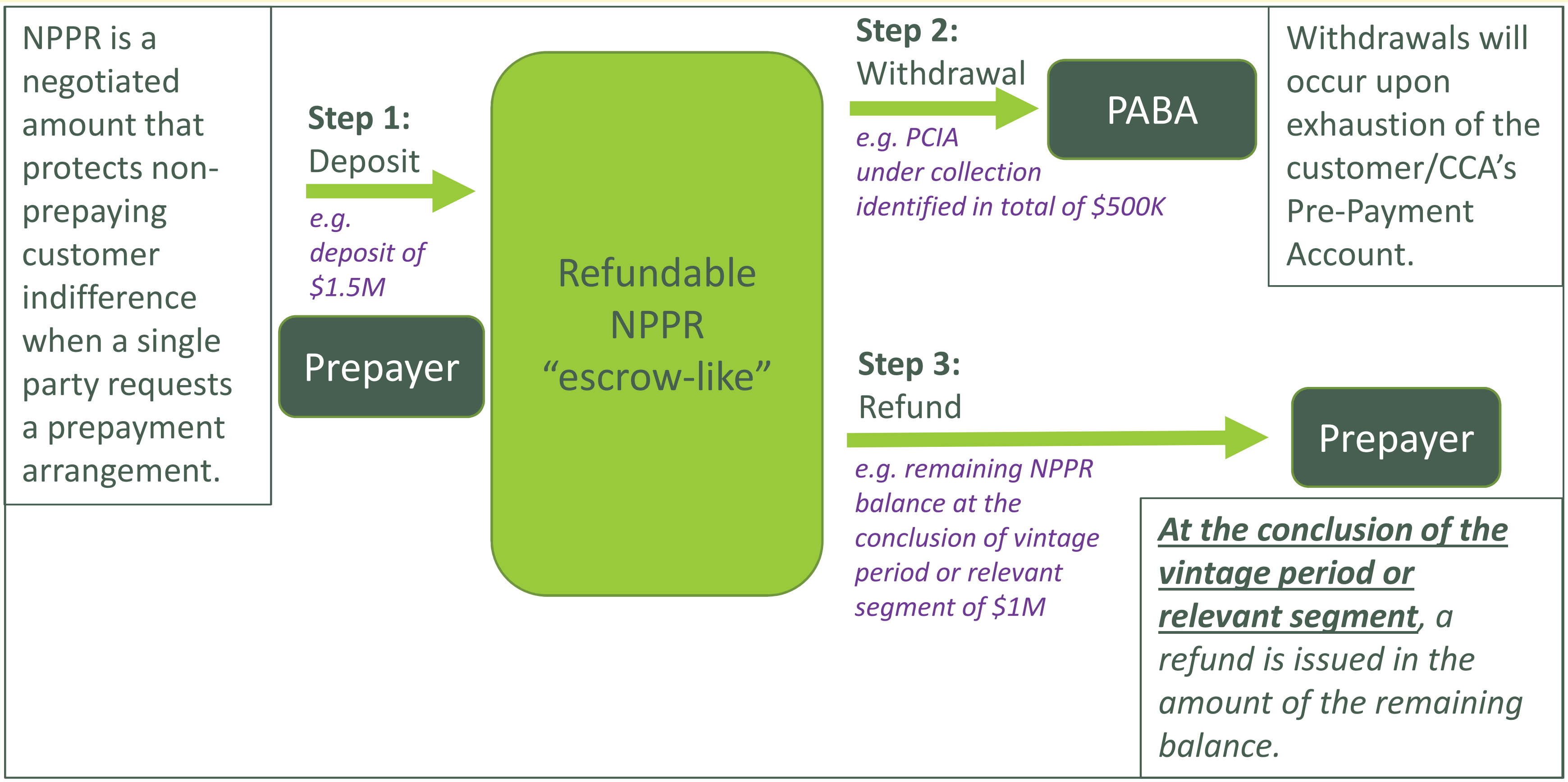
SDG&E: Prepayment Illustration

PCIA Prepayment amount is the sum of the NPV of the forecasted PCIA obligations.

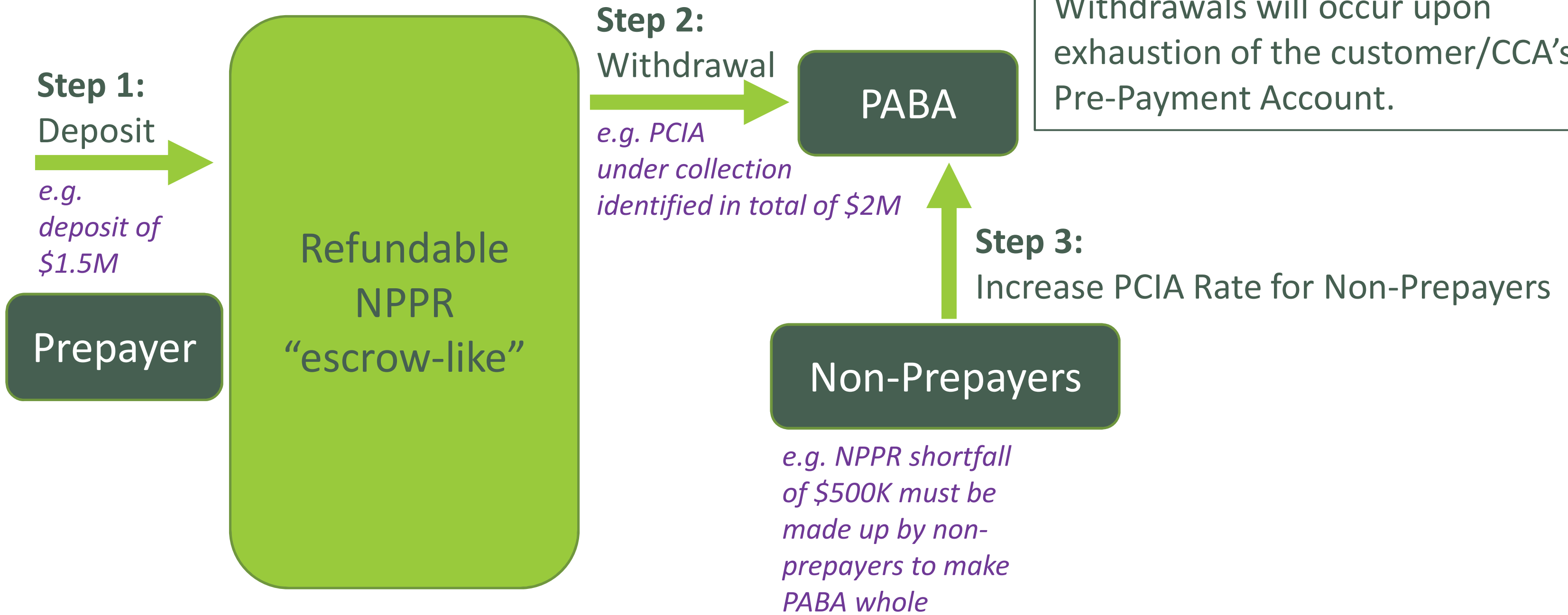


SDG&E: NPPR Accounting

After the prepayment has been posted in PABA, the prepayer shall deposit the agreed to amount for the NPPR into an "escrow-like" account.



SDG&E: Consideration if NPPR is Depleted



Withdrawals will occur upon exhaustion of the customer/CCA's Pre-Payment Account.

The $500K NPPR shortfall will be collected from non-prepayers and deposited into the PABA, effectively increasing the non-prepayers' PCIA rate at the next annual PCIA rate adjustment.

Volumetric Risk

Consensus:
Guiding Principles, Volumetric Risk

- Principle #1: Prepayment is based on a 3-year historical average load <u>as a starting point</u>.
- Principle #2: Prepayment of a 3-year historical average load is not inclusive of new DA customer meters or new communities added to a CCA and will be subject to the PCIA of the relevant vintage or a new PCIA prepayment negotiation.

Regulatory Risk

Consensus:
Guiding Principles, Regulatory Risk

- Principle #1: Prepayment contracts must be approved by the Commission via an application process.
- Principle #2: Where negotiating parties mutually agree, prepayment contracts may address a process for amendment to reflect cost impacts of statutory and/or regulatory changes.

<u>Co-chair position:</u> Reopeners may be bilaterally negotiated where appropriate. No unilateral openings or specific "triggering events."

<u>Stakeholder comments</u>

- Stakeholders generally did not support the concept of statutory and/or regulatory changes constituting a need to revisit the prepayment arrangement. One stakeholder contemplated re-openers, but for the purpose of true-up, which D.18-10-019 explicitly rejected.

Credit, Commercial & Administrative Procedures

Non-Consensus:
Guiding Principles, Credit, Commercial & Admin Procedures

- Principle #1: Administrative process for handling prepayment requests will be established by each IOU. This is intended to be the type of standard due diligence commercial entities do prior to a transaction.

  SDG&E position: Each IOU will develop its own prepayment administrative process. This will include an initial viability review to examine commercial risks beyond a counterparty's credit profile.

  The viability review is consistent with the recent notice of proposed rulemaking (NOPR) for the Public Utility Regulatory Policies Act of 1978 (PURPA). The NOPR regulations will require a QF to demonstrate commercial viability and financial commitment to construct the project, pursuant to criteria determined by the state regulatory authority.

Non-Consensus:
Guiding Principles, Credit, Commercial & Admin Procedures

- Principle #1: Administrative process for handling prepayment requests will be established by each IOU. This is intended to be the type of standard due diligence commercial entities do prior to a transaction.

  <u>AReM/DACC position:</u> Given that the Customer or CCA has already shown its viability as an ongoing concern, additional hoops shouldn't be necessary to commence negotiations. If there are risks beyond the pre-paying DA customer's or CCA's credit, then that can enter into the negotiation.

  <u>Stakeholder comments</u>

  - One stakeholder provided a comprehensive prepayment application framework with viability review, a lottery selection system, price/term negotiations, application, and discontinuation of the program covered. Another stakeholder supported separate administrative processes should the standards and criteria are applied uniformly across IOUs.

    "CalCCA notes that separate administrative processes are acceptable so long as the standards and criteria are applied uniformly across IOUs. SDG&E, for example, should not conduct a viability review of a counterparty's financial health using different metrics than PG&E. The CPUC should conduct a workshop to determine what these metrics should be. Following that, established metrics should be made public so that Commission staff and departing load interests know how they are being evaluated."

Consensus:
Guiding Principles, Credit, Commercial & Admin Procedures

- Principle #2: IOUs shall take no credit risk for any prepayment agreement.
- Principle #3: **For a 2-5 year levelized annual prepayment arrangement**, prepaying entities must provide sufficient financial information to evaluate and establish creditworthiness, and must provide reasonable collateral to qualify, if requested.

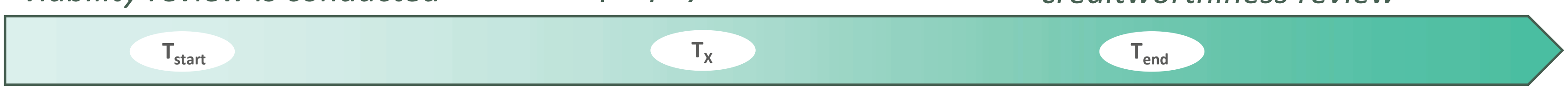
Co-Chair position: This is standard risk management practice to ensure customer indifference is not jeopardized. A one-time lump sum payment would not require a credit review, but levelized payments of 2-5 years will.

HIGH-LEVEL TIMELINE

Party engages IOU and an initial viability review is conducted

Negotiating parties agree to a prepayment amount

Prepayer that elects a prepayment term of 2-5 years will be subject to counter-party creditworthiness review



Consensus:
Guiding Principles, Credit, Commercial & Admin Procedures

- Principle #4: Should either party default during the agreement, the defaulting party would owe damages under the agreement.

Co-Chair position: Each prepayment negotiation will consider the appropriate method to make parties whole in the event of default by either party.

SCOPING MEMO ISSUE 2

“What will be the utility accounting treatments to reflect prepayments?"

Scoping Memo #2 (Consensus)

- **Utility accounting treatments to reflect prepayments**

Co-Chair position:

- Proposed utility accounting treatment, as illustrated on the following slide, should be used as a means to track prepayments to ensure the process is transparent and auditable.

Stakeholder comment(s):

- The majority of stakeholders did not opine on utility accounting treatments for prepayment. One stakeholder responded to SDG&E's proposed accounting treatment and stated the following reason why they oppose the accounting treatment given the impression they have is it's a means to true-up:

> *"This proposal would net the difference between a fixed, agreed-upon prepayment amount and what the customer would have otherwise paid through an annual PCIA (now called the "shadow" bill). The purpose of the prepayment calculation is to create a set cost that eliminates any future PCIA burden and uncertainty for both bundled customers and those of the LSE making the prepayment. Under the proposed shadow bill system, the difference between the fixed prepayment and the floating PCIA would be booked into the PABA balancing account and applied as a credit or additional charge to the customer the next year. So, if the forecast PCIA was $10M, but actual above-market costs were $9M, the $1M difference would be trued-up in the following year."*

Draft for PCIA Phase 2 Working Group - Discussion Purposes Only

Prepayment Utility Accounting Treatment

Non-prepayment Process		PCIA Rate Computed	PCIA Payment on Bill	Booked into PABA
Prepayment Process	PCIA Prepayment	PCIA Rate Computed	PCIA "Shadow" Billed	Booked into PABA
	The prepayment is placed in an interest-bearing account	Each year, the IOU calculates "shadow bills" for the prepayer (i.e., calculate what PCIA would have been paid had they not prepaid)		The shadow bill amount is transferred from the prepayer account to the PABA

SDG&E: 3 year Prepayment NPPR – Below Range

	Prepayment + NPPR	End of Year 1*	End of Year 2*	End of Year 3*	Close out	Totals
Prepayment BA	($550,000)[1]	$125,000[2]	$150,000	$200,000	$75,000	$0
NPPR	($50,000)				$50,000	$0
PABA		($125,000)[2]	($150,000)	($200,000)	($75,000)	($550,000)
Prepayment Deposit	$600,000				($50,000)**	$550,000

1 Prepayment amount is booked to the Prepayment Balancing Account (BA)
2 Prepayment BA is transferred to Portfolio Allocation Balancing Account (PABA)

* Amount will be determined and booked monthly by prepayer's total consumption multiplied by the current PCIA rate for the prepayer's vintage
** Refunded to prepayer

SDG&E: 3 year Prepayment NPPR – Within Range

	Prepayment + NPPR	End of Year 1*	End of Year 2*	End of Year 3*	Close out	Totals
Prepayment BA	($550,000)[1]	$175,000[2]	$190,000	$185,000	$25,000	$0
NPPR	($50,000)			$25,000[3]	$25,000	$0
PABA		($175,000)[2]	($190,000)	($210,000)	$0	($575,000)
Prepayment Deposit	$600,000				($25,000)**	$575,000

[1] Prepayment amount is booked to the Prepayment Balancing Account (BA)
[2] Prepayment BA is transferred to Portfolio Allocation Balancing Account (PABA)
[3] Prepayment BA has been exhausted causing the NPPR to be used to make up the balance

* Amount will be determined and booked monthly by prepayer's total consumption multiplied by the current PCIA rate for the prepayer's vintage
** Refunded to prepayer

SDG&E: 3 year Prepayment NPPR – Above Range

	Prepayment + NPPR	End of Year 1*	End of Year 2*	End of Year 3*	Close out	Totals
Prepayment BA	($550,000)[1]	$200,000[2]	$220,000	$180,000	($50,000)	$0
NPPR	($50,000)			$50,000[3]	$0	$0
PABA		($200,000)[2]	($220,000)	($230,000)	$50,000	($600,000)
Prepayment Deposit	$600,000				$0	$600,000

[1] Prepayment amount is booked to the Prepayment Balancing Account (BA)
[2] Prepayment BA is transferred to Portfolio Allocation Balancing Account (PABA)
[3] Prepayment BA has been exhausted causing the NPPR to be used to make up the balance

* Amount will be determined and booked monthly by prepayer's total consumption multiplied by the current PCIA rate for the prepayer's vintage

SCOPING MEMO ISSUE 3

“What should be the time periods over which the prepayment can be made?"

Scoping Memo #3 (Consensus)

- **Time periods over which the prepayment can be made**

Co-Chair position:

- Prepayments could either be (a) one-time; or (b) a series of levelized payments over 2-5 years.

Stakeholder comment(s):

- No stakeholders directly addressed an issue with time periods identified in the Phase 1 Decision for which the prepayment can be made. Stakeholders did opine on the credit review required by the IOUs for an arrangement of this type. Major concern from stakeholders were related to reviews that would potentially preclude some prepayers from participation in a prepayment arrangement.

SCOPING MEMO ISSUE 4

“What should be the regulatory approval process?"

Scoping Memo #4 (Consensus)

- **Regulatory approval process**

Co-Chair position:

- Prepayment contracts must be approved by the Commission via an application process.
  - OP 12, D.18-10-0190: Prepayment Agreements "will be submitted for Commission approval by the utility counterparty via an application."
  - Commission will evaluate reasonableness of proposed prepayment arrangement using criteria developed through the working group process and adopted by the Commission.

Stakeholder comment(s):

- One stakeholder proposed that prepayers be allowed to file a prepayment arrangement with the CPUC unilaterally.
  - However, this appears conflict with OP12, as well as the Commission's directive for parties to develop a prepayment agreement that is “mutually agreeable.” A stakeholder could file a complaint rather than a unilateral application.

SCOPING MEMO ISSUE 4 (continued)

“What should be the dispute resolution process?"

Scoping Memo #4 (Consensus)

- **Executed contract dispute resolution process**

<u>Co-Chair position:</u>

- Disputes are resolved in mediation followed by binding arbitration

Application Framework

Application Framework (On-going Discussions)

- Prepayment applications will be managed according to each IOU's prepayment application framework.
  - This includes notification of the prepayer's intent to prepay for their entire PCIA obligation or a "segment" of their PCIA obligation.
- All prospective applicants will be subject to an administrative process for handling prepayment requests established by each IOU. This is intended to be the type of standard due diligence commercial entities do prior to a transaction.
  - This includes notification of the prepayer's intent to make one lump sum payment or levelized payments.
- Prepayment negotiations are subject to discontinuation in the event parties cannot mutually agree to terms.

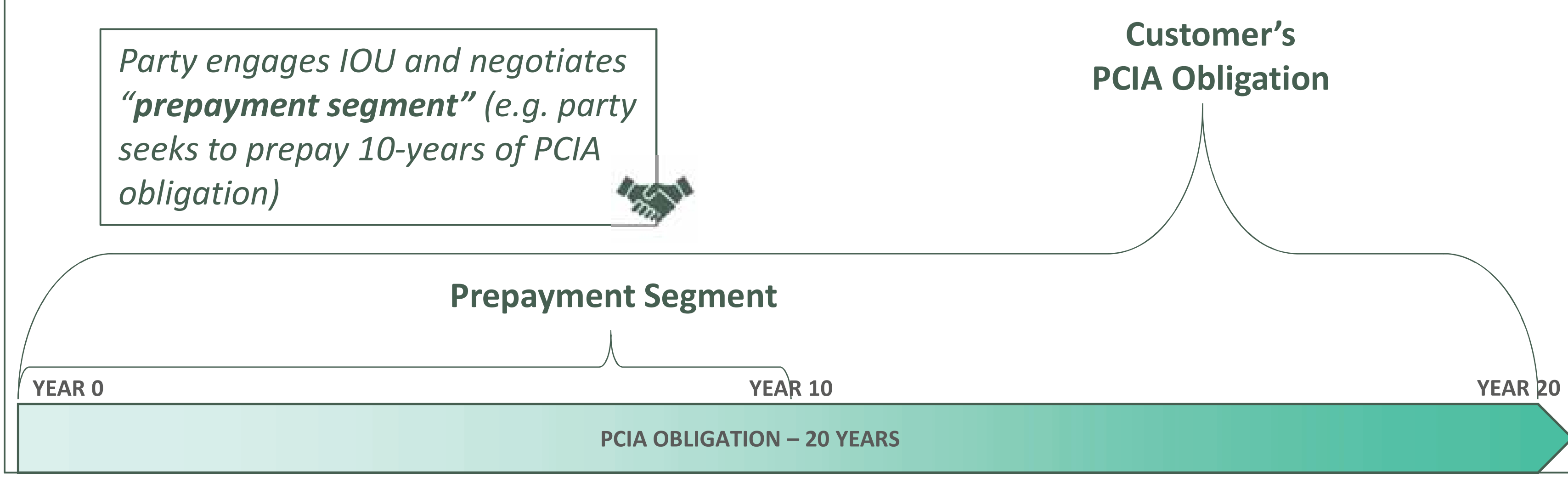
Time Period of Prepayment

<u>Co-Chair Proposal</u>: Parties to a prepayment arrangement will mutually agree to the time period of the prepayment. Parties may mutually agree to payment of the entire PCIA obligation (*i.e.*, the full 20 years of a 20-year obligation) or may (but are not required to) mutually agree to payment of a "segment" of the PCIA obligation.

- "Segment" prepayment approach: The prepayer pays for a specific number of years of its PCIA obligation. At the conclusion of the prepayment arrangement, the prepayer would return to paying the PCIA or negotiate a subsequent prepay arrangement.

<u>Example</u>:

*Party engages IOU and negotiates **"prepayment segment"** (e.g. party seeks to prepay 10-years of PCIA obligation)*



Exchange of Information & Confidentiality Rules

Draft for PCIA Phase 2 Working Group - Discussion Purposes Only

IOU to Provide to DA Customer/CCA requesting Pre-payment

Non-Confidential

- PCIA Eligible Portfolio Cost
- Brown Power Adder
- REC Adder
- RA Adder
- PCIA Shadow Bill
- DA 3-year Average Historical Customer Load

Confidential

- CCA 3-year Average Historical Customer Load - Subject to Tariff (See http://regarchive.sdge.com/tm2/pdf/ELEC_ELEC-SCHEDS_CCA-INFO.pdf)

Prepayer to Provide to IOU

Non-Confidential	
Confidential	Future Plans – Load Related

Stakeholder Proposals

Additional Proposals

- Co-chairs welcome additional proposals of interest to stakeholders being presented at workshops and have reached out to parties who have already expressed interest.

Stakeholder Proposals to Date

- The "Bank-Financing Approach"
  - CCA or DA customer enters into a financing agreement with a third party to "prepay" PCIA obligations.
- The “Sliver of Load Concept"
  - Prepaying the PCIA rate for a “sliver” of load.
- The “Circuit Breaker Concept" proposed by The Utility Reform Network (TURN)

End

Thank you for your participation!

APPENDIX A
Workshop #2 Comments Regarding NPPR

Summary of NPPR Comments (Non-consensus)

SDG&E position:

- SDG&E believes the following three criteria are satisfied by utilizing a Non-Prepayer Protection Reserve (NPPR).
  - (i) compliance with the statutory requirement to ensure cost indifference;
  - (ii) achievement of the stated goals of "certainty" and "flexibility" (D.18-10-019, pp. 91-92); and
  - (iii) appropriate assignment of risk.

AReM/DACC position:

- AReM/DACC does not support the concept of the NPPR. AReM/DACC asserts that the proposal does not comply with the D.18-10-019 ban on true-ups and that market or volumetric risk should be negotiated bilaterally between the IOU and the prepayer.

CalCCA's position:

- Opposes the NPPR and believes it enables a true-up.

** This is a high-level summary and is not intended to address all issues raised by the stakeholders in their comments. The Co-Chairs believe accurately representing all comments is important and will include all filed comments in the final report.*

Summary of NPPR Comments (Non-consensus)

PG&E and SCE's positions:

- The IOUs believe the NPPR is the appropriate mechanism to capture the outside risk associated with a prepayment arrangement to ensure customer indifference.

TURN's position:

- The NPPR could be viewed as a true-up and the utilization of a concept called the "circuit breaker" approach could alleviate risk associated with prepayment arrangements. TURN to present on the concept at the next workshop.

CUE's position:

- The "bank financing" approach would alleviate the need for IOU involvement in a prepayment arrangement and agrees that risk should be embedded in a prepayment arrangement as an "adder" or "incremental amount."

** This is a high-level summary and is not intended to address all issues raised by the stakeholders in their comments. The Co-Chairs believe accurately representing all comments is important and will include all filed comments in the final report.*

Summary of NPPR Comments (Non-consensus)

CalPA's position:

- Supports the utilization of the NPPR and does not support a requirement that IOUs be required to negotiate prepayments.

  "There is no stated requirement for a partial prepayment, or an obligatory good faith negotiation process." – CalPA, PCIA WG2 comments, filed June 21, 2019

CLECA's position:

- Supports the concept of a risk premium or re-opening prepayment agreements to allow for a true-up.

POC's position:

- Opposes the NPPR or any "true-up" mechanism.

** This is a high-level summary and is not intended to address all issues raised by the stakeholders in their comments. The Co-Chairs believe accurately representing all comments is important and will include all filed comments in the final report.*

APPENDIX B
PCIA Prepayment Example

PCIA Prepayment Amount

Starting Point: *PCIA pre-payment amount to equal the PV of the DA customer's (or CCA's customers') forecasted PCIA obligation based on customer(s) vintage*:

$$\text{PCIA Prepayment Amount} = (PCIA_{yr1} * Load) + (PCIA_{yr2} * Load)/(1+d)^2 + (PCIA_{yr3} * Load)/(1+d)^3 + \ldots + (PCIA_{yrn} * Load)/(1+d)^n$$

- PCIA prepayment load volume used to calculate the prepayment amount is the 3-year historical average customer load.

Starting Point: PCIA Prepayment Calculation Components

- PCIA Forecast
  - Total Portfolio costs (PCIA eligible)
  - Brown power costs and volumes
  - Renewable Energy Credit (REC) costs and volumes
  - Resource Adequacy (RA) costs and volumes
- Customer Load
  - Historical 3-year historical average customer load unless otherwise justified
- Discount Rate

PCIA Prepayment Calculation Components

Portfolio Costs (PCIA eligible)

- Starting Point: IOU to provide total prepayer cost based on prepayer’s vintage.
- Negotiation parameters to be determined.

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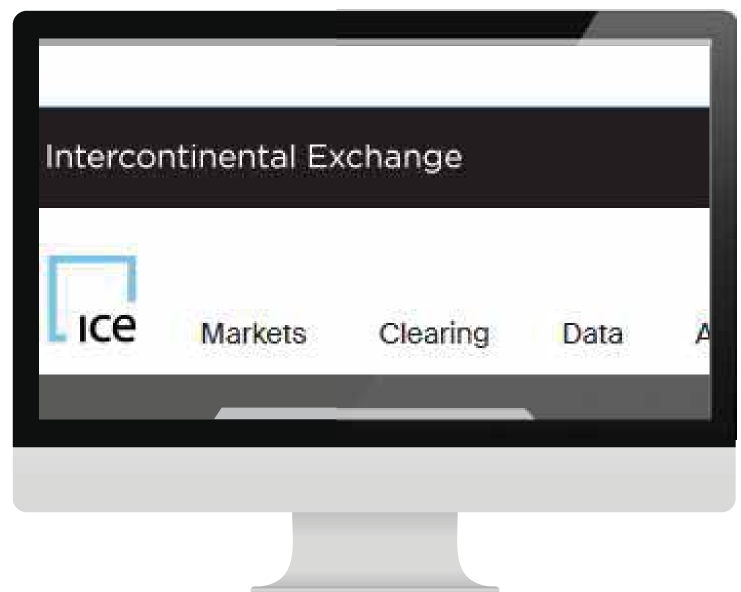
PCIA Prepayment Calculation Components
Brown Power Component

- Starting Point: Brown Power Final Adder from the most recent ERRA.
- Parties will utilize industry acceptable forward curve to estimate brown power revenues.



PCIA Prepayment Calculation Components

Renewable Energy Credit (REC) Component

- <u>Starting Point</u>: REC Final Adder.
- Inputs for calculation of REC values in forward months is to be determined.

PCIA Prepayment Calculation Components

Resource Adequacy (RA) Component

- Starting Point: RA Final Adders.
- Inputs for calculation of RA values in forward months is to be determined.

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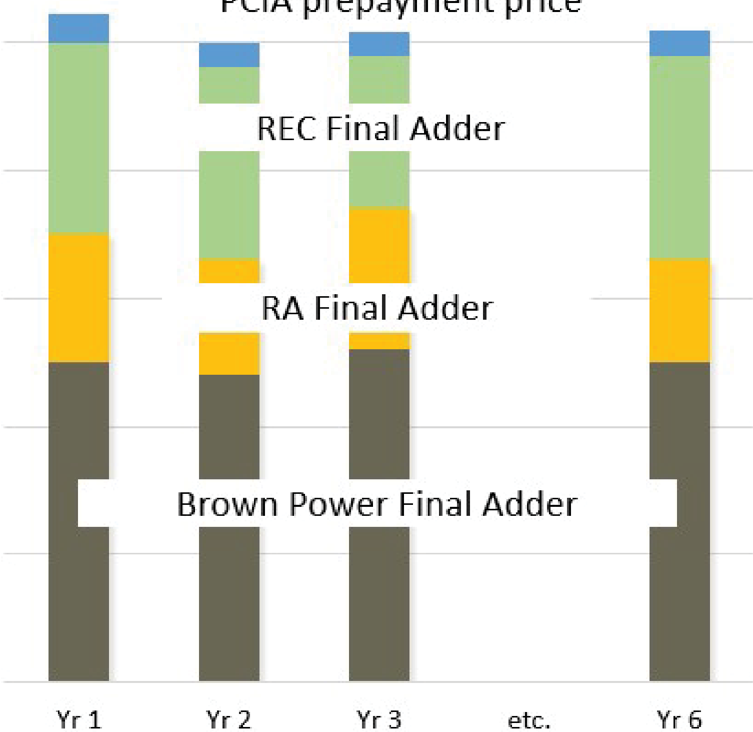
Step-by-Step PCIA Prepayment Example (high-level)[1]



Assumptions

Average of prior 3 years load (1,000, 1,200, 950 GWh) = 1,050 GWh

Calculation for Year 1 Only

- PCIA Prepayment Volume for year 1 = 1,050 GWh
- PCIA Prepayment Price (Portfolio Cost – REC Final Adder – RA Final Adder – Brown Power Final Adder) = $2.20/MWh
  - Non Refundable PCIA prepayment amount for year 1 =$2,310,000 (1,050 GWh * $2.20/MWh)
  - Refundable NPPR = $ 1,5000,000
  - Total Pre-Payment Amount for year 1 : $3,800,000 (Non Refundable PCIA prepayment + Refundable NPPR)

*Repeat for years 2 - 6 ; discounted to present value

[1] The NPPR amount is added for illustration purposes only and it doesn't represent an actual risk view

Draft for PCIA Phase 2 Working Group - Discussion Purposes Only

Step-by-Step PCIA Prepayment Example (high-level)

Average of prior 3 years load (1,000, 1,200, 950) = 1,050 GWh

	Negotiated PCIA ($/MWh)	PCIA Obligation	Present Value*
Yr 1	$2.20	$2,310,000	$2,310,000
Yr 2	$2.00	$2,100,000	$2,000,000
Yr 3	$1.80	$1,890,000	$1,714,286
Yr 4	$1.70	$1,785,000	$1,541,950
Yr 5	$1.90	$1,995,000	$1,641,291
Yr 6	$2.00	$2,100,000	$1,645,405
			$10,852,932

Pre-payment amount

** Illustrative discount rate of 5%*

Step-by-Step PCIA Prepayment Example (high-level)

One-time	$10,852,932	
Levelized over 3 years	$3,985,290	per year for 3 years
Levelized over 5 years	$2,506,754	per year for 5 years

Appendix C

Workshop Presentations on Additional Proposals

- PG&E/CUE
- SCP
- UCAN

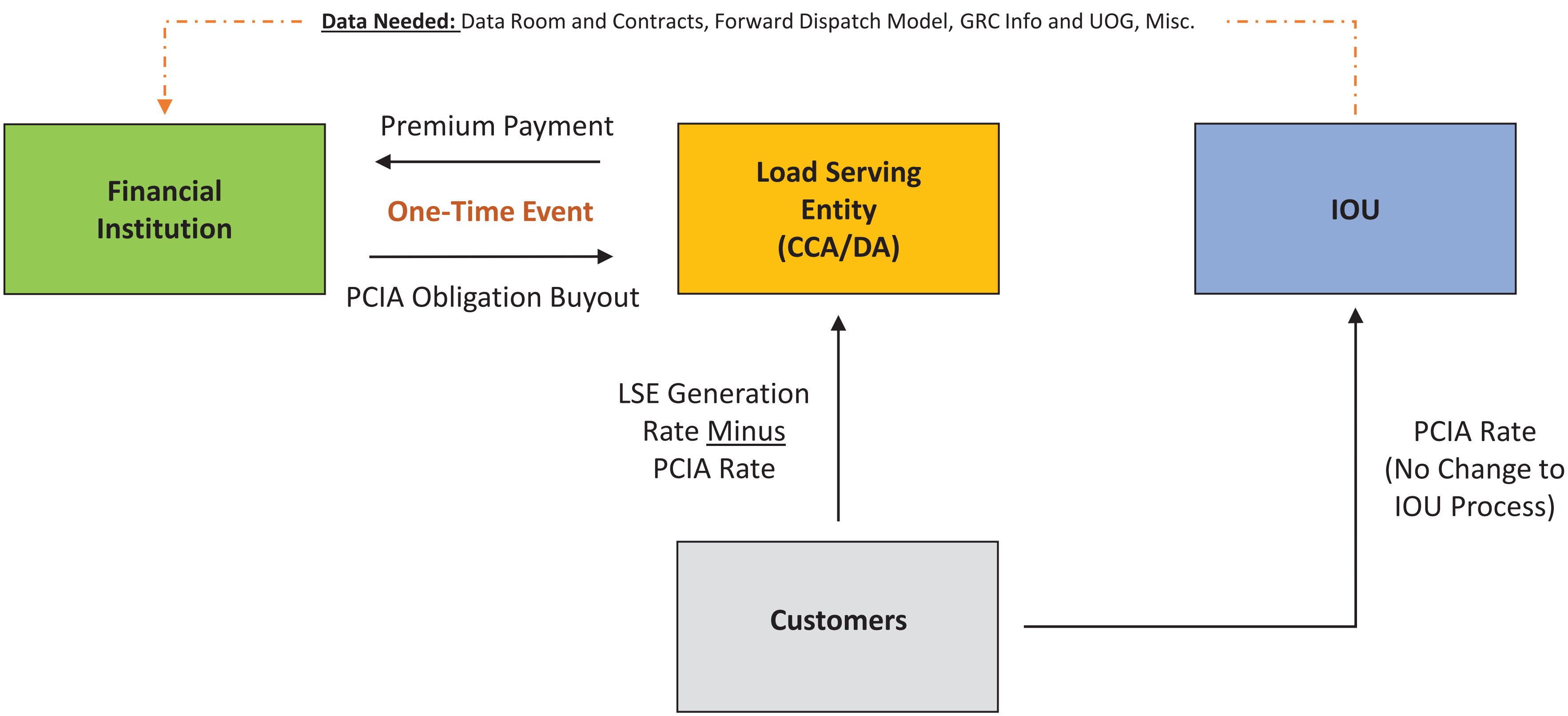
PCIA Phase 2 Working Group Two (Pre-Payment) Workshop #3

November 4, 2019

Strawman Proposal for Pre-Payment (Financial Swap)

Financial Swap - Scenario 1 (Recommended)

- Agreement between respective parties (community choice aggregators (CCAs), energy service providers (ESPs), end-use customers and financial institution) to exchange cash flows
- IOU continues collecting revenues (PCIA rate) from customers
- No anticipated impact to current investor-owned utility (IOU) process



External Discussions with Financial Institutions

Major Themes From External Discussions

- **Concerns/Issues**
  - Financial Institutions might hedge PCIA risk if ALL of the component risk metrics (energy, RA and RPS) were more liquid, easily modeled and easily accessible
  - Short-term (3-5 years) energy is liquid and tradable in CAISO; RA and RPS components are more opaque and transacted bilaterally between market participants
  - Substantial regulatory risk inherent with any type of PCIA prepayment structure
    - Long-term tenors would be difficult to price/manage given the fluidity of the regulatory environment
    - RPS and RA values are highly dependent on mandates from the Commission and/or Legislation
  - Some Financial Institutions unlikely to hedge CCA/ESP risks under current conditions;
  - Credit may also be a concern
- **Potential Opportunities**
  - Short-term (3-5 years) energy only hedges have less risk than combined long-term energy, RA and RPS structures
  - Financial Institutions have experience and are active in other energy markets; CAISO hedging activity is limited in the present environment (more comfort in other ISOs, i.e. PJM, ERCOT)
  - CCAs have contacted Financial Institutions directly; Lines of communication remain open as market evolves
  - If Financial Institutions see offering long-term hedges as too risky, whether IOUs should provide these hedges is questionable
  - Financial Institutions are open to further discussions with CCAs as regulatory environment solidifies around PCIA and RA proceedings
  - Different Institutions may have different opinions

PCIA WG #2: Prepayment "Slice of Load" Tool

November 4, 2019

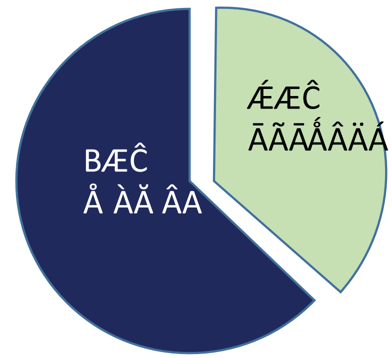
Neal Reardon, Director of Regulatory Affairs

Sonoma Clean Power

What is a slice of load?

Definition: Pre-paying a certain percentage of future PCIA obligations.

Example: CCA facilitates prepayment of 60% of forecasted annual PCIA payment for next 20 years. Remaining 40% is charged to customers annually under existing PCIA framework and remains “floating”.



After 20 years, CCA would either

1) Revert to an annual floating PCIA for the entire load, or,
2) Pre-pay another portion of their customers’ remaining PCIA obligation (e.g. 50% for years 21-40 after launch).

How does this differ from other frameworks?

Similar to “Partial Prepayment” (certain number of years of PCIA) tool specified in Guiding Principle #4 in PCIA WG #2:

“Parties may, but are not required to, agree to prepayment of a specific time segment that is shorter than the full obligation period (e.g. Pre-pay 5 years of a 20 year PCIA obligation period, after which the customer would return to paying the PCIA [annually], or negotiate a subsequent prepay arrangement.”

- Difference: Slice of Load applies this concept to the forecast load (GWh) instead of the term (years).
- Benefits: Same as those recognized in D.18-10-019
- Terms: Identical to those required in D.18-10-019:
  - A. The prepayment shall be based on a mutually acceptable forecast of that customer's future PCIA obligation;
  - B. The prepayment may shall take the form of either (1) a one-time payment; or (2) a series of levelized payments over 2-5 years;
  - C. The prepayment shall not be trued-up;
  - D. Once the prepayment has been made, the customer shall not receive any refunds if it returns to bundled service; and
  - E. After prepayment is finalized, the customer may switch among competitive retail sellers without incurring any new PCIA obligation.

How does this support directives in D.18-11-019?

Guiding Principles:

Any PCIA methodology adopted by the Commission:

(b): Should have reasonably predictable outcomes that promote certainty and stability for all customers within a reasonable planning horizon;

(g): Should allow an alternative provider to elect to pay for its share of above-market costs in a manner that complements the CCA's particular procurement needs and goals;

→ Including prepayment option cited as addressing both of these Guiding Principles.

Ordering Paragraph #11:

Direct Access customers and Community Choice Aggregators, on behalf of their customers, shall be permitted to pre-pay their Power Charge Indifference Adjustment (PCIA) obligations.

→ To enact effective prepayment, we need to look beyond an all-or-nothing prepayment framework.

Why is this option valuable?

- Increases likelihood of successful prepayments by not de facto requiring all or nothing financing
    - If a CCA could only prepay for 100% of their PCIA obligation, and their load permanently declines due to something outside their control (e.g. wildfire caused by utility infrastructure, IOUs using PSPS strategy), they would have no recourse
- Works in conjunction with other tools (e.g. partial prepayment of specific number of years, levelized payments over 2-5 years, bank financing)
- Note: Bundled customers should also have access to prepayment tools
- Consistent with tiered approach of attribute (RPS, REC) sales and allocations being addressed in Working Group #3
    - Together, these facilitate rate stability for customers by giving LSEs the tools they need to control costs and portfolio attributes
- Does not violate Ordering Paragraph #11 which states that "The prepayment shall not be trued-up"

Additional Questions?

nreardon@sonomacleanpower.org

Sonoma Clean Power

PCIA Phase 2 Working Group Two (Pre-Payment) Workshop #2

Developing Proposal: 'Future-Proofing' Prepayment Mechanisms

November 4, 2019

UCAN UTILITY CONSUMERS' ACTION NETWORK San Diego's Utility Watchdog

Proposal under Development: 'Future-Proofing' Prepayment Mechanisms

UCAN proposal:

- LSE may elect to be directly charged by IOU for customers' collective PCIA obligations (all customers or subset therein)
- Proposed in UCAN's Workshop #1 informal comments (April 18th)

IOU Implementation:

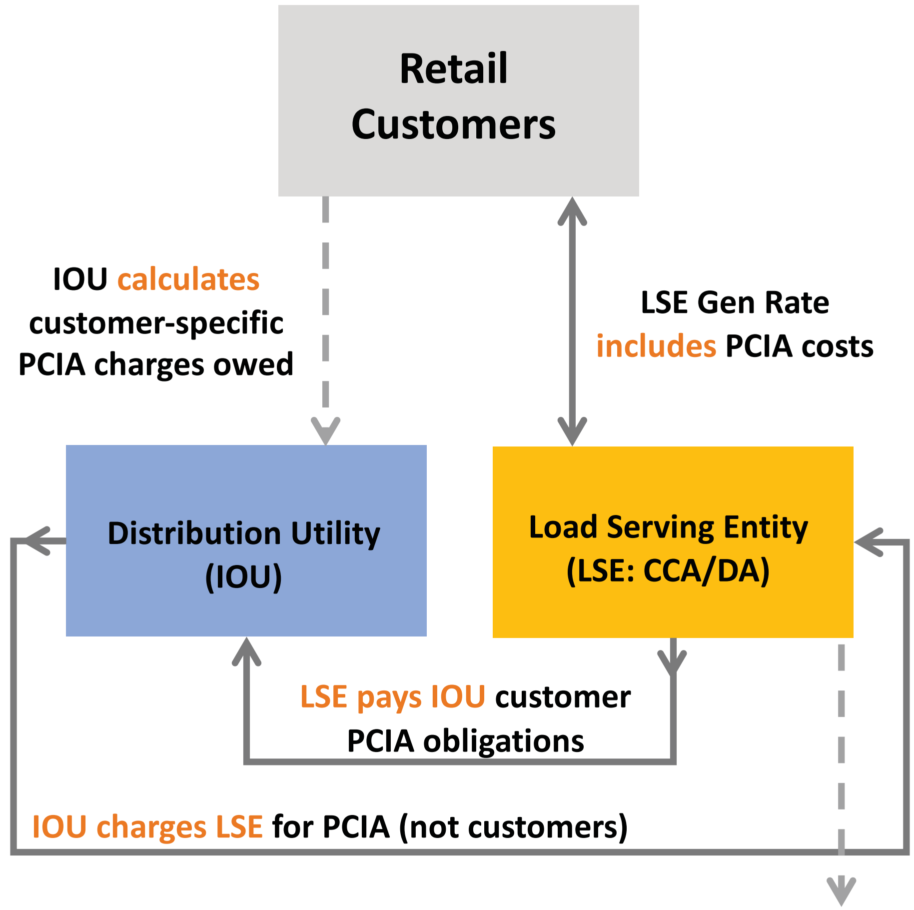
- Calculation of customer-specific PCIA remains the same
- Requires IOUs to remap EDI transactions to include PCIA as a separate transaction (charged only to the LSE, not customers)

Societal Impact:

- Maintains bundled customer indifference (IOU receives the same total PCIA payments as before)
- 'Future proofs' prepayment flexibility & incentivizes innovation:
    - PCIA risk shifted off passive agents (customers) to aggregator positioned to actively manage risk (LSE)
    - Maximizes flexibility for LSEs to self-manage PCIA risk (prepayment options — bank financing, bonds, self-funding, etc. — plus portfolio optimization, rate-setting, etc.)
- Allows LSEs to address retail rate / revenue distortions (differential cost functionalization vs. IOU → seasonal cashflow imbalances; LSE rate-setting complexity + barriers to custom & dynamic rates)

Working Group Process:

- UCAN & IOUs exploring EDI implementation process
- **Open process: interested parties invited to participate**
- Final proposal to be brought forward at next workshop



LSE free to arrange prepayment w/ third-parties + other options:

- Negotiation btw. willing parties (w/o IOUs or CPUC)
- Term length & slice vs whole pie
- Swaps, self-funding, bonds
- Risk assessment of classes, subgroups or customer base
- Mitigations via portfolio optimization, rate-setting, etc.

Appendix D

Informal Comments on Workshop #3

- Joint Utilities
- CUE
- TURN
- Cal Advocates
- CalCCA
- POC

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Review, Revise, and Consider Alternatives to the Power Charge Indifference Adjustment U 39 E	Rulemaking 17-06-026 (filed June 29, 2017)

INFORMAL COMMENTS OF
PACIFIC GAS AND ELECTRIC COMPANY (U 39-E),
SOUTHERN CALIFORNIA EDISON COMPANY (U 338 E)
AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)
ON THE PCIA PHASE 2, WORKING GROUP #2,
FINAL WORKSHOP

KRISTIN D. CHARIPAR

Pacific Gas and Electric Company
77 Beale Street
San Francisco, CA 94105
Telephone: (415) 973-6227
Facsimile: (415) 973-5520
E-Mail: kristin.charipar@pge.com

Attorney for
PACIFIC GAS AND ELECTRIC COMPANY

Dated: November 14, 2019

BEFORE THE PUBLIC UTILITIES COMMISSION
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I. INTRODUCTION

Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E) (collectively, Joint IOUs)[1] provide the following informal comments on the Power Charge Indifference Adjustment (PCIA) Phase 2, Working Group Two, Final Workshop held on November 4, 2019. The Joint IOUs focus their comments in support of the Non-Prepayer Protection Reserve (NPPR) proposal as well as address the alternative financing proposal presented by PG&E and the Coalition of California Utility Employees (CUE). The Joint IOUs do not support the proposals set forth by Sonoma Clean Power (SCP), The Utility Reform Network (TURN), and Utility Consumers' Action Network (UCAN) for the reasons described below.

As a guiding principle and statutory requirement, the Joint IOUs maintain that any pre-payment mechanism that allows for a Community Choice Aggregator (CCA) or Direct Access (DA) customer to pre-pay the PCIA on a one-time basis or in a series of levelized payments over 2-5 years must not result in a cost shift to bundled service customers or other non-prepaying

[1] Pursuant to California Public Utilities Commission (CPUC or Commission) Rule of Practice and Procedure 1.8(d), counsel for PG&E represents that SCE and SDG&E have authorized PG&E to file these Comments on behalf of their respective organizations.

departing load customers.

II. COMMENTS ON THE SDG&E PROPOSAL

A. The NPPR is Necessary to Preserve Statutorily Required Customer Indifference for Non-Prepayers

The Joint IOUs strongly support the NPPR construct articulated by SDG&E and recognize the proposal as a feasible construct that attempts to achieve the statutory requirement of customer indifference. The NPPR proposal attempts to mitigate market and volumetric uncertainty through a one-time, refundable escrow-like payment that reflects the forecast uncertainty associated with the prepayer's PCIA obligation. The NPPR attempts to balance the objectives of:

(1) Protecting non-prepayers (*i.e.*, non-pre-paying departing load customers and bundled service customers) from unlawful cost-shift, and

(2) Promoting certainty by allowing the prepayer to make an upfront, one-time prepayment based on a forecast of future PCIA above-market costs.[2]

The SDG&E prepayment proposal is comprised of two calculations: (1) a negotiated non-refundable prepayment (NRP) amount representing an estimate based on agreed-upon assumptions of the net present value of the prepayer's PCIA obligation; and (2) a negotiated, refundable NPPR, which is incremental to the NRP and reflects the outside estimate of the prepayer's PCIA obligation, taking into account market and volumetric uncertainty and risk. The NRP and NPPR together are intended to represent the entire PCIA prepayment obligation for the prepaying departing load customers.[3] Once this prepayment is made, the IOU may not seek further payment for the load and time period specified under the agreement if the NRP+NPPR is less than the prepayer's actual PCIA obligation (*i.e.*, there is no later "true-up").

The NPPR acts as insurance against the possibility that the NRP is less than the actual long-term PCIA obligation, which would result in an unlawful cost shift from the pre-payers to

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[2] November 4th Workshop Presentation, Slide 10.
[3] November 4th Workshop Presentation, Slide 19.

non-prepayers (*i.e.*, non-prepaying departing load customers and bundled service customers). Given the difficulty of forecasting long-term energy, Renewables Portfolio Standard (RPS), and Resource Adequacy (RA) prices, as well as future compliance obligations driven by regulatory and market structure changes, the NPPR is a necessary (albeit potentially insufficient) mechanism to minimize the risk of cost-shift to non-prepaying customers. Over time, deviations from the forecast will be magnified and may result in a substantial under-payment of a prepayer's PCIA obligation and run afoul of customer indifference. For example, in reviewing the Commission's most recent market price benchmarks used to calculate the PCIA rate, the prices for RA and RPS have fluctuated year-over-year (see Table 1). The fluctuations were largely driven by changes to the regulatory framework and market structures.

Table 1 – Market Price Benchmarks for 2017-2021

Description	**2017**	**2018**	**2019**	**2020**	**2021**[4]
RA Market Price Benchmark	$58.27	$58.27	$33.24	$55.08	$35.76
RPS Market Price Benchmark	$31.64	$24.16	$16.44	$17.35	-

The NPPR proposal addresses the reality that any forecast will be incorrect shortly after the time it is produced. The Joint IOUs note four possible outcomes of the NPPR prepayment framework to illustrate this reality:

> (1) If the actual PCIA obligation is equal to the NRP, then the NPPR is fully refunded to the prepayer. Non-prepaying customers are not harmed by the prepayment.
>
> (2) If the actual PCIA obligation is less than the NRP, then the NPPR is fully refunded to the prepayer but the remaining NRP amount is not. Non-prepaying customer are not harmed by the prepayment.
>
> (3) If the actual PCIA obligation is more than the NRP, but less than the NPPR, the NPPR is used to cover the shortfall and any remaining NPPR amount is refunded. Non-prepaying customers are not harmed by the prepayment.

[4] See the CPUC 2018 RA Report for 2021 RA prices, available online: https://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Utilities_and_Industries/Energy/Energy_Programs/Electric_Power_Procurement_and_Generation/Procurement_and_RA/RA/2018%20RA%20Report%20rev.pdf.

> (4) If the actual PCIA obligation is more than the NRP and NPPR together, both the NRP and NPPR amounts are utilized and there is no refund to, nor is further payment required by the prepayer. In this instance, non-prepaying customers are harmed by the prepayment as **the costs would have to be recovered from the remaining customers.**

The NPPR helps to prevent or minimize cost shift when that forecast risk harms non-prepaying customers. The Joint IOUs acknowledge that Scenario 2 above illustrates the possibility that a prepayer will overpay the NRP, but it is important to remember that prepayment is a **voluntary decision**. Any Direct Access customer who assumes that risk (or a CCA, which does not even have a PCIA obligation but assumes that risk on behalf of its customers), does so voluntarily. The risk of **underpaid** prepayment is borne solely by the non-prepaying customers who did not voluntarily assume that risk. Accordingly, some small degree of asymmetry is appropriate and necessary to protect non-prepaying customers and to uphold statutory indifference. The NPPR construct will give the Commission greater confidence that approved prepayment agreements will continue to conform to the indifference requirement over time, and that approval of such agreements does not violate the Commission's statutory obligation to prevent cost shifts.

While some parties have argued that the NPPR is an impermissible true-up under Decision (D.)18-10-019, they fail to recognize a key difference: the purpose of the NPPR is not to true-up costs, but rather to protect non-prepayers. In the context of Ordering Paragraph 11 of D.18-10-019, the Commission intended to highlight that once a DA customer or CCA prepays, there should not be subsequent litigation about the prepaid amount if market prices change. The NPPR is not a true-up in this context because it is not an adjustment to a previously agreed-upon prepayment amount and no further litigation would be required. Even absent the context of D.18-10-019, the NPPR is not a true-up: the purpose of a true-up is to ensure actual costs are recovered, regardless of whether the forecast accurately predicted costs; whereas, the purpose of the NPPR is to provide a prepaid reserve amount to reflect the likelihood that the forecast may not accurately predict costs. In other words, the NPPR protects non-prepayers from a risk they did not sign up for; it is not intended to "true-up a forecast to actuals." For example, in

Scenarios 1, 2, and 4, above, it is simply not arguable that any "forecast to actuals" true-up is occurring.[5]

Lastly, without the NPPR construct, the IOUs would be required to include a large risk premium in the NRP calculation to protect non-prepayers. In this situation, the entire prepayment amount would be nonrefundable. Compared to the NPPR construct, this could have a chilling effect on any potential prepayment deals. If the Commission wants to provide a workable option for both prepayers and non-prepayers, the NPPR helps to balance these risks.

B. The Viability Screen Will Help Ensure Efficient Use of Resources Focused on Realistic Prepayment Proposals

The Joint IOUs support the proposal for an initial viability review to examine commercial risks beyond a counterparty's credit profile, as set forth in PG&E's comments on the May 31, 2019 Workshop. As PG&E stated in its comments on the May 31, 2019 workshop, these steps are critical to determine serious interest and viability on the part of potential DA customers or CCA counterparties and will gauge eligibility for entry into the Prepayment Lottery.[6] For a levelized annual prepayment arrangement, prepaying entities would be required to provide additional financial information to evaluate commercial, liquidity and administrative risk.[7] These are common initial steps in any commercial due diligence review and, as such, are not unduly burdensome to potential DA customer or CCA prepayment counterparties.

Furthermore, there is precedent for additional viability reviews. For instance, in the recent notice of proposed rulemaking for the Public Utility Regulatory Policies Act of 1978 (PURPA), the Federal Energy Regulatory Commission proposes that a qualifying facility must demonstrate commercial viability and financial commitment before a utility has a legally

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[5] In Scenario 1, no adjustment is made. In Scenario 2, the NPPR is refunded but the overpaid NRP is retained. In Scenario 4, the NPPR is refunded but the underpaid NRP is insufficient to cover actual costs.
[6] Informal Comments of Pacific Gas and Electric Company (U 39 E) on the PCIA Phase 2 Working Group 2, May 31, 2019 Workshop (PG&E May 31 Workshop Comments), pp. 2-3. Served on June 21, 2019.
[7] *Id.*

enforceable obligation.[8] The Joint IOUs support SDG&E's similar proposal to permit utilities to have a viability screen as part of the prepayment application process. The Joint IOUs also reiterate their support for PG&E's proposed Application Framework Process set forth in PG&E's Comments on the May 31, 2019 Workshop, which would establish applicant limits and processing timelines to facilitate administration of prepayment requests.[9]

C. Volumetric Risks for New Load Growth

During the November 4th Workshop, the issue was raised whether new CCA or DA load is responsible for the PCIA after a prepayment has occurred. The Joint IOUs clarify here that it cannot be assumed that the IOUs did not procure for future forecast load growth prior to a customer's decision to depart bundled procurement service. Nor can it be assumed that any prepayment amount intentionally included such CCA or DA future load growth. Rather, the prepayment contract will define the specific load covered by the agreement and should address new load growth as part of its terms and conditions.

III. COMMENTS ON PG&E AND CUE'S BANK FINANCING PROPOSAL

CUE initially proposed an alternative approach for PCIA prepayment during the first Working Group Two workshop: the bank-financing approach. In the bank financing approach, a CCA or DA customer "prepays" via financing by a third party, such as a bank.[10] In this case, the CCA or DA customer would pay the bank a negotiated fixed amount in exchange for their variable (or floating) PCIA obligation. As a threshold matter, the Joint IOUs note that the bank-financing approach does not directly involve the IOU, does not require any Commission review or approval, and therefore is not the type of prepayment arrangement contemplated in D.18-10-019. While the concept was explored during the workshop as being of potential interest to some workshop participants, it is outside the scope of the inquiry directed in the PCIA Phase 2

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[8] 168 FERC ¶ 61,184, pp. 90-91. Issued on September 19, 2019.
[9] PG&E May 31 Workshop Comments, pp. 2-4.
[10] Comments of the Coalition of California Utility Employees on PCIA Phase 2 – Working Group Two Workshop #1 (CUE Workshop 1 Comments). Served April 19, 2019.

Scoping Memo. Accordingly, the discussion included herein is informational in nature.

In theory, the bank financing approach offers certain advantages to CCAs or DA customers, including:

- IOUs' non-prepaying customers avoid the risk of a forecasted PCIA obligation that proves to be too low. Customer indifference is preserved.
- CCAs and DA customers can shop around for the best deal.
- IOU processes are unaffected: the IOU receives the same stream of PCIA payment from departing load customers. A prepaying CCA can decide how to refund the bank financing payments back to its customers.

To assist in examination of CUE's idea, PG&E agreed to conduct outreach and explore the feasibility and interest in providing prepayment products to CCAs and DA customers. In PG&E's discussions with banks, several major themes emerged. While having comfort in providing these hedges in other power markets in the United States, specifically in Pennsylvania-New Jersey-Maryland Interconnection (PJM) and Electric Reliability Council of Texas, Inc (ERCOT), the banks noted that regulatory uncertainty and price opacity of RA and RPS attributes are a major hindrance in their interest to price or provide such a product at this time in California.

The contacted banks further explained that they might hedge PCIA risk if *all* of the component risk metrics (energy, RA and RPS) are more liquid, easily modeled and easily accessible. According to banks, short-term energy (3-5 years) is liquid and tradable in the California Independent System Operator Corporation (CAISO) market; however, RA and RPS components are more opaque because they are transacted bilaterally between market participants, thus making long-term price modeling difficult. Additionally, these banks indicated that there is substantial regulatory risk inherent with any type of PCIA prepayment structure. Specifically, long-term tenors would be difficult to price given the fluidity of the regulatory environment where RPS and RA values are highly dependent on mandates from the Commission or Legislature. The representative from SCP confirmed this research based on his experience with banks. He commented that while banks are comfortable providing loans to CCAs, they are less comfortable with the long-term RPS and RA price risk.

The critical takeaway from this research on bank financing is that it raises the question: if banks see offering long-term hedges as too risky, why should IOUs' non-prepaying customers provide these hedges to prepaying customers? The Joint IOUs believe that D.18-10-019 did not intend for IOUs to become a substitute for banks at the expense of non-prepaying customers.

IV. COMMENTS ON SONOMA CLEAN POWER'S "SLICE OF LOAD" PROPOSAL

During the workshop, SCP introduced its "Slice of Load" proposal. At a high level, this proposal would allow a CCA or DA customer to prepay a fixed percentage of its load instead of prepaying the entire PCIA obligation.[11]

This proposal lacks sufficient detail, but regardless, several potential problems are immediately apparent. First, this proposal is out of scope for this proceeding. D.18-10-019 anticipated a full buyout of a DA customer or CCA's PCIA obligation, not a la carte hedging products at the non-prepaying customer's expense. If a CCA or DA customer seeks tailored hedging products, banks are best positioned to provide this product, not the IOUs and non-prepaying customers. Second, and most obviously, the proposal does not identify which customers are included in the "slice" that is prepaying. Knowing which customers are in the "slice" is necessary so that the IOU can determine the vintage of the load to calculate the prepayment amount. Third, the proposal would add extreme complexity to an already complicated PCIA accounting process. If "slice of load" is permitted, IOUs will have to develop load serving entity (LSE)-specific vintage rates, and possibly have to track different load slices for the same CCA. It may ultimately require IOUs to track PCIA obligations down to the individual CCA customer level. The administrative burden and costs to upgrade billing systems is substantial and ultimately unnecessary, especially considering that a CCA could seek the same hedging product from a bank. Fourth, the proposal fails to demonstrate how it will work with the

[11] Sonoma Clean Power Workshop Presentation (served on November 3, 2019).

PCIA Working Group 3 workstream dealing with portfolio optimization, allocations, and auctions. Given that the "slice of load" proposal is outside the scope of D.18-10-019, and is both ill-defined and highly problematic, the Commission should reject it.

Lastly, SCP suggested – with no support or detail reading the mechanics of the proposal – that prepayment should also be available to bundled service customers. This was not specified or contemplated in D.18-10-019. While the Joint IOUs appreciate the advocacy of equal treatment for bundled service and departing load customers, the Joint IOUs believe that playing out the hypothetical scenario of a bundled service customer prepayment only highlights why broad usage of prepayment is problematic: it will always result in winners and losers. The Joint IOUs believe that D.18-10-019 intended for prepayment to be an option for the limited instances when a discrete customer (or group of customers) had the financial wherewithal and load forecast certainty to remove itself from the PCIA entirely. The Decision did not intend for prepayment to be a pliable tool for any and all customers to hedge at the expense of others.

V. COMMENTS ON THE UTILITY REFORM NETWORK'S "CIRCUIT BREAKER" PROPOSAL

TURN offers a "Circuit Breaker" proposal, which provides for the use of a true-up in the event that actual energy, RPS and RA market values materially deviate from the assumptions used to develop the prepayment amount.[12]

TURN's proposal differs from SDG&E's proposed NPPR approach in that it does not provide the certainty of a one-time, upfront payment. Under the NPPR, the DA customer or CCA might receive a total or partial refund of its NPPR, but it will not be subject to a future request for additional "true-up" payment beyond the negotiated contractual amount. In other words, once the NRP and NPPR is paid, no further amount could be requested under the prepayment contract, whereas under TURN's "Circuit Breaker" proposal, DA customers or CCAs would be subject to the requirement to make future unanticipated "true-up" payments. In

[12] Comments of the Utility Reform Network on The Phase 2 Working Group #2 Workshop #2. Served on June 21, 2019.

addition, TURN's proposal would provide protection only against the most problematic deviations of actual from forecast load and market assumptions, likely limiting its use only to troublesome market conditions. Finally, TURN's proposal would not provide symmetrical protection to both prepayers and non-prepayers.

The Joint IOUs do not support the "Circuit Breaker" proposal for three reasons. First, on its face, it constitutes a true-up based on trigger points, which is prohibited under D.18-10-019.[13] Second, TURN's proposal would require parties to relitigate the amounts owed, which was not intended by D.18-10-019's aim of having the prepayment application be a final elimination of a party's dealings with the PCIA. Third, the "Circuit Breaker" is not equitable to non-prepaying customers, who did not agree to take on the risks associated with prepayment. As discussed above, a non-prepaying customer should not be responsible for bailing out a prepayer's deliberate choice to take on such market risks. Non-prepayers thus should be protected from potential cost shifts caused by insufficient prepayment amounts to the extent feasible, as is proposed by SDG&E's NPPR mechanism.

VI. COMMENTS ON THE UTILITY CONSUMER ACTION NETWORK'S "FUTURE-PROOFING" PROPOSAL

UCAN's "future proofing" proposal is similar to the bank financing proposal, with the key difference being that the LSE would take on the PCIA obligation for their customers so that there would no longer be a PCIA charge on customer bills.

The Joint IOUs oppose this proposal for several reasons. First, this proposal would entail costly and complex changes to the existing IOU accounting processes and billing infrastructure. For example, it would require IOUs to "zero-out" the PCIA obligation of prepaying CCA customers, but not all existing CCA customers, which requires creating new balancing accounts to track which CCAs or other LSEs have prepaid on behalf of their customers. There would also have to be a new bill formats for customers of an LSE that has prepaid.

Second, as of this time, no CCA or DA party has requested to take on this obligation

[13] D.18-10-019, Ordering Paragraph 11c.

directly. Absent any indication of interest from CCAs or DA customers, exploring the effort required to accomplish this proposal is putting the cart before the horse.

Third, UCAN's proposal has many unexplored potential unintended consequences. For instance, would transferring the PCIA obligation to LSEs raise credit risks for IOUs that IOUs wouldn't otherwise have if the obligation remains with the customer? What happens if the LSE goes away? Would the IOU then have recourse to the LSE's customers to make the remaining payments if those haven't been made?

Lastly, UCAN's proposal likely requires a change to California law. Public Utilities Code Section 366.2(f) specifies that retail end-use customers are responsible for PCIA charges, not the CCA serving the customer. As such, UCAN's proposal cannot be implemented.

VII. CONCLUSION

The Joint IOUs appreciate the opportunity to comment on the final Working Group 2 workshop, and thanks the Co-leads for their efforts.

Respectfully Submitted,

By: /s/
KRISTIN D. CHARIPAR

Pacific Gas and Electric Company
77 Beale Street
San Francisco, CA 94105
Telephone: (415) 973-6117
Facsimile: (415) 973-5520
E-Mail: kristin.charipar@pge.com

Attorney for
PACIFIC GAS AND ELECTRIC COMPANY

On behalf of SOUTHERN CALIFORNIA EDISON, and SAN DIEGO GAS & ELECTRIC COMPANY.

Dated: November 14, 2019

BEFORE THE PUBLIC UTILITIES COMMISSION
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Order Instituting Rulemaking to Review, Revise, and Consider Alternatives to the Power Charge Indifference Adjustment.	R.17-06-026

COMMENTS OF THE COALITION OF CALIFORNIA UTILITY EMPLOYEES ON PCIA PHASE 2 – WORKING GROUP TWO WORKSHOP #3

November 14, 2019

Rachael E. Koss
Adams Broadwell Joseph & Cardozo
601 Gateway Blvd., Suite 1000
South San Francisco, CA 94080
(650) 589-1660 Telephone
(650) 589-5062 Fax
rkoss@adamsbroadwell.com

Attorneys for the Coalition of California Utility Employees

1011-1560acp

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

Order Instituting Rulemaking to Review, Revise, and Consider Alternatives to the Power Charge Indifference Adjustment.	R.17-06-026

COMMENTS OF THE COALITION OF CALIFORNIA UTILITY EMPLOYEES ON PCIA PHASE 2 – WORKING GROUP ONE WORKSHOP #3

I. INTRODUCTION

The Coalition of California Utility Employees (CUE) appreciates the opportunity to provide comments on the November 4, 2019, PCIA Phase 2 Working Group Two: Prepayment Workshop #3. As CUE has noted in previous comments, the correct way to analyze PCIA prepayment is as a type of derivative, sometimes called a fixed for floating swap. Some DA customers and CCAs would prefer to pay a fixed amount to discharge some or all of their PCIA obligation going forward, which is a variable amount. In the language of finance, they would prefer a fixed payment stream as opposed to a variable, or floating, payment stream. That is, they want to "swap" floating payments for fixed payments. Fixed for floating swaps are commonplace in finance. As a standard finance textbook states:[1]

> Motivating most investment problems is a desire to transform one cash flow stream into another by appropriate market or technological activity. A **swap** accomplishes this directly – for a swap is an agreement to exchange one case flow stream for another. The attraction of this direct approach is evidenced by the fact that the swap market amounts to hundreds of billions of dollars. Swaps are often tailored for a specific situation, but the most common is the **plain vanilla swap,** in which one party swaps a series of fixed-level payments for a series of variable-level payments.

[1] Investment Science, David G. Luenberger, Oxford University Press, Inc., New York, New York, 1998, p. 273 [emphasis in the original].

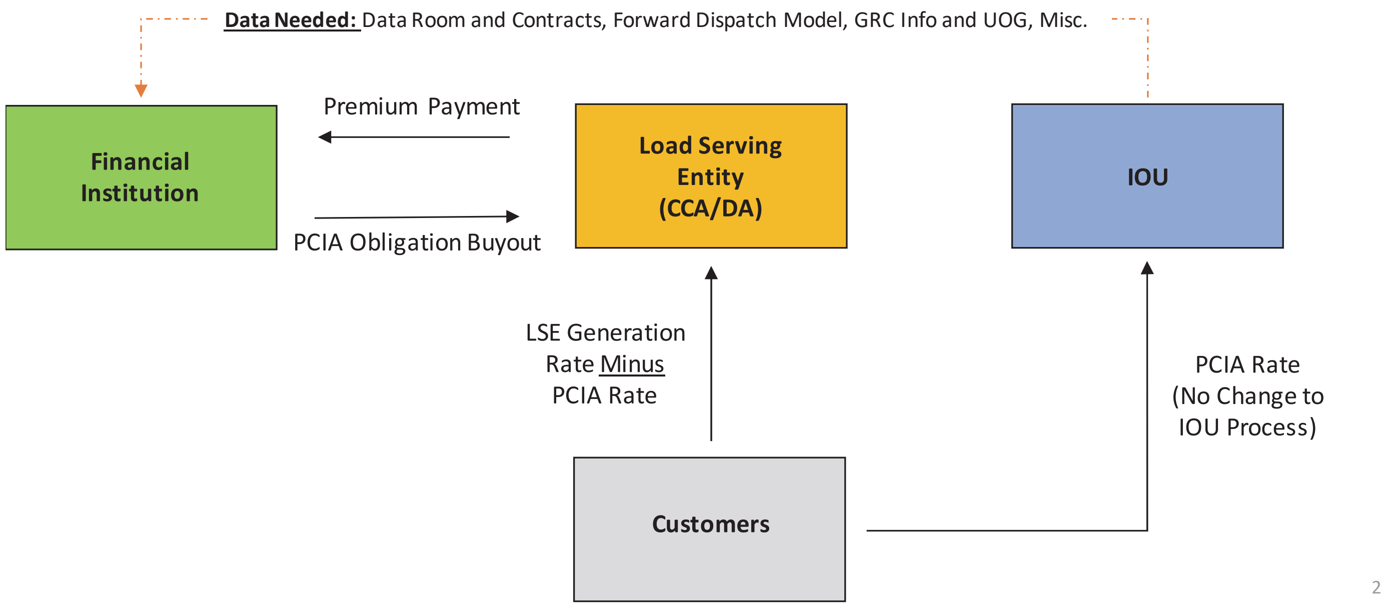
Given the ubiquity of swaps, it is not surprising that skilled financial players such as banks enter into swap transactions as a profit-making activity. Because of this, CUE and other parties have encouraged the idea of using banks or other third parties as the counterparty in a PCIA prepayment transaction rather than non-prepayers. Some initial discussions by PG&E with several banks have illuminated the opportunities and challenges in this approach. These discussions have also shed light on some of the main areas of disagreement in the Working Group Two workshops and comments on the workshops.

CUE begins its comments with a discussion of the bank-financing approach and why the Commission should adopt it as a substitute for making non-prepayers the counterparty, or as a useful addition to the process. Second, CUE provides comments on the implications of PG&E's discussions with banks on any prepayment arrangement in which non-prepayers are mandated to be the counterparty. In particular, non-prepayers should not be forced to be the counterparty to a derivative transaction that even sophisticated banks are reluctant to enter into. Third, CUE provides comments on SDG&E's Non-Prepayer Protection Reserve ("NPPR") and TURN's circuit breaker approach. Both of these are designed to limit non-prepayer exposure to losses that could arise because of prepayment arrangements that subject non-prepayers to the inherent unpredictability of many components of the PCIA, including ones that go out as far as twenty years. Fourth, CUE addresses the issue that PCIA prepayment should not be treated as an all-or-nothing proposition. Markets for financial products are incomplete. For instance, it is not possible to insure against all the adverse circumstances that might occur. Thus, allowing for mutually agreed PCIA prepayments that limit the amount of unforecastable risk is reasonable. An example of this is prepaying the PCIA for some limited number of years.

II. THE COMMISSION SHOULD FACILITATE THE BANK-FINANCING APPROACH

Figure 1 illustrates the bank-financing approach.

Figure 1: Bank-Financing Approach[2]



Under the bank-financing approach, a CCA or DA customer (in yellow) would negotiate a fixed for floating swap with a financial institution (in green). The terms of the arrangement would be whatever the financial institution and the LSE agree to in terms of pricing, duration, parts of the PCIA covered, etc. There would be no change to the IOU process in the payment of the PCIA by customers to the IOU as illustrated in the arrow between the gray customer box and the blue IOU box. As a strictly third-party transaction, the Commission would have no role other than facilitating the transaction by ordering the utilities to provide the data needed for due diligence by the financial institution, as illustrated in the red dotted line going from the blue IOU box to the green financial institution box.

The bank-financing approach has many advantages:

[2] Adapted from PG&E presentation to Working Group 2, Workshop #3, November 4, 2019.

1. The market, through otherwise disinterested third- parties, evaluates the transaction. Banks or other financial entities are in a better position to evaluate customer proposals and customer credit-worthiness than IOUs.
2. The Commission would not need to take the time and resources to evaluate or approve the transaction. In addition, except for providing information, the IOU plays no role in the transaction. The transaction would occur solely between the CCA or DA and the financial institution. Disputes between potential prepayers and the IOUs over forecasts, pricing mechanisms, number of payments, etc. do not occur under the bank-financing approach. There are only two possible areas of disagreement between potential prepayers and IOUs under the bank-financing approach. The first is the data requested for due diligence. It may be the utility is reluctant to provide certain data. This is why a general Commission order is needed to facilitate the bank-financing approach. The second area of potential disagreement is the timeliness and manner of the provision of data. Timeliness and manner of data provision can also be largely resolved through a Commission order outlining the utilities' obligations. If disputes arise despite a Commission order facilitating the bank-financing approach, CUE recommends a mediation or arbitration process to quickly resolve these relatively simple issues.
3. The bank-financing approach maintains customer indifference between prepay customers and non-prepay customers (whether they are bundled or departed customers).[3] The PCIA charge remains the same for all customers; the only difference

[3] Note that in contrast to the customer indifference principle that sought equity between departed and bundled customers, for prepayment the equity issue is between those customers that prepay and those customers (bundled or departed) that do not prepay. Of course, if equity is maintained between bundled

is that the prepay customers have used a financial institution to turn their uncertain, variable PCIA obligation into a fixed, certain obligation like an energy company might turn its uncertain and variable fuel purchase costs into fixed and certain costs.

4. A prepay customer is free to negotiate whatever terms it wishes to under its arrangement with a financial institution, thus short-circuiting areas of disagreement between potential prepayers and the IOUs such as the number of years prepaid, which components are prepaid, and whether a "slice-of-load" can be prepaid.
5. No utility accounting treatments are needed under a bank-financed prepayment transaction. The prepayer contracts with a third party to pay the prepayer the PCIA payments as they come due. The customer continues to pay the PCIA to the IOU.

In addition to these five advantages, the bank-financing approach removes the non-prepayers as counterparties from a risky derivatives transaction. Financial institutions are not only better equipped to evaluate and price swap transactions than IOUs, but they are also in a position to potentially hedge the risks arising from any prepay transactions in their larger portfolio of transactions. Non-prepayers have no such ability. As a result, the risk premium that would be charged by a financial institution would likely be lower than the risk premium that should accrue to non-prepayers.

For these reasons, the Commission should adopt the bank-financing approach by making the necessary orders to facilitate such transactions. Adopting the bank-financing approach would not necessarily preclude an approach that has non-prepayers act as the counterparty in a transaction to be approved by the Commission, but would, at least, serve as a useful alternative.

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and departed customers, then the arithmetic dictates that it will be maintained between prepay and non-prepay. The point here is that there is a difference in the comparison groups.

III. NON-PREPAYERS SHOULD NOT BE FORCED TO ENTER INTO DERIVATIVE TRANSACTIONS THAT SOPHISTICATED FINANCIAL INSTITUTIONS CONSIDER TOO RISKY

At the November 4, 2019 workshop, PG&E presented the results of discussions it had with several financial institutions about the bank-financing approach.[4] The discussions revealed useful insights on the ability to reasonably hedge PCIA payments by either a financial institution or non-prepay ratepayers:

1. The ability for financial institutions to hedge PCIA risk is dependent on information that could be used to analyze the different components: energy, RA and RPS.
2. Energy over the short-term of three to five years is liquid and tradeable in CAISO.
3. RA and RPS components of PCIA are more difficult to model because of the lack of available information since they are transacted bilaterally between market participants.
4. There is substantial regulatory risk in any PCIA prepayment structure, especially because RPS and RA values are dependent on Commission and legislative mandates.
5. Because of potential credit issues and the foregoing concerns, under the current situation, financial institutions are unlikely to hedge all of the PCIA volatility for which the CCAs and DAs are responsible.

These findings imply that hedging all PCIA risk through a bank-financing approach is currently unlikely. Shorter-term, energy-only swap transactions have the most potential appeal to the financial institutions surveyed by PG&E. With the firming up of the regulatory process around PCIA and increased experience in the CAISO area, financial institutions would likely consider broadening their willingness to hedge PCIA payments.

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[4] Untitled, PG&E Presentation, November 4, 2019 workshop, p. 3.

The implications for having non-prepayers – residential customers, small businesses, etc. – enter into derivatives transactions to hedge the PCIA risk of CCAs and DAs are clear. If sophisticated financial institutions consider certain transactions such as hedging RA risk out twenty years too risky, non-prepay ratepayers should not be forced to go where banks fear to tread. Non-prepayers lack the ability to hedge against any prepayment arrangement an IOU might enter on their behalf. Sophisticated financial institutions would have the potential to reduce their risk exposure in any prepay derivative contracted with a CCA or DA. It is also unreasonable to require an IOU to try to hedge prepayment derivative risks on behalf of non-prepay ratepayers. IOUs lack the resources and market position to hedge such risks in the way that financial institutions can. Financial institutions' core business involves evaluating and hedging risks. For the foregoing reasons, non-prepayers should not be forced into derivative transactions that sophisticated financial institutions consider too risky.

IV. COMMENTS ON METHODS TO PROTECT NON-PREPAY RATEPAYERS IF THEY ARE FORCED TO ENTER INTO RISKY PCIA DERIVATIVES

If the Commission, contrary to CUE's recommendation, should decide to have non-prepay ratepayers such as residential customers and small businesses be the counter-party in risky derivatives hedging schemes to provide certainty to prepaying CCAs and DAs, then a method must be established to protect non-prepayers. As discussed above, non-prepayers do not have the wherewithal to protect themselves against the risk that prepay derivatives entail, nor are IOUs capable of reasonably providing such hedging. All parties seem to acknowledge that there much be some method to compensate or protect non-prepayers. There are three basic options to mitigate the risk to non-prepayers:

1. An adequate risk premium to compensate non-prepayers for their risk for providing a fixed for floating derivative to prepayers.

2. A "collar" on the swap so that if PCIA rates go too high, non-prepayers are compensated by prepayers, and if PCIA rates go too low, non-prepayers compensate prepayers. In finance terms, this could be described as a combined call and put option on the PCIA price. CUE understands that this is what TURN proposes in its circuit breaker approach.[5]
3. SDG&E has proposed the NPPR, a fund paid upfront to compensate non-prepayers in case the prepayment amount is inadequate to cover variable PCIA payments.

The first option – a risk premium – is fundamental to any calculation of a prepayment amount. Non-prepayers must be compensated for the risk of turning a floating payment stream into a fixed payment stream just as a bank would. The other two options could be combined in some form with the first option. The complicating factor in implementing them in combination, of course, is calculating the impacts of each proposal on the details and pricing of the others.

a. Providing an adequate risk premium to non-prepayers to be the counterparty instead of a financial institution

The first option is to compensate non-prepayers who are forced to enter into a risky derivatives hedge through an upfront risk premium included in the prepayment. A bank that provided a swap to a CCA or DA would require a risk premium and profit on the transaction. It is only fair that non-prepayers also be compensated with a risk premium. CUE agrees with Protect Our Communities Foundation that:

> A key principle underpinning the concept of prepayment is that a customer makes an advance payment that includes an adder, or incremental amount, designed to capture the risk that costs will increase in the future, i.e., a risk adder. In exchange for paying the additional risk adder, a customer gains certainty as to its PCIA obligations.[6]

[5] Comments of the Utility Reform Network on the Phase 2 Working Group #2 Workshop #2, June 21, 2019, pdf p. 2-3.
[6] Informal Comments of Protect Our Communities Foundation on the April 4, 2019 Prepayment Workshop, April 19, 2019, p. 1-2.

This comports with standard approaches that would be taken in valuing commercial swaps. Prepayment agreements between a prepayer and the utility should use similar principles.

As discussed above, because of the inability of non-prepayers to "lay off" the risk associated with the swap transaction with an LSE, the risk premium that non-prepayers receive should be larger than that required by a bank. For situations where there are adequate data and market stability to reasonably calculate a risk premium for the non-prepayers providing a risk premium to non-prepayers is a reasonable approach, though it begs the question why the prepayers should not just deal directly with a financial institution. In cases where there is neither adequate data nor market stability, this approach becomes more difficult. Unless other methods are used to protect non-prepayers, the risk premium would need to be quite large to adequately compensate either a financial institution or non-prepayers.[7]

b. Collar or circuit-breaker on PCIA Derivative

Another approach that could be added to the risk premium approach is an option "collar" to the PCIA derivative. This option would limit risk exposure for both prepayers and non-prepayers. A "collar" could consist of a pair of options so that if PCIA rates go too high, non-prepayers are compensated by prepayers, and if PCIA rates go too low, non-prepayers compensate prepayers. The impacts of a collar on prepayment pricing are necessarily challenging to calculate. More narrow limits on the collar would make calculations of risk premiums easier but would reduce the risk mitigation sought by prepayers. This option would not provide complete up-front certainty to prepayers, but might provide a compromise in obtaining risk reduction for prepayers while protecting both prepayers and non-prepayers from the gross uncertainty in forecasting many of the elements of the PCIA. Correctly constructed, a collar or

[7] See also, Informal Comments of the California Large Energy Consumers Association on the PCIA OIR: Working Group 2 Prepayment, June 21, 2019.

circuit breaker could help preserve customer indifference and make it possible for prepayers to obtain a degree of certainty in their PCIA payments that they would not otherwise be able to obtain.

c. Non-Prepayer Protection Reserve

SDG&E has proposed an NPPR which prepayers would fund upfront to compensate non-prepayers in case the prepayment amount is inadequate to cover variable PCIA payment. As CUE understands the proposal, if the NPPR is insufficient to cover any deficiency, the non-prepayers bear the burden of any shortfall. On the other hand, if the NPPR is not needed or is more than sufficient to cover any shortfall, leftover funds flow back to the prepayer. An NPPR has the potential to help mitigate risk, though it is not clear whether the Commission would need to amend their prior decision concerning a true-up.

V. COMMENTS ON THE NEED TO REDUCE RISK

The major impediment to prepayment, whether through a transaction with a financial institution or with non-prepayers, is the amount of risk involved in prepaying the entire PCIA. In the November 4, 2019 workshop, Sonoma Clean Power ("SCP") presented a "slice of load" approach where a prepayer could prepay a quantity based on something less than its full forecasted load. SCP recognizes that its "slice of load" proposal, "[i]ncreases likelihood of success prepayments by not de facto requiring all or nothing financing."[8] Because "slice of load" reduces risk – whether as a percentage of forecast load or a fixed number of MWh – the Commission should enable this option as one that can be mutually agreed to by potential prepayers and the IOUs representing non-prepayers as counterparties. Similarly, prepayments of a specific time segment that is shorter than full PCIA obligation should be an option for

[8] PCIA WG #2: Prepayment: "Slice of Load" Tool, Neal Reardon, Sonoma Clean Power, November 4, 2019, pdf p. 5.

prepayers because it similarly reduces the risk of the prepayment derivative by eliminating longer-term risks. Long-term forecasts are inaccurate and unreliable. It is for this reason that one rarely sees fixed-price commodity or swap contracts with a long time duration.

Dated: November 14, 2019

Respectfully submitted,

_______________/s/______________
Rachael E. Koss
Adams Broadwell Joseph & Cardozo
601 Gateway Blvd., Suite 1000
South San Francisco, CA 94080
(650) 589-1660 Voice
(650) 589-5062 Fax
rkoss@adamsbroadwell.com

Attorneys for Coalition of California Utility Employees

BEFORE THE PUBLIC UTILITIES COMMISSION OF
THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Review, Revise, and Consider Alternatives to the Power Charge Indifference Adjustment	Rulemaking 17-06-026 (filed June 29, 2017)

COMMENTS OF THE UTILITY REFORM NETWORK ON
THE PHASE 2 WORKING GROUP #2 WORKSHOP #3

TURN
THE UTILITY REFORM NETWORK
Lower bills. Livable planet.

Matthew Freedman, Staff Attorney
The Utility Reform Network
785 Market Street, 14th floor
San Francisco, CA 94103
Phone: 415-929-8876 x304
matthew@turn.org

November 14, 2019

COMMENTS OF THE UTILITY REFORM NETWORK ON THE PHASE 2 WORKING GROUP #2 WORKSHOP #3

TURN offers the following comments on certain issues reviewed in the 3rd workshop of Working Group #2 (WG #2) regarding options for Energy Service Providers (ESPs) and Community Choice Aggregators (CCAs) to prepay their customers' PCIA obligations.[1] Citations refer to slides presented at the WG #2's 3rd workshop, held on November 4 (Presentation).

I. The long-term stability of pre-payment mechanisms is doubtful

TURN recognizes that parties are attempting to develop a viable, stable process that would allow ESPs and CCAs to prepay their customers' PCIA obligations, and that as part of this effort the Commission decision in Phase 1/Track 2 notes that prepayments should not be subject to a "true-up" but considers the potential for "further guidance" to be provided in a Phase 2 decision.[2] TURN appreciates that the Commission and non-IOU Load-Serving Entities (LSEs) prefer a "clean" pre-payment process requiring no additional oversight or action by the Commission.

However, TURN questions whether any prepayment contracts will be sufficiently sturdy to eliminate need for future Commission review. If future market conditions make a prior prepayment contract very unfavorable to any customer or LSE (whether an ESP, CCA or IOU), TURN anticipates that there will be efforts to seek Commission intervention to eliminate such harms. Future market conditions may lead a pre-payment contract reached in the next few years to be remarkably unfavorable to either the IOU or the relevant CCA/ESP/customer. In such cases – and maybe even less meritorious cases – TURN does not expect *any* LSE to just shrug and accept the prepayment contract's negative financial consequences. Nor does TURN believe the

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[1] TURN understands the CCAs and ESPs would negotiate such reductions, but that such reductions would be implemented in the rates the relevant IOU charges such retail customers rather than by transaction with the CCA or ESP.

[2] D.18-10-019, OP #11, page 143.

Commission will (or should) necessarily reject such requests out-of-hand, given the inability of this Commission to bind future Commissions, particularly in the potential face of major changes in market conditions. TURN explained this concern in prior comments on the Track 1 Proposed Decision and prior Working Group #2 presentations.

II. SDG&E's proposed Non-Prepayer Protection Reserve deserves consideration

SDG&E has proposed a Non-Prepayer Protection Reserve (NPPR) under which a prepaying LSE and the IOU would reach agreement on a prepayment amount, but would also require the LSE to commit providing funding for a "reserve" that would provide non-prepaying customers some protection from unfavorable changes in market conditions. Potential prepaying parties tended to oppose this concept.[3]

TURN believes the NPPR concept provides a useful framework for IOUs and non-IOU LSEs to pursue in developing more viable prepayment agreements. However, TURN believes that the IOU and relevant LSE should be permitted to reach an agreement that would provide both parties some protection against future unfavorable market outcomes. Such an approach would differ from SDG&E's proposal by permitting contractual terms that provide both parties such protections.

Though D.18-11-019 found prepayments should not be subject to "true-ups", TURN does not believe this finding prevents an IOU and other LSE from negotiating a prepayment contract with provisions that mitigate risk to both parties by not fixing all cash flows under such contracts but enabling changes to such cash flows under unexpected market conditions.[4] The Commission should explicitly acknowledge that

[3] See Presentation, slides 10, 15-16, 17-22, 35-37 and 54-57.
[4] TURN believes the focus on protecting "non-prepayers" could instead be on both non-prepayers and prepaying customers.

such mutual risk-mitigation contract terms could reasonably be negotiated and encourage such negotiations in the interest of enabling parties to reach more durable prepayment contracts.

III. Use of 3-year historical average customer load would encourage prepayments by customers planning to increase usage

The proposal would rely on a 3-year historical average of customer load to determine expected future retail sales and cost responsibility.[5] Unlike prior presentations, the most recent presentation fails to acknowledge the potential for volumetric sales risk based on "material and unanticipated" load increases by a particular Direct Access customer.[6] There is also no reference to the potential for planned load increases by an individual customer.

The Working Group has not addressed TURN's previously stated concern that a prepayment option may be utilized by customers planning to increase onsite loads in the near future.[7] If prepayment is based on historical load data, this approach would allow a customer intending to increase onsite loads to negotiate prepayment in advance of a load increase. Under this circumstance, a prepaying customer would avoid responsibility for the PCIA charges that would have been applicable had the customer not prepaid. The use of historic loads would incentivize every ESP customer with plans to expand usage to prepay in order to escape cost responsibility for incremental load that would have occurred regardless of the prepayment option.

To prevent this outcome, TURN recommends that any prepayments be applicable only to future usage by an individual customer consistent with a 3-year historical average at the time prepayment is made. Specifically, prepayment should not cover any material

[5] Workshop presentation, page 60.
[6] April 4th workshop presentation, page 12.
[7] TURN comments on WG2 Workshop, April 19, 2019, page 2.

increases in usage by the customer. TURN defines “material” as greater than 10% on an annual basis. Increased usage beyond this threshold should be subject to the PCIA on the same basis as any other customer of the same vintage.

IV. Proposed “Slice of Load” tool requires more detailed explanations about calculating residual cost responsibility

Sonoma Clean Power (SCP) proposed that both CCAs and bundled customers be able to prepay the PCIA charges for only a portion of their load and let the remaining PCIA “float.”[8] The “slice of load” option would allow CCAs to buy out of the PCIA payments they expect to pay and manage volumetric (and possibly other) risks by “floating” with otherwise-applicable PCIA rates. A CCA would avoid uncertainty by reducing the prepayment to less than 100 percent of its load and accepting ongoing risks for the residual portion.

As SCP states, this would protect them in the case (for example) that “their load permanently declines due to something outside their control” for which “they would have no recourse”.[9] Although SCP identifies changes in sales due to public safety power shutoffs or wildfires, the most significant potential driver of changes to CCA loads will be the expansion of direct access. Under both the planned and potential future expansions of direct access, CCAs could lose significant load associated with commercial and industrial customers leaving for cheaper ESP offerings. In addition, significant increases in net energy metering loads could have a similar impact.

The SCP presentation states that an LSE could prepay a “certain percentage of future PCIA obligations”, which suggests that the prepayment would be based on an estimate of the total dollars owed over the relevant time period. It is not clear from the presentation how the residual share of PCIA obligations would be calculated and

[8] Sonoma Clean Power Presentation, November 4, 2019 (SCP), slides 2, 5.
[9] SCP, slide 5.

whether excesses or deficits for prepayments (compared to actual cost responsibility for the relevant "slice of load") would be applied to residual cost responsibility. This detail is critically important to understanding how the potential use of this option would affect non-prepayer indifference. Sponsors of this proposal should provide a more comprehensive description that shows the impact on non-prepaying customers under various scenarios where the prepayer's loads increase (or decrease) relative to the assumptions used to develop the original prepayment obligation.

V. IOU shareholders should take responsibility for over- and undercollections incurred under prepayment contracts

As TURN understands it, the revenues from an LSE's prepayment agreement will be booked to offset non-prepaying parties' PCIA obligations. If such revenues are greater than the LSE's otherwise applicable ongoing PCIA obligations (absent prepayment), non-prepaying customers would benefit from lower PCIA rates. If prepayment revenues are less than the LSE's otherwise applicable ongoing PCIA obligations, non-prepaying customers would be harmed by higher PCIA rates. The working group should better explain this fact in any final report provided to the Commission.

The assignment of risk to non-prepaying customers must be acknowledged by the Commission. Further, the Commission should take steps to mitigate such risks. For example, the Commission could explicitly endorse "risk-sharing" prepayment contracts, as discussed above. The Commission could also require that all prepayment contracts have "circuit breaker" conditions, as described below.

The Commission could alternatively choose to make IOU shareholders responsible for such deviations – positive and negative – rather than non-prepaying customers. Under such an approach, IOU shareholders would absorb either the costs or benefits in the event that a prepayment contract imposes net costs on non-prepaying customers or results in excess payments by prepaying customers. This outcome would eliminate the potential impact of such deviations on non-prepaying customers of CCAs, ESPs and IOUs and preserve indifference.

VI. Circuit breaker provision should be required in each IOU-LSE prepayment contract

Another approach to making prepayment contracts durable would be requiring the inclusion of a "circuit breaker" provision under which the contract terms would reset if electricity market prices or otherwise-applicable PCIA rates deviate by a certain percentage from the values specified in the contract. When such trigger events occur, the disadvantaged party would have the right to approach the advantaged party to reset the prepayment amount to restore the balance of interests originally specified in the contract.[10]

Such provisions would provide symmetrical protection to non-prepaying and prepaying customers. The circuit breaker would specify the percentage change in key assumptions that trigger a recomputation of the prepayment. TURN suggests that the trigger could range from 20-50 percent of the contract's specified assumptions, although the exact percentage in that range should be subject to negotiation. This type of protection would make a PCIA prepayment program more durable by providing means in such contracts to restore the balance of interests between parties without significant Commission engagement.

TURN appreciates the opportunity to submit these comments.

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[10] It is also possible such contracts could include specific formula for computing such changes in the amount of the prepayment contract.

Respectfully submitted,

MATTHEW FREEDMAN

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Matthew Freedman
Staff Attorney
The Utility Reform Network
785 Market Street, 14th floor
San Francisco, CA 94103
Phone: 415-929-8876 x304
matthew@turn.org

Dated: November 14, 2019

Public Advocates Office
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102
Tel: 415-703-1584
www.publicadvocates.cpuc.ca.gov

THE PUBLIC ADVOCATES OFFICE'S COMMENTS
ON PCIA PHASE 2 WORKING GROUP 2: PREPAYMENT

R.17-06-026

Submitted by	Organization	Date Submitted
Mea Halperin Senior Analyst Phone: (415) 703-1368 Email: Mea.Halperin@cpuc.ca.gov	Public Advocates Office – California Public Utilities Commission	November 14, 2019

The Public Advocates Office submits the following informal comments in response to the November 4, 2019 Third Workshop for Working Group Two: Prepayment. The Public Advocates Office supports the Non-Prepayer Protection Reserve (NPPR) as a way to mitigate the substantial risks associated with prepayment, and to help prevent cost shifting to both unbundled and bundled service customers who are not prepaying their PCIA obligation.

Non-Prepayer Protection Reserve

Throughout the PCIA proceeding, the Public Advocates Office has emphasized the importance of maintaining customer indifference and supported efforts to ensure that all customers are paying just and reasonable rates without shifting costs. During the comment period leading up to the adoption of D.18-10-019, the Public Advocates Office was strongly opposed to a prepayment option because an inaccurate prepayment forecast creates a high risk of shifting any unaccounted-for, and therefore unrecovered, costs to bundled service customers.[1] However, the Commission approved the prepayment with no true-up as a means to ensure cost certainty, customer flexibility, and "to reduce the size of the Joint Utilities' PCIA portfolios."[2]

[1] Public Advocates Office Comments on Proposed Decision, pp. 5-6, August 21, 2018; Public Advocates Office Comments on Alternate Proposed Decision, pp. 2-3, September 6, 2018.
[2] D.18-10-019, pp. 91-92.

The Public Advocates Office therefore supports the NPPR as a tool to mitigate the cost-shifting risks associated with PCIA prepayment within the parameters of D.18-10-019.

The NPPR is designed to allow departing load parties to prepay their PCIA obligation without shifting the risks associated with long-term forecasting onto non-prepaying bundled and unbundled customers. The NPPR would be a negotiated "upfront, one-time, refundable, escrow-like payment" that would be used to "recover under-collections due to prepayment arrangement."[3] The terms for the NPPR are as follows:

- If a negotiated PCIA prepayment amount falls short of a departing load party's final calculated PCIA obligation and the party must pay an additional sum to cover the undercollection, the balance will be recovered from the NPPR.
- If a negotiated PCIA prepayment amount falls short of a departing load party's final calculated PCIA obligation but the correct, revised amount exceeds the sum in the NPPR, no additional funds will be taken from the departing load party.
- If a negotiated PCIA prepayment amount exceeds a departing load party's actual PCIA obligation, the full NPPR will be refunded to the departing load party but no amount of the initial over-collected PCIA prepayment amount will be refunded.

In its informal comments to the Second Workshop for Working Group Two, the Public Advocates Office supported the NPPR, but recommended safeguards to recover additional underpayments in the event that the NPPR was still insufficient for meeting a party's actual prepayment amount.[4] While implementing this recommendation would more effectively ensure that a miscalculated PCIA obligation would not shift costs to non-prepaying customers, the Commission prohibited a true-up mechanism for prepayment.[5]

The parties that do not support the NPPR claim that the NPPR is a de facto true-up.[6] However, because the NPPR is a one-time, up-front, negotiated reserve that would only be utilized years in the future, and only in the event that an LSE's PCIA prepayment amount falls short of its actual obligation, it does not function as a true-up. If approved, it would be a much-needed insurance policy to mitigate unpredictable, and unlawful, cost-shifting between customers. The NPPR would not affect LSEs' ability to provide rate certainty for their customers in the years leading up to the potential, but not guaranteed, PCIA undercollection.

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[3] PCIA Working Group 2: Prepayment presentation, November 4, 2019, slide 15.
[4] Public Advocates Office Informal Comments, filed June 21, 2019, p. 2.
[5] D.18-10-019, Ordering Paragraph 11c.
[6] PCIA Working Group 2: Prepayment presentation, November 4, 2019, slide 16.

In the prepayment discussion section of D.18-10-019, the Commission states that "the record evidence cited by the Joint Utilities does not support their assertion that requiring them to accept a prepayment estimate of a customer's long-term cost responsibility would shift substantial risks to remaining bundled service customers," and that "AReM/DACC effectively rebutted the Joint Utilities' expressed concerns about forecast-related market risk, volumetric risk, and regulatory risk."[7]

However, in just the intervening year since the Decision was issued, there have already been impactful changes to the energy market that have increased the risks associated with prepayment. These changes include the requirements to increase the procurement of reliability resources, for a portion of that increased resource adequacy procurement to come from a centralized authority, and power shutoff safety precautions during peak wildfire season. Additionally, policy changes responding to the wildfire crisis, the conclusion of the first integrated resource planning (IRP) cycle, the push for increased energy storage, and PG&E's bankruptcy declaration demonstrate that the threat of future market, forecast, volumetric, and regulatory risk is very credible. As parties proceed to forecast their PCIA obligations on a long-term horizon, well beyond one year, the Commission should implement additional safeguards, such as the NPPR, to hedge against the risks associated with PCIA prepayment.

In conclusion, the Public Advocates Office supports the NPPR as the best option for mitigating the significant risks associated with forecasting a prepayment obligation on a potential multi-decade time horizon. The NPPR is a safeguard against cost-shifting risk that does not violate D.18-10-019, and that preserves the rate certainty and autonomy that departing load LSEs value.

[7] D.18-10-019, p. 91.

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

Order Instituting Rulemaking to Review, Revise, and Consider Alternatives to the Power Charge Indifference Adjustment	R.17-06-026 (Filed June 29, 2017)

COMMENTS OF CALIFORNIA COMMUNITY CHOICE ASSOCIATION ON PCIA PREPAYMENT PROPOSALS DISCUSSED AT NOVEMBER 4, 2019 WORKING GROUP

Irene K. Moosen
Director, Regulatory Affairs
CALIFORNIA COMMUNITY CHOICE ASSOCIATION
One Concord Center
2300 Clayton Road, Suite 1150
Concord, CA 94521
Regulatory@cal-cca.org

Evelyn Kahl
Ann C. Springgate
Buchalter, A Professional Corporation
55 Second Street
Suite 1700
San Francisco, CA 94105
415.227.0900
ekahl@buchalter.com

Counsel to the
CALIFORNIA COMMUNITY CHOICE ASSOCIATION

November 14, 2019

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

Order Instituting Rulemaking to Review, Revise, and Consider Alternatives to the Power Charge Indifference Adjustment	R.17-06-026 (Filed June 29, 2017)

COMMENTS OF CALIFORNIA COMMUNITY CHOICE ASSOCIATION ON PCIA PREPAYMENT PROPOSALS DISCUSSED AT NOVEMBER 4, 2019 WORKING GROUP

Pursuant to Rule 1.9 of the Commission's Rules of Practice and Procedure, and the *Phase 2 Scoping Memo and Ruling of Assigned Commissioner* filed February 1, 2019, California Community Choice Association (CalCCA)[1] submits the following comments.

I. SUMMARY

CalCCA supports the Commission's determination that prepayment of PCIA obligations is a valuable method to protect customers from rate shock and support a stable market. To facilitate the effective use of prepayment, the Commission should 1) reject attempts to introduce true-ups and other barriers, and 2) allow prepaying LSEs flexibility in the number of years and amount of load they prepay.

II. PRINCIPLES

As discussed in previous comments, CalCCA submits the following principles for a successful prepayment framework: [2]

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[1] California Community Choice Association represents the interests of 19 community choice electricity providers in California: Apple Valley Choice Energy, CleanPowerSF, Clean Power Alliance, Desert Community Energy, East Bay Community Energy, Lancaster Choice Energy, Marin Clean Energy, Monterey Bay Community Power, Peninsula Clean Energy, Pioneer Community Energy, Pico Rivera Innovative Municipal Energy, Rancho Mirage Energy Authority, Redwood Coast Energy Authority, San Jacinto Power, San Jose Clean Energy, Silicon Valley Clean Energy, Solana Energy Alliance, Sonoma Clean Power, and Valley Clean Energy.

[2] CalCCA Comments on SDG&E/AReM/DACC Suggested Prepayment Approach at April 4, 2019 working group.

- Transparent: clear delineation of resources included, inputs, and assumptions.
- Binding: once a pre-payment is made there will be no true-ups/re-evaluations/re-negotiations—this obviates the central benefit of prepayment: certainty.
- Consistent: prepayment amount should be calculated in uniform manner for all customers (DA, CCA, and even bundled) and include all net costs and benefits.
- Unbiased: calculated net present value should not be skewed to favor one customer class over another.

III. SDG&E/AReM/DACC CONSENSUS APPROACH TO DEVELOPING PREPAYMENT "STARTING POINT"

CalCCA supports the consensus approach of SDG&E/AReM/DACC (Co-Chairs) to developing a starting point for prepayment negotiations. This approach for developing a prepayment amount is a hybrid between one set by regulators in a Commission-approved docket (the approach recently used in Nevada) and one bilaterally negotiated between investor-owned utilities (IOUs) and departing/departed load serving entities (LSEs) (recently used in Washington State). The Co-Chairs propose establishing a "starting point" based on the net-present-value of future net liabilities, calculated as:

> Total Costs – Brown Power, Renewable Energy Credits (REC), and Resource Adequacy (RA) values as calculated in Final Adders. The Co-Chairs suggest that, following this "starting point", both LSEs independently develop their suggested prepayment price and then negotiate to determine a mutually-agreeable final price.

However, the fatal flaw in this approach is that the IOU has zero incentive to transact, and, in fact, has actively advocated against the use of any prepayments in the PCIA proceeding. The for-profit utilities are in an enviable position. If market values decline, they charge a higher PCIA. But if market values increase sufficiently such that PCIA goes negative (e.g., results in a refund to departed customers) the

IOUs' advocate to wipe the slate clean. A Proposed Decision issued on November 1, 2019 would eliminate this negative PCIA in PG&E territory for pre-2009 vintage customers.[3]

As AREM/DACC noted in its testimony, each IOU already has in its New Municipal Departing Load tariff the option to have the PCIA and other departing load obligations paid as a negotiated lump sum.[4] Yet none have occurred since the early 2000's. If two parties are expected to negotiate to a mutually-agreeable end, but only one of them has an interest in transacting, there is little chance of an equitable solution. CalCCA remains concerned that while the analytical framework for developing a starting point based on known costs and forecasted values is sound, there remains no carrot or stick to incent the IOUs to act.

IV. RESPONSE TO SDG&E'S ADDITIONAL CHARGE

SDG&E proposes that IOU exposure to market uncertainty be mitigated by imposing a charge on departing customers *in addition* to the calculated prepayment amount. This extra charge, dubbed a Non-Prepayer Protection Reserve (NPPR), would be added to the prepayment cost derived by mutually agreed-upon inputs used to develop the starting point discussed above. SDG&E argues that this is 1) necessary to ensure indifference, and 2) not a true-up.

Requiring departing customers to pay more than the estimated net-present-value of future liabilities would systematically *prevent* indifference. Any calculated prepayment amount should be based on the best information available. This would allow both customer classes to be indifferent at the time of the transaction. The NPPR is an attempt to manipulate the calculation to benefit one group of customers at the expense of another.

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[3] *Proposed Decision Adopting Settlement Agreement Resolving Negative Indifference Amount* (Proposed Decision), Application (A.) 16-04-018, Nov. 1, 2019, available at: http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M319/K117/319117122.PDF.

[4] Ex. AReM/DACC AD-1 at section IV.C, 27-28.

SDG&E argues that the NPPR is not a true-up, as these are expressly forbidden by Decision (D.) 18-10-019.[5] Instead, they compare it to an insurance product that may be refunded in the future. This metaphor breaks down, though, as insurance is a product that is either required or desired by the buyer. The NPPR is not required for departing load customers, nor is it desired. This is akin to requiring all new home buyers in Marin to purchase hurricane insurance and then refunding the cost of the policy in the future if hurricane damages were less than expected. There is some merit in SDG&E's argument, however, as true-ups offset both positive and negative values. In other words, they flow in either direction and have the potential to benefit either group of customers. That being said, the NPPR cannot benefit departing customers.

If indifference is what is sought by applying an NPPR, then it must be available to all classes of customers on an equal basis. That would result in both the remaining and departing customers paying an equal, additional charge which would go into an escrow account. Then, at the end of the prepayment period, any under- or over-collection would be refunded to the corresponding customer class. However, this is the definition of a true-up. Thus we are in a scenario where the NPPR—by definition—violates the indifference principle. However, correcting this by treating all customer classes equally and allowing benefits to flow in either direction results in a true-up; which is specifically prohibited in D. 18-10-019.

Finally, the amount of the additional NPPR is undefined. If adopted, IOUs could pursue an NPPR which is 200% of the net-present value of future PCIA obligations. This would effectively triple the prepayment amount, a figure which could easily be in the billions of dollars. We must remember

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[5] D.18-10-019, Ordering Paragraph #11 at 163, Oct. 19, 2018, available at: http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M232/K687/232687030.PDF.

that the IOUs have opposed even allowing prepayment as an option to be considered. The Decision adopting new PCIA methodologies reasoned that:

> [T]he record evidence cited by the Joint Utilities does not support their assertion that requiring them to accept a prepayment of a customer's long-term cost responsibility would shift substantial risks to remaining bundled service customers. Furthermore, AReM/DACC effectively rebutted the Joint Utilities' expressed concerns about forecast-related market risk, volumetric risk, and regulatory risk.[6]

V. SLICE OF LOAD TOOL

Both IOU and Direct Access (DA) providers enjoy a level of certainty that CCAs do not. The former through rate recovery guaranteed by the Commission, and the latter through a known and fixed load. CCAs have neither. If a CCA forecasted and pre-paid based on a 95% participation rate, and instead saw that participation rate decline to 80% over the coming decades, they would have pre-paid an obligation for a customer load they no longer serve. This risk is not solely driven by participation rates; CCAs see load declines due to effective DER programs, wildfires, etc. Additionally, requiring prepayments for 100% of the current load would in turn require CCAs to obtain financing for the full 100%, which may be difficult and/or costly to secure.

Ratemaking for the slice of load concept could be done akin to what is being proposed in PCIA Working Group #3 addressing IOU portfolio management. In that context, CalCCA, Commercial Energy, and SCE are evaluating how PCIA would operate for LSEs that take an allocation of attributes (e.g., RECs and RA). The most practical solution being discussed in Working Group #3 is to keep PCIA constant for all LSEs, and charge LSEs that take the allocation of attributes an additional fee. This same concept could be applied to LSEs prepaying a slice of load. Departed customer PCIA would remain the same as it would under the annual construct we have today. Then, any difference in the fixed prepayment amount in a given year would be credited or debited to the LSE.

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6 *Id*. at 91.

It bears noting that the IOUs have raised the risk of the opposite scenario—unexpected load increases of departed LSEs—as a risk to bundled customers. However, load growth in a region in excess of what IOUs initially forecasted and procured for does not pose a risk to bundled customers. PCIA is not intended to function as an on-going account to which IOUs can charge all above-market costs. It is intended to compensate utilities for unavoidable sunk costs made on behalf of a customer the IOU no longer serves. Imagine PG&E was procuring for a forecasted load of 2,500 GWh in Sonoma County. Then, in 2014, Sonoma Clean Power launches and that 2,500 GWh departs. If in the next five years the load increases to 2,600 GWh, that additional 100 GWh is new load not already procured for by PG&E. It will not impact PG&E's remaining customers and is the sole responsibility of Sonoma Clean Power.

VI. CONCLUSION

CalCCA appreciates the opportunity to provide these comments in support of a prepayment methodology that is transparent, binding, consistent, and applied equitably to customers of all LSE types.

Respectfully submitted,

Evelyn Kahl

Counsel to
the California Community Choice Association

November 14, 2019

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Review, Revise, and Consider Alternatives to the Power Charge Indifference Adjustment.	R.17-06-026 (Filed June 29, 2017)

INFORMAL COMMENTS OF PROTECT OUR COMMUNITIES FOUNDATION ON THE NOVEMBER 4, 2019 PREPAYMENT WORKSHOP

Tyson Siegele
Energy Analyst
Protect Our Communities Foundation
tyson@protectourcommunities.org

Ellison Folk
Yochanan Zakai
SHUTE, MIHALY & WEINBERGER LLP
Folk@smwlaw.com
yzakai@smwlaw.com

Attorneys for Protect Our Communities Foundation

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INFORMAL COMMENTS OF PROTECT OUR COMMUNITIES FOUNDATION ON THE NOVEMBER 4, 2019 PREPAYMENT WORKSHOP

On November 4, 2019, the co-chairs of Working Group 2 convened a workshop at which they requested that parties submit comments on the proposals presented to the service list by November 14, 2019. Protect Our Communities Foundation ("POC") submits these comments pursuant the schedule set by the co-chairs.

Prepayment amounts, once approved by the Commission, should encompass the final PCIA obligation of the departing load customer. As POC noted in previous comments,[1] the Phase 1 Decision clearly ordered that the "prepayment shall not be trued-up."[2] San Diego Gas and Electric's ("SDG&E's") "Non-Prepayer Protection Reserve" is inconsistent with the Phase 1 Decision because it serves the purpose of a true-up and requires a significant overpayment by the prepayer.

Further, SDG&E's proposal is a one-sided true-up because it only captures variations

[1] For a full description of POC's position, please review our May 31, 2019 comments. Informal Comments of Protect Our Communities Foundation on the May 31, 2019 Prepayment Workshop, at pp. 1- 3 (June 21, 2019).

[2] D. 18-10-019, Decision Modifying the Power Charge Indifference Adjustment Methodology, at p. 163 (October 19, 2018) ("Phase 1 Decision").

above the base prepayment amount for the benefit of non-prepaying customers and does not capture variations below the base prepayment amount for the benefit of prepaying customers. Even if the Commission allowed a true-up—which it did not—SDG&E's one-sided true-up should be rejected as unjust and inconsistent with AB 117 and subsequent legislation that requires the Commission not to disadvantage unbundled customers.[3]

POC thanks the co-chairs for the opportunity to submit these comments.

DATED: November 14, 2019

SHUTE, MIHALY & WEINBERGER LLP

By: /s/ Yochanan Zakai

ELLISON FOLK
YOCHANAN ZAKAI[*]
396 Hayes Street
San Francisco, California 94102
(415) 552-7272
Folk@smwlaw.com
yzakai@smwlaw.com

Attorneys for Protect Our Communities Foundation

DATED: November 14, 2019

PROTECT OUR COMMUNITIES FOUNDATION

By: /s/ Tyson Siegele

TYSON SIEGELE
Energy Analyst
Protect Our Communities Foundation
4452 Park Blvd., #202
San Diego, California 92116
(917) 771-2222
tyson@protectourcommunities.org

[3] A.B. 117 and its progeny establish a legislative mandate to treat unbundled customers fairly and consistently with bundled customers. *See e.g.*, Pub. Utils. Code § 366.3. The protections afforded to unbundled customers include unbundled customers that choose to prepay.

[*] Mr. Zakai is a member of the Oregon State Bar; he is not a member of the State Bar of California.