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June 30, 2020

**Agenda ID #18588**  
**Ratesetting**

TO PARTIES OF RECORD IN RULEMAKING 17-06-026:

This is the proposed decision of Administrative Law Judge Nilgun Atamturk. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's August 6, 2020 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.2(c)(4)(B).

/s/ ANNE E. SIMON  
Anne E. Simon  
Chief Administrative Law Judge

AES:avs

Attachment

Decision PROPOSED DECISION OF ALJ ATAMTURK (Mailed 6/30/2020)

**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

**DECISION ADOPTING A FRAMEWORK AND EVALUATION CRITERIA  
FOR THE POWER CHARGE INDIFFERENCE ADJUSTMENT  
PREPAYMENT AGREEMENTS**

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**DECISION ADOPTING A FRAMEWORK AND EVALUATION CRITERIA  
FOR THE POWER CHARGE INDIFFERENCE ADJUSTMENT  
PREPAYMENT AGREEMENTS**

**Summary**

This decision adopts a framework for prepayment agreements for Power Charge Indifference Adjustment (PCIA) obligations. Upon review of the Working Group Two recommendations, this decision (1) adopts the consensus framework of PCIA prepayment agreements; (2) adopts the consensus guiding principles, except for one principle regarding partial payments; (3) adopts evaluation criteria for prepayment agreements; (4) does not adopt any proposed prepayment concepts; and (5) clarifies that risk should be incorporated into the prepayment calculations by using mutually acceptable terms and conditions that adequately mitigate the risks identified by Working Group Two.

This decision also directs Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company to file Tier 2 Advice Letters establishing a prepayment request processing framework.

The assignment of Working Group Two on the PCIA prepayment issues is considered complete.

This proceeding remains open.

**1. Procedural Background**

The Power Charge Indifference Adjustment (PCIA) is a mechanism adopted by the Commission as part of a ratemaking methodology developed to ensure that when electric customers of an investor-owned utility (IOU) depart from IOU service and receive their electricity from a non-IOU provider, those customers remain responsible for costs previously incurred on their behalf by the IOUs. The Commission initiated Order Instituting Rulemaking (R.) 17-06-026 on June 26, 2017 to review the PCIA methodology.

Track 1 of R.17-06-026 examined issues regarding exemptions from the PCIA for the IOUs' California Alternate Rates for Energy (CARE) and Medical Baseline customers. The Commission resolved these issues in Decision (D.) 18-07-009 and D.18-09-013. Track 2 examined the then-current PCIA methodology and considered alternatives to that mechanism. The Commission resolved those issues in D.18-10-019, thus concluding Phase 1. D.18-10-019 also determined that a second phase of this proceeding would be opened in order to establish a working group process to enable parties to further develop proposals for future consideration by the Commission.

On December 19, 2018, a prehearing conference was held to discuss the scope and schedule of Phase 2. Subsequently, the February 1, 2019 Scoping Memo and Ruling of Assigned Commissioner (Scoping Memo) set forth the scope and schedule of the proceeding. The Scoping Memo also established a working group process in the proceeding whereby resolution of the issues of the proceeding would be proposed by three working groups, Working Groups One through Three.

The Scoping Memo designated San Diego Gas & Electric Company (SDG&E) and the Alliance for Retail Energy Markets and the Direct Access Customer Coalition (jointly, as AReM/DACC) as co-chairs of Working Group Two and listed the tasks the co-chairs are responsible for. Pursuant to the schedule set forth by the Scoping Memo, Working Group Two started discussions in February 2019. The co-chairs of Working Group Two served progress reports on May 24, 2019 and July 26, 2019. The co-chairs filed and served *Final Report for Working Group Two (Prepayment)* (Prepayment Report) on December 9, 2019.

The Prepayment Report includes informal comments from the parties on the Working Group Two proposal.<sup>1</sup> The comments attached to the Prepayment Report were served by California Community Choice Association (CalCCA);<sup>2</sup> the Coalition of California Utility Employees (CUE); jointly by Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E) (collectively, the IOUs); Protect Our Communities Foundation (POC); Public Advocates Office; and The Utility Reform Network (TURN). The July 9, 2019 Administrative Law Judge's Ruling Modifying Proceeding Schedule allowed for additional comments and reply comments on the Prepayment Report. CUE, PG&E, POC, SCE, TURN, and – Utility Consumers' Action Network (UCAN) filed comments on January 6, 2020. Reply comments were filed on January 13, 2020 by CalCCA, CUE, PG&E, POC, SCE, SDG&E, TURN, and UCAN.

R.17-06-026 remains open to address the issues assigned to Working Group Three.

## **2. Prepayment Framework Adopted by D.18-10-019**

R.17-06-026 was initiated to “respond to widespread concerns that the Commission’s existing cost allocation and recovery mechanisms [were] not

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<sup>1</sup> The issue of attaching to the final report comments served by the parties, as opposed to filing comments on the final report, was discussed at the prehearing conference (PHC) held on December 19, 2018 and parties present at the prehearing conference did not object to it. (*See* Reporter’s Transcript at 173.)

<sup>2</sup> 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.

preventing cost shifting between different groups of customers, as required by law.”<sup>3</sup> Section 365.2 of the Public Utilities Code provides that:

The commission shall ensure that bundled retail customers of an electrical corporation do not experience any cost increases as a result of retail customers of an electrical corporation electing to receive service from other providers. The commission shall also ensure that departing load does not experience any cost increases as a result of an allocation of costs that were not incurred on behalf of the departing load.

Section 366.3 of the Public Utilities Code provides that:

Bundled retail customers of an electrical corporation shall not experience any cost increase as a result of the implementation of a community choice aggregator program. The commission shall also ensure that departing load does not experience any cost increases as a result of an allocation of costs that were not incurred on behalf of the departing load.

In D.18-10-019, the Commission adopted revised inputs to the market price benchmark (MPB) that is used to calculate the PCIA, the rate intended to equalize cost sharing between departing load and bundled load. In addition to the revised MPB inputs, the decision also adopted an annual true-up mechanism as well as a cap that limits the change of the PCIA rate from one year to the next.

While the true-up ensures that bundled and departing load customers pay equally for the above-market costs of PCIA-eligible resources, the cap provides a degree of rate stability and predictability sought by parties that pay departing load charges. The Commission also took an additional step toward the simplicity and predictability requested by departing load customers by adopting an option for Community Choice Aggregation programs (CCAs) and Direct Access (DA) customers to prepay their PCIA obligation and specifying the

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<sup>3</sup> D. 18-10-019 at 2.



framework for the prepayment option. In D.18-10-019, the Commission directed the following:

Following further development of the prepayment option in phase two of this proceeding, 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, which shall be determined within the following framework:

- 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.<sup>4</sup>

In D.18-10-019, the Commission also directed that any prepayment agreement reached between counterparties pursuant to Ordering Paragraph 11 of the decision must be submitted for Commission approval by the IOU counterparty via an application.

This decision considers the Working Group Two co-chairs' and other parties' proposals to fully develop the PCIA prepayment option. The determinations we make today will be in accordance with the directives and intent of D.18-10-019.

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<sup>4</sup> D.18-10-019 at OP 11.

### 3. Issues Before the Commission

Below are the four issues assigned to Working Group Two in the Scoping Memo and addressed in the Prepayment Report.

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

### 4. Overview of the Prepayment Report

In this section, we briefly summarize the co-chairs' proposal presented in the Prepayment Report. The proposal includes a general prepayment framework, with agreement terms to be defined through bilateral negotiations that will reflect the perspectives and priorities of the parties to each transaction. The proposal also includes Guiding Principles that are set to identify specific risks and to provide guidance for the prepayment negotiations. Finally, a set of evaluation and approval criteria are established based on the Guiding Principles.

#### 4.1. Proposed Prepayment Framework

The proposed prepayment framework is briefly described in the Prepayment Report as follows:<sup>5</sup> The PCIA prepayment amount will be equal to the present value of the customer's forecasted PCIA obligation based on customer vintage for the contractually-identified DA meter(s) or Community Choice Aggregator customer load. To determine this amount, the proposed

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<sup>5</sup> Prepayment Report at 7-9.

prepayment methodology will establish a “starting point” for calculation of the PCIA prepayment price using a combination of data provided by the IOU, publicly-available information and, if relevant, data from the prepayer. 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 will 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 will then negotiate a mutually agreeable final prepayment price, which must comply with the statutory requirement of customer indifference established in Section 365.2 of the Public Utilities Code.

The components of the prepayment calculation include:

- i) Forecast of prepayer’s PCIA obligation, based on:
  - (1) Total portfolio costs (PCIA-eligible resources) for relevant vintage;
  - (2) Estimated brown power costs and volumes;
  - (3) Starting point for calculation is Brown Power Final Adder from the most recent Energy Resource Recovery Account (ERRA) filing.
  - (4) Negotiating parties will utilize industry-acceptable forward curve to estimate brown power revenues and costs.
  - (5) (Estimated Renewable Energy Credit (REC) costs and volumes;
    - (1) Starting point for calculation is REC Final Adder from most recent ERRA filing.
  - (6) Estimated Resource Adequacy (RA) costs and volumes;
    - (1) Starting point for calculation is RA Final Adder from most recent ERRA filing.

- ii) Customer Load;
  - (1) Three-year historical average customer load, unless otherwise justified;
  - (2) If applicable, the prepayer must provide information related to reasonably foreseeable future plans that could have a material impact on load.
- iii) Discount Rate.

#### **4.2. Proposed Guiding Principles**

The Prepayment Report groups the proposed guiding principles into four categories: Market forecast risk; volumetric risk; regulatory risk; and credit, commercial and administrative procedures. These guiding principles form the basis of for the evaluation criteria proposed by the co-chairs. The co-chairs agree on all the guiding principles, except in two areas.

##### **4.2.1. Market Forecast Risk Guiding Principles**

The Prepayment Report ties market forecast risk to potentially drastic market price changes over time and the absence of tools to accurately forecast future pricing of PCIA components (most notably, RECs and RA). Market forecast risk makes 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:

- 1) Principle #1: Forecast methodologies must be consistent with the Commission's energy policy goals and mandates;
- 2) Principle #2: Prepayments are "forward looking" estimates; not a look-back at what was already paid;
- 3) Principle #3: Forecasts should account for all elements of PCIA and use publicly available forward market information to the extent practical;
- 4) 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

- 5) Principle #5: Market uncertainty will be addressed during individual negotiations.

#### **4.2.2. Volumetric Risk Guiding Principles**

The PCIA is a volumetric rate. According to the Prepayment Report, volumetric risk stems potentially from 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 Guiding Principles related to volumetric risk are as follows:

- 1) Principle #1: Prepayment is based on a 3-year historical average load as a starting point.
- 2) 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.

#### **4.2.3. Regulatory Risk Guiding Principles**

According to the Prepayment Report, regulatory risk generally encompasses the idea that future changes in law or regulations may make the IOUs' PCIA-eligible portfolios materially more or less "above-market" than is currently contemplated, thus making any prepayment made in advance of such potential changes potentially risky. The proposed consensus Guiding Principles related to regulatory risk are as follows:

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

- 2) 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.

#### **4.2.4. Credit, Commercial and Administrative Procedures Guiding Principles**

These guiding principles listed below are related to credit risk and administrative procedures for handling the prepayment requests:

- 1) 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;
- 2) Principle #2: IOUs shall take no credit risk for any prepayment agreement;
- 3) 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.
- 4) Principle #4: Should either party default during the agreement, the defaulting party would owe damages under the agreement.

#### **4.3. Other Proposals**

The Prepayment Report provides brief descriptions of the proposals that were developed by certain parties. These proposals include:<sup>6</sup>

- PG&E and CUE explored 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.

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<sup>6</sup> Prepayment Report at 25.

- Sonoma Community Power introduced the concept of a “slice of load” PCIA prepayment, in which a DA customer or CCA would prepay a fixed percentage of its load instead of prepaying the entire PCIA obligation.
- TURN introduced 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 introduced 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.

## **5. Discussion**

For each of the four issues listed in Section 3, this decision states the resolution to the issue; describes the proposals; describes party positions briefly; and then explains how the Commission determines the issue.

### **5.1. Evaluation Criteria for Prepayment Agreements (Scoping Memo Issue 1)**

The scoping memo issue 1 asks what criteria should be adopted to evaluate and approve prepayment agreements. Upon review of the Working Group Two recommendations and comments, the Commission (1) adopts the consensus framework of prepayment agreements; (2) adopts the consensus guiding principles, with the exception of one principle, (3) adopts evaluation criteria for prepayment agreements; (4) does not adopt any proposed prepayment concepts; and (5) clarifies that risk should be incorporated into the prepayment calculations by using mutually acceptable terms and conditions that adequately mitigate the risks identified by Working Group Two.

### **5.1.1. Scoping Memo Issue 1: Recommendations**

The consensus guiding principles and the prepayment framework are described in Section 4.1 and 4.2 of this decision. There are also several areas in which the co-chairs of Working Group Two disagree and parties offer their own proposals. These disagreements are not about the proposed evaluation criteria, but they are rather about how to meet certain guiding principles and evaluation criteria. We will discuss these areas below.

#### **5.1.1.1. Risk Mitigation**

The market forecast risk Guiding Principle #5 states that market uncertainty will be addressed during individual negotiations. The volumetric risk Guiding Principle #2 reflects the consensus position that each prepayment contract must specifically define the volume covered.

Even though these principles are agreed by the co-chairs, one of the co-chairs, SDG&E, expressed concern about the potential cost shift that may occur due to the market forecast risk and volumetric risk. To mitigate these risks, SDG&E proposed a prepayment concept that includes Non-Prepayer Protection Reserve (NPPR), which is described as a negotiated, one-time, refundable amount that is paid upfront by the prepayer. In this concept, negotiating parties have to agree on two calculations, which together comprise the PCIA prepayment: (1) a negotiated non-refundable 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 net present value of the prepayer's PCIA obligation and reflects the outside estimate of the prepayer's PCIA obligation, taking into account market and volumetric uncertainty and risk. 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 will cover the undercollection.

AReM/DACC do not support the NPPR and prefer a negotiated determination of a specified, fixed cost obligation that is paid upfront.

The issue of volumetric risk was also raised in comments by TURN arguing that DA customers with plans to increase onsite loads will have a strong incentive to seek prepayment agreements since prepayment will allow them to avoid paying PCIA on additional load.<sup>7</sup> To address this issue, TURN recommends that prepayment agreements specify a usage threshold beyond which prepaying customers would have to pay the PCIA on the same basis any other customer of the same vintage.

#### **5.1.1.2. Viability Screen**

The proposed credit, commercial and administrative guiding principle #1 establishes that administrative processes for handling prepayment requests will be set by each IOU and will include a standard due diligence that commercial entities perform prior to a transaction. This guiding principle is agreed by the co-chairs. However, SDG&E further requests that the IOUs should be permitted to establish an initial viability screen prior to beginning of a negotiation to examine commercial risk beyond a counterparty's credit profile, as part of the prepayment application process.

AReM/DACC oppose this proposal. Assuming that the prepayer will be a party that has a longstanding commercial arrangement with the IOU, AReM/DACC consider the viability review as unnecessary. In AReM/DACC's view, the viability screen can be subsumed within the IOUs' credit review.

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<sup>7</sup> TURN Comments, January 6, 2020, at 5.

### 5.1.2. Scoping Memo Issue 1: Comments

*Risk Mitigation:* Most parties support or do not oppose the proposed general framework and the guiding principles presented in the Report. However, parties have varying views regarding SDG&E's proposals on risk mitigation and the viability screen.

Arguments supporting SDG&E's NPPR proposal to mitigate market risk are summarized below:

- NPPR ensures compliance with the statutory requirement to maintain cost indifference.<sup>8</sup>
- NPPR ensures achievement of the stated goals of certainty and flexibility with the appropriate assignment of risk.
- NPPR replaces a large risk premium, which would be nonrefundable.
- NPPR promotes certainty as the prepayer knows the maximum amount of payment.
- NPPR is necessary to protect non-prepaying customers from cost-shifts given inherent market volatility and the impossibility of perfectly predicting market prices over the long term.<sup>9</sup>

Several parties, including CalCCA, POC, oppose the NPPR and argue the following:

- NPPR is not permissible under D.18-10-019.<sup>10</sup>
- NPPR 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 payment amount.<sup>11</sup>

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<sup>8</sup> Joint IOU Informal Comments, November 14, 2019, at 2. (Appendix D.)

<sup>9</sup> Prepayment Report at v.

<sup>10</sup> Prepayment Report at 18.

<sup>11</sup> Prepayment Report at 17.

- NPPR introduces complexity, undercuts predictability, and fails to protect the prepayer from overpaying.<sup>12</sup>
- Risk should be embedded in a prepayment arrangement as an adder or incremental amount.
- NPPR is more complicated to negotiate and administer than a straightforward prepayment charge with a risk adder.<sup>13</sup>

*Viability Screen:* Several parties, including PG&E, SCE, and CUE, support the viability screen, and consider this step necessary to determine how serious the counterparty's interest is. CUE finds this review similar to a screening process a bank would undertake if a CCA or DA customer approached it for a similar transaction, and therefore considers it reasonable. Parties that oppose the proposal consider the viability screen proposal an obstacle that will slow down the negotiations.<sup>14</sup>

In its comments, PG&E proposes a more detailed initial viability review, which aims to ensure the serious commitment and financial viability of the counterparty. PG&E's proposed review requires:

- A refundable deposit equal to 10 years of a potential counterparty's latest complete year PCIA obligation;
- A letter of credit in the amount mentioned above;
- A satisfactory investment-grade credit rating;
- An application fee of \$10,000.<sup>15</sup>

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<sup>12</sup> Prepayment Report at v.

<sup>13</sup> Prepayment Report at 20.

<sup>14</sup> CalCCA Reply Comments, January 13, 2020, at 7; POC Reply Comments, January 13, 2020, at 7.

<sup>15</sup> PG&E Comments, Attachment A, at 2-3.

*Other Proposals:* With respect to the proposals introduced by parties other than the co-chairs, several parties, including CalCCA and TURN, consider the proposals' merits and request the Commission's endorsement.<sup>16</sup> The IOUs do not support these proposals, arguing that these proposals lack details;<sup>17</sup> they are administratively impractical and infeasible; and they are incompatible with their billing systems.<sup>18</sup>

In addition, PG&E does not support the partial payment of PCIA obligation, which is encountered in the market forecast risk guiding principle #4, and the Sonoma Community Power's slice of load proposal. PG&E considers partial prepayments to be out of the scope of this proceeding.<sup>19</sup>

### **5.1.3. Resolving Scoping Memo Issue 1**

The Commission finds the proposed guiding principles, except for Market Forecast Guiding Principle #4,<sup>20</sup> and the basic framework for the prepayment agreement presented in the Prepayment Report reasonable. The consensus guiding principles and framework described in Section 4.1 and Section 4.2 of this decision, except for Market Forecast Guiding Principle #4, will provide a basic structure for the IOU and the counterparty to be able to start negotiations.

Prepayment applications explicitly and adequately addressing the consensus guiding principles and meeting the evaluation criteria adopted in this decision will provide the Commission with a record to start reviewing

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<sup>16</sup> CalCCA Reply Comments, January 13, 2020, at 8-9.

<sup>17</sup> See PG&E Reply Comments, January 13, 2020, at 5-6.

<sup>18</sup> SCE Comments, at 4.

<sup>19</sup> PG&E Comments, January 6, 2020, at 2.

<sup>20</sup> Market Forecast Guiding Principle #4 allows for partial prepayment of PCIA obligations, which is discussed in Section 5.3.

prepayment requests and analyzing prepayment calculations. The evaluation criteria we adopt in this decision are listed in Section 5.1.4 of this decision.

The Commission does not require but allows the use of a viability screen, as proposed by SDG&E and PG&E. A viability screen may be necessary to determine serious interest and viability of parties interested in a prepayment agreement; and going beyond the standard due diligence may be necessary in some instances. However, counterparties must be informed about the criteria and metrics by which they will be evaluated under a viability screen. Therefore, PG&E, SCE, and SDG&E must include the details of their viability screens in their Tier 2 Advice Letters, as further discussed in Section 5.5.

Furthermore, the Commission does not adopt the proposed prepayment concepts that require true up; D. 18-10-019 expressly authorizes prepayment agreements with no true-up and we do not change that here.<sup>21</sup> However, the Commission clarifies that risks identified in the Prepayment Report should be incorporated into the prepayment calculations by using mutually acceptable terms and conditions in order to adequately mitigate those risks.

The Scoping Memo asked for criteria the Commission should use to evaluate prepayment applications. Some parties, including SDG&E and TURN, went beyond this scope and offered proposals intended to mitigate some of the risks identified in the Prepayment Report. These proposals have merits and may be preferred by some of the negotiating parties to other options such as a single payment with a higher risk premium depending on the risk-taking preferences of the negotiating parties. However, these proposals are not in compliance with the directive given in D.18-10-019, because they require reconciliation of actual

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<sup>21</sup> D. 18-10-019 at OP 11.

values with forecast values in prepayment calculations. Even though the recalculation in SDG&E's and TURN's proposals do not require Commission's periodic review or are triggered only under certain circumstances, it would still be considered a true-up, which is expressly prohibited by D. 18-10-019.

Therefore, the Commission does not adopt SDG&E's or TURN's proposal.

In D.18-10-019, the Commission has already recognized the inherent risks and market uncertainties affecting prepayment calculations and stated that "AReM/DACC effectively rebutted the Joint Utilities' expressed concerns about forecast-related market risk, volumetric risk, and regulatory risk."<sup>22</sup> The Commission also acknowledged concerns that any prepayment proposal must leave the Commission confident that the obligation to be prepaid has been forecast and calculated as accurately as possible, given the inherent market uncertainties.<sup>23</sup> Executing a prepayment agreement is voluntary, and the concept is by nature is a trade-off between certainty and accuracy; CCAs and DA customers that do not enact prepayment agreements will still have their PCIA obligation incorporated on a forecast basis in annual ERRA forecast proceedings and true-up in annual ERRA compliance proceedings. By adopting a prepayment framework with no true up, the Commission intended to provide cost certainty to CCAs and DA customers without having to conduct a perpetual review and calculation of cost-indifference.

Any forecast and calculation of prepayment in the presence of market uncertainties must include a risk premium to compensate for the predicted uncertainty. Parties, including CUE and POC, clearly acknowledge this option.<sup>24</sup>

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<sup>22</sup> D.18-10-019 at 91.

<sup>23</sup> D. 18-10-019 at 147.

<sup>24</sup> CUE Comments, January 6, 2020, at 11-12.

POC explicitly agrees that the IOU might seek a risk premium in any prepayment negotiation and summarizes what a prepayment entails: “A key principle underpinning the concept of prepayment is that a customer makes a prepayment that includes an adder, or incremental amount, designed to capture the risk that costs will increase in the future, *e.g.*, a risk adder. In exchange for paying the additional risk adder, a customer gains certainty as to its PCIA obligation. The risk adder should be included in a fixed payment charge, eliminating the need for the true-up account and mechanism proposed by SDG&E.”<sup>25</sup>

IOUs argue that the absence of concepts such as NPRR may stall the prepayment negotiations between the IOU and the counterparty. In its comments, TURN also expressed skepticism that “a long-term prepayment mechanism without any sort of ‘true-up’ or ‘guard-rails’ can withstand significant changes in power market conditions that upend parties’ expected risks and rewards from a prepayment agreement.”<sup>26</sup> PG&E agrees.<sup>27</sup>

We recognize party concerns regarding having a prepayment option with no true up; however, the goal of Phase 2 is not to relitigate party positions, but address the issues listed in the Scoping Memo. It is still the Commission’s anticipation that counterparties to the prepayment agreement can come up with terms and conditions that will provide cost certainty to CCAs and DA customers while mitigating the risks identified in Prepayment Report. However, we are also aware of the difficulty of this task in the presence of market uncertainty. If

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<sup>25</sup> POC, Comments, January 6, 2020, at 4.

<sup>26</sup> TURN Comments, January 6, 2020, at 1.

<sup>27</sup> PG&E Reply Comments, January 13, 2020, at 2.

the negotiations get indeed stalled or circumstances change, then the Commission may need to reconsider D.18-10-019.

Finally, with respect to the other proposals described in Section 4.3, the Commission appreciates the creative thinking behind the proposals and encourages parties to further develop these or other options to expand prepayment options outside this proceeding, but will not take any action with respect to them. These proposals do not offer any evaluation criteria, which is the focus of this decision, and lack details. One proposal, the bank financing proposal, does not even require Commission review or approval.

If these proposals or other future proposals meet the evaluation criteria that we adopt today and the directives of D.18-10-019, and are mutually agreed by negotiating parties, then they could be further explored in prepayment negotiations. The Commission will review and assess the reasonableness of specific prepayment agreements in individual applications, as ordered in D.18-10-019.

#### **5.1.4. Evaluation Criteria**

Pursuant to Ordering Paragraph 12 of D.18-10-019, any prepayment agreement reached between counterparties will be submitted for Commission approval by the IOU counterparty via an application. The Commission will review each prepayment application and consider its reasonableness based on the evaluation criteria adopted in this decision. The following evaluation criteria is based on the guiding principles adopted in this decision:

- 1) Is the forecast methodology used to develop prepayment amount consistent with CPUC energy goals and mandates? (Market Risk Guiding Principle #1.)
- 2) Is the prepayment amount a forward-looking estimate and not a look-back at what was already paid? (Market Risk Guiding Principle #2.)



- 3) 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.)
- 4) Do the individually-negotiated provisions of the prepayment agreement adequately address market uncertainty? (Market Risk Guiding Principle #5.)
- 5) Did parties use the three-year historical average load as a starting point for negotiation of the prepayment amount, or provide sufficient justification for an alternative assumption regarding future load? (Volumetric Risk Guiding Principle #1.)
- 6) 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.)
- 7) 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 #2)
- 8) 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.)
- 9) Does the prepayment agreement protect IOU bundled service customers from credit risk related to the prepayment? (Credit, Commercial & Admin. Guiding Principle #2.)
- 10) 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? (Credit, Commercial & Admin. Guiding Principle #3.)
- 11) Does the prepayment agreement establish adequate damages in the event of default by either party? (Credit, Commercial & Admin. Guiding Principle #4.)

In addition, the Commission adopts the following evaluation criteria to ensure incoming prepayment applications are sufficiently detailed with respect to prepayment calculations:

1. Does the prepayment calculation methodology reflect the most recent PCIA methodology adopted by the Commission? (If the PCIA methodology is revised, parties who thereafter enter into negotiations for a new prepayment agreement must use the updated methodology to calculate the prepayment amount, as necessary.)
2. Does the prepayment agreement use realistic assumptions in forecasting future PCIA obligations and calculating the net present value of PCIA obligations?
3. Does the prepayment agreement identify the sources of uncertainty in the prepayment calculations and assess how those sources of uncertainty may affect the prepayment calculations?
4. Does the prepayment calculation address and account for the uncertainty identified in the forecast to ensure that risk is properly incorporated into the prepayment calculations?
5. What is the likelihood that prepayments will be insufficient to cover the prepayer's full PCIA obligation and how will the non-prepayers be impacted by this risk?
6. Does the prepayment calculation incorporate potential load growth at the prepaying customer's meter and identify what portion of this growth will be covered by the prepayment agreement?

## **5.2. Accounting Treatment for Prepayments (Scoping Memo Issue 2)**

Scoping Memo Two asks about the IOU accounting treatments the Commission should require to reflect prepayments. The Commission finds the co-chairs' proposal reasonable and adopts it. Accordingly, the basic regulatory accounting process will entail that any prepayment amount be placed into an

interest-bearing balancing account, as required by D.18-10-019. The IOU will then calculate a “shadow bill” on a monthly basis and transfer that bill amount to the Portfolio Allocation Balancing Account (PABA) every month in order to prevent a skew in the PABA balance that may impact non-prepayers. Additional steps can be introduced depending on the final structure of the agreement. The details of the accounting treatment for this basic process must be fully explained in individual applications for prepayment agreements.

#### **5.2.1. Scoping Memo Issue 2: Recommendations**

The Prepayment Report proposes that any prepayment amount be placed into an interest-bearing balancing account, as required by D.18-10-019. The IOU will then calculate a “shadow bill” on a monthly basis. The “shadow bill” is the PCIA amount the prepayer would have owed for that month if it had not prepaid. It 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 IOU will transfer that bill amount to the PABA every month in order to prevent swings in the PABA balance.<sup>28</sup>

#### **5.2.2. Scoping Memo Issue 2: Comments**

Most parties did not comment on the accounting issue.

SCE agrees that the use of a shadow bill structure may be appropriate for large prepayments to smooth out potential rate volatility and avoid rate distortions.<sup>29</sup> Nevertheless, SCE requests flexibility in accounting treatments, because it may be more administratively efficient and practical to immediately credit PABA for small amounts.

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<sup>28</sup> Prepayment Report at viii.

<sup>29</sup> SCE Comments, January 6, 2020, at 4.

PG&E supports the shadow bill methodology and argues that it is an administratively feasible and reasonable approach to prevent volatility in the PABA balance and customer rates.

### **5.2.3. Resolving Scoping Memo Issue 2**

The Commission finds the co-chairs' proposed basic regulatory accounting process reasonable and adopts it. The shadow bill approach appears to be administratively feasible and aims to prevent volatility in the PABA balance. However, we also recognize that additional steps may be necessary and that utilities may have to apply slightly different approaches as a result of the individual prepayment agreements. Therefore, details for accounting treatment of prepayments must be included in individual prepayment applications submitted to the Commission for approval.

### **5.3. Time Periods for Prepayment (Scoping Memo Issue 3)**

The Scoping Memo asks what should be the time periods over which the prepayment can be made. The co-chairs recommend that the Commission allow for a segment of the PCIA obligation to be prepaid, upon mutual agreement. The Commission does not adopt the co-chairs' recommendation. In accordance with D.18-10-019, prepayment must be structured as a one-time payment or a levelized payment over two-five years.

#### **5.3.1. Scoping Memo Issue 3: Recommendations**

The Prepayment Report states that while some parties understand the Scoping Memo Issue 3 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), Scoping Memo Issue 3 also could be interpreted as referring to the question of the period of prepayment (*e.g.*, whether payment may be for a portion of or the full time period of the PCIA obligation).

The co-chairs recommend that the Commission allow for a segment of the PCIA obligation to be prepaid, upon mutual agreement. The period of prepayment will be negotiated and must be mutually agreed-to by the negotiating parties. Under this 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.

### **5.3.2. Scoping Memo Issue 3: Comments**

Both SCE and PG&E oppose the co-chairs recommendation for allowing a segment of PCIA obligation to be prepaid, upon mutual agreement.<sup>30</sup> They argue that D.18-10-019 did not allow for partial payments.

POC supports allowing partial prepayments, arguing that D.18-10-019 does not accept or reject any partial prepayment proposals. CalCCA also supports partial prepayments and argues that “without guaranteed load or recovery of costs, CCAs are exposed to reductions in load and participation rates that create complications for financing an entire prepayment.”<sup>31</sup>

### **5.3.3. Resolving Scoping Memo Issue 3**

In D.18-10-019, the Commission explicitly specified the form that a prepayment must take: (1) a one-time payment; or (2) a series of levelized payments over 2-5 years.<sup>32</sup> Parties did not present any compelling reasons to deviate from this form. Therefore, we will not allow for a segment of a PCIA obligation to be prepaid.

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<sup>30</sup> SCE Comments January 6, 2020, at 3-4.

<sup>31</sup> POC Comments, January 13, 2020, at 7.

<sup>32</sup> D.18-10-019 at OP 11.

In D.18-10-109 the intent of the Commission was to allow for one-time transactions that will provide cost certainty to CCAs and DA customers without having to conduct any periodic calculations. Allowing for fractional prepayments will defeat the purpose of the envisioned prepayment option and may further complicate a transaction that is complex to start with.

#### **5.4. Conflict Resolution (Scoping Memo Issue 4)**

The scoping memo asked for input regarding the regulatory approval process and dispute resolution process governing the prepayment option. The process for contract dispute resolution will be addressed in each individual prepayment agreement.

##### **5.4.1. Scoping Memo Issue 4: Recommendations**

The co-chairs propose that 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.

##### **5.4.2. Scoping Memo Issue 4: Comments**

Parties either support or do not comment on the issue.

##### **5.4.3. Resolving Scoping Memo Issue 4**

The Commission adopts the co-chairs recommendation' that any contract disputes should be addressed in the terms and conditions of the bilaterally-negotiated prepayment contract, which may require mediation and arbitration.

#### **5.5. Application Process**

The Prepayment Report did not provide any recommendations for how the utilities should manage prepayment requests and negotiations. Because this new process may increase the workload not just for utilities, but the Commission staff, it is important that there are protocols in place to timely process prepayment requests.

In its comments, PG&E proposed an application protocol to process prepayment requests, which would establish limits on the number of requests and processing timelines to facilitate administration of prepayment requests.<sup>33</sup> According to PG&E's proposal, if an applicant meets the prepayment viability screen, it is eligible for a lottery of up to six available prepayment requests per year. The IOU could also put a timeframe on negotiations.

PG&E notes that the amount of utility resources to finalize a prepayment is substantial.<sup>34</sup> The IOU must review the request, respond to data requests, analyze ratepayer impact, negotiate the terms of prepayment, assess potential upgrades to the billing system, and help prepare an application for filing at the Commission. PG&E noted that this represents hundreds of employee hours for a single prepayment request.<sup>35</sup>

Because each IOU is different, one framework may not be necessary or workable. Therefore, PG&E requests that the IOUs be allowed to file Tier 2 Advice Letters establishing a prepayment request framework, so that all parties have clear expectations on next steps for making prepayment requests administratively feasible.

SCE also requested that the IOUs should be able to implement an administrative framework where a limited number of DA customers per year enter a "lottery" to negotiate prepayment terms.<sup>36</sup>

In the interest of administrative efficiency, the Commission finds PG&E's and SCE's requests to establish administrative frameworks reasonable. Within

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<sup>33</sup> PG&E Comments, January 6, 2020, at 10.

<sup>34</sup> PG&E Comments, January 6, 2020, at 9.

<sup>35</sup> PG&E Comments at 9-10.

<sup>36</sup> SCE Comments, at 5 and Appendix A.

60 days of the issuance of this decision, PG&E, SCE, and SDG&E must file Tier 2 Advice Letters detailing administration of the prepayment requests and negotiations, including the following:

- How many prepayment requests will be processed annually and justifications for the limitations on the number of requests;
- How requests for prepayment will be prioritized by the IOU;
- What steps can parties take to reduce the total number of separate applications to the Commission to make the process more efficient, such as filing multiple requests for prepayment in a single application to the Commission;
- What process parties will use to resolve disputes if they are unable to reach agreement.

The Commission will then determine the reasonableness of the protocols in its review of these advice letters.

Finally, CUE argues that it is not equitable for bundled ratepayers to pay for the processing and negotiations for prepayment and proposes that the applicant should pay the IOUs costs rather than making bundled ratepayers pay for those costs from which they receive no benefit. We agree. In D.18-10-019, the Commission took many steps to ensure that bundled and departing load customers pay equally for the above-market costs of PCIA-eligible resources. The Commission also took the step toward the simplicity and predictability requested by departing load customers by adopting an option for these customers to prepay their PCIA obligation. However, this step is an option to be taken on a voluntary basis. It is reasonable and equitable that bundled customers do not bear the cost of keeping this option viable. Therefore, the prepayment agreement submitted to the Commission for approval should



include proper terms showing that the IOU counterparty has the cost responsibility of prepayment negotiations and agreements.

## **6. Comments on Proposed Decision**

The ALJ's proposed decision was mailed to the parties in accordance with Section 311 of the Public Utilities Code, and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed by \_\_\_\_\_. Reply comments were filed by \_\_\_\_\_.

## **7. Assignment of Proceeding**

Martha Guzman Aceves is the assigned Commissioner and Nilgun Atamturk is the assigned Administrative Law Judge in this proceeding.

## **Findings of Fact**

1. The PCIA prepayment amount will be equal to the present value of the customer's forecasted PCIA obligation based on customer vintage for the contractually-identified Direct Access (DA) meter(s) or Community Choice Aggregator customer load.
2. To determine the PCIA prepayment amount, the proposed prepayment methodology will establish a "starting point" for calculation of the PCIA prepayment price using a combination of data provided by the IOU, publicly-available information and, if relevant, data from the prepayer.
3. To the extent confidential information is exchanged in the process of developing PCIA prepayment amount, such information will be protected under a non-disclosure agreement.
4. Once the starting point for the calculated prepayment price is established, each negotiating party will then conduct independent modeling and analysis to further develop its proposed prepayment price, each considering its own proprietary assumptions regarding forward pricing and risk.

5. Parties must negotiate a mutually-agreeable final prepayment price, which must comply with the statutory requirement of customer indifference.

6. The components of the prepayment calculation include: Forecast of prepayer's PCIA obligation, customer load, and discount rate.

7. The proposed guiding principles are grouped in four categories: Market forecast risk; volumetric risk; regulatory risk; and credit, commercial and administrative procedures.

8. The guiding principles form the basis for the evaluation criteria proposed by the co-chairs.

9. The prepayment framework will provide a basic structure for the IOU and the negotiating party to be able to start negotiations.

10. Prepayment applications explicitly and adequately addressing the guiding principles and meeting the evaluation criteria adopted in this decision will provide the Commission with a sufficient record to start reviewing prepayment requests and analyzing prepayment calculations.

11. A viability screen may be necessary to determine serious interest and viability of parties interested in a prepayment agreement; and going beyond the standard due diligence may be necessary.

12. Counterparties must be informed about the criteria and metrics by which they will be evaluated under a viability screen.

13. Proposals developed by SDG&E and TURN are not in compliance with the directive given in D.18-10-019, because they require reconciliation of actual values with forecast values in prepayment calculations.

14. The basic regulatory accounting process will entail any prepayment amount be placed into an interest-bearing balancing account, as required by D.18-10-019.

15. The IOU will calculate a “shadow bill” on a monthly basis and transfer that bill amount to the PABA every month in order to prevent a skew in the PABA balance that may impact non-prepayers.

16. In D.18-10-019, the Commission authorized a prepayment option with the form of either (1) a one-time payment; or (2) a series of levelized payments over 2-5 years.

17. Any contract disputes should be addressed in the terms and conditions of the bilaterally-negotiated prepayment contract, which may require mediation and arbitration.

18. The prepayment agreements may increase the workload for utilities and the Commission.

19. The Commission took many steps to ensure that bundled and departing load customers pay equally for the above-market costs of PCIA-eligible resources.

20. Prepayment is a step taken toward the simplicity and predictability requested by departing load customers and is voluntary.

### **Conclusions of Law**

1. The guiding principles and framework described in Section 4.1 and Section 4.2, except for Market Forecast Guiding Principle #4 regarding partial prepayment, should be adopted.

2. The evaluation criteria listed in Section 5.1.4 of this decision should be adopted.

3. PG&E, SCE, and SDG&E should provide details of their viability screens in their Tier 2 Advice Letters.

4. Neither SDG&E’s nor TURN’s prepayment concept proposals should be adopted.

5. The proposed accounting treatment of prepayment agreements should be adopted. The details of the accounting treatment must be fully explained in individual applications for prepayment agreements.

6. Any prepayment amount received by the IOUs should be placed into an interest-bearing balancing account.

7. The Commission should not allow for a segment of PCIA obligation to be prepaid.

8. Any contract disputes should be addressed in the terms and conditions of the bilaterally-negotiated prepayment contract, which may require mediation and arbitration.

9. PG&E, SCE, and SDG&E should have protocols in place to timely process prepayment requests.

10. PG&E, SCE, and SDG&E should file Tier 2 Advice Letters detailing administration of the prepayment requests and negotiations, including justifications for the limitations on the number of requests.

11. Bundled customers should not bear the cost of keeping the prepayment option viable.

12. The prepayment agreement submitted to the Commission for approval should include proper terms showing that the IOU counterparty has the cost responsibility of prepayment negotiations and agreements.

## **O R D E R**

**IT IS ORDERED** that:

1. The Working Group Two consensus guiding principles, except for the partial payment principle, and the consensus framework of the Power Charge Indifference Adjustment prepayment agreements are adopted.

2. Evaluation criteria based on the adopted guiding principles, as listed in Section 5.1.4, are adopted. All prepayment agreements between the investor-owned utilities and utility counterparties shall demonstrate in prepayment agreement applications that the evaluation criteria listed in Section 5.1.4 of this decision are met.

3. The basic regulatory accounting process proposed by the co-chairs of Working Group 2 is adopted, entailing any prepayment amount be placed into an interest-bearing balancing account, as required by Decision 18-10-019, and allowing the investor-owned utility to calculate a “shadow bill” on a monthly basis and transfer that bill amount to the Portfolio Allocation Balancing Account every month. Additional steps may be introduced depending on the final structure of the prepayment agreement. The details of the accounting treatment for prepayments shall be fully explained in individual applications for prepayment agreements.

4. The process for contract dispute resolution shall be addressed in each individual prepayment agreement.

5. Any negotiated prepayment amount must include a risk premium to compensate for the risks identified by Working Group Two.

6. Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company shall each file a Tier 2 Advice Letter within 60 days to establish protocols to administer prepayment requests and negotiations. The advice Letters should address:

- (a) How many prepayment requests will be processed annually, and justifications for the limitations;
- (b) How requests for prepayment will be prioritized by the IOU;

- (c) What steps can parties take to reduce the total number of separate applications to the Commission to make the process more efficient, such as filing multiple requests for prepayment in a single application to the Commission;
- (d) What process parties will use to resolve disputes if they are unable to reach agreement.

7. The prepayment agreement submitted to the Commission for approval shall include proper terms showing that the investor-owned utility counterparty has the cost responsibility of prepayment application processing and negotiations.

8. Rulemaking 17-06-026 remains open.

This order is effective today.

Dated \_\_\_\_\_, at Napa, California.