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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)

REPLY COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E) ON PHASE 2 PROPOSED DECISION ON POWER CHARGE INDIFFERENCE ADJUSTMENT CAP AND PORTFOLIO OPTIMIZATION

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I. INTRODUCTION AND SUMMARY

Pursuant to Rule 14.3 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, Pacific Gas and Electric Company (PG&E) respectfully submits these Reply Comments on Administrative Law Judge (ALJ) Wang's Phase 2 Proposed Decision on Power Charge Indifference Adjustment (PCIA) Cap and Portfolio Optimization (the PD). PG&E continues to support all aspects of the PD, and requests minor modifications to facilitate implementation of the voluntary allocation and market offer (VAMO) for Renewables Portfolio Standard (RPS) attributes. PG&E observes that the majority of commenting parties supported the PD and requested minor clarifications,[1] or did not oppose the PD.[2] While the PD does not hand a victory to any party's proposed approach, the PD establishes a framework that is compatible with existing regulatory processes and is responsive to the significant reliability questions confronting the Commission today.

PG&E's Reply Comments address (1) California Community Choice Association's (CalCCA) misleading argument that the PD is legally erroneous; (2) support for resolution of issues concerning Greenhouse Gas (GHG) -Free attributes through the voluntary allocation of ***all*** GHG attributes of the Investor Owned Utilities' (IOUs) PCIA-eligible portfolio; and (3) support for proposed improvements to the VAMO process for RPS to (i) enable resales; and (ii) redistribute volumes of PCIA-eligible RPS

1/ See, e.g., Opening Comments filed by Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E);The Utility Reform Network (TURN), Shell Energy North America (Shell)

2/ See, e.g., Opening Comments filed by Independent Energy Producers Association (IEPA) and Alliance for Retail Energy Markets/Direct Access Customer Coalition (AReM/DACC).

products remaining following a VAMO to load serving entities (LSE) on a voluntary basis as a $0 reportable transaction for RPS Market Price Benchmark (MPB) calculation and ratemaking purposes.

II. THE PD'S DENIAL OF VAMO FOR RESOURCE ADEQUACY AND GHG-FREE PRODUCTS IS REASONABLE AND SUPPORTED BY LAW

In its Comments, CalCCA expresses broad disappointment concerning the PD's rejection of the VAMO proposal for resource adequacy (RA) and GHG-Free attributes. CalCCA alleges that, by *not* adopting the VAMO mechanism for these products as proposed by the Working Group 3 (WG 3) Co-Leads, the PD is inconsistent with Section 366.2(g) and Section 365.2 of the Public Utilities Code.[3/] PG&E disagrees. Put simply, the PD is a reasonable outcome to a long-contentious and complex topic, with multiple parties opposing or raising significant concerns with the WG 3 proposal for VAMO. Despite CalCCA's palpable distress, neither §366.2(g) nor §365.2 require CalCCA's desired outcome and the PD's rejection of VAMO for RA and GHG-Free attributes is not legal error.

A. Because the PD Leaves in Place Market-Based Benchmarks for RA Products, the PD is Consistent with Public Utilities Code Section 366.2 (g)

PG&E agrees with CalCCA that Public Utilities Code §366.2(g) supports fairness for the recovery of PCIA-eligible costs from CCA customers. That provision requires that costs recovered from CCA customers "be reduced by the value of any benefits that remain with bundled service customers, unless the customers of the community choice aggregator are allocated a fair and equitable share of those benefits."[4/] While the PD rejects allocation of RA and GHG-Free energy, the PD is consistent with §366.2(g) because, under the existing PCIA methodology, CCA customers do not pay for benefits retained by bundled service customers and these benefits are appropriately valued. Under the current methodology, the costs of the PCIA portfolio recovered from customers is reduced by the market value of RA products retained for bunded service customers, as determined by the annual MPB, and is further reduced by allocating the revenue from excess sales and the energy market of PCIA-eligible resources.

CalCCA now alleges that benefits of the PCIA portfolio are not reflected in the recently reformed MPBs, including GHG-Free energy value and a hypothetical right of first refusal (ROFR) to rely on RA resources and RPS resources.[5/] PG&E addressed the lack of evidence demonstrating market value for GHG-Free resources in its Comments, and further addresses this matter in Section III, below.

3/ All statutory references herein are to the California Public Utilities Code.

4/ Public Utilities Code, Section 366.2 (g).

5/ CalCCA Comments, p. 6.

While CalCCA's ROFR claim appears new, it is an iteration of an argument that the Commission considered and rejected in Decision (D.) 18-10-019, and that survived judicial review.

In considering revisions to the PCIA methodology in Phase 1 of this proceeding, the Commission rejected proposals to include illusory benefits, similar to CalCCA's ROFR value, that are not supported by observable market value. Specifically, Protect Our Communities Foundation (PCF) and other parties supported inclusion of an "inherent hedge and option value" for the PCIA portfolio, however, those parties could not provide evidence of such theoretical benefits.[6/] The Commission rejected theoretical adders in favor of actual, observable values.[7/] PCF subsequently pursued a Petition for Writ of Review in the California appellate court concerning, among other things, the lawfulness of the PCIA methodology's exclusion of hypothetical values.[8/] PCF's Writ of Review was summarily denied, resolving this issue.[9/] As such, the Commission should disregard CalCCA's claim of legal error based on its vague arguments for a newly contrived and hypothetical value.

Moreover, PG&E finds CalCCA's criticism of the RA MPB surprising, considering that CalCCA co-led a working group to develop MPBs with PG&E in 2019 and a ROFR value was not contemplated there. In compliance with D.18-10-019, CalCCA and PG&E developed an MPB for RA based on actual, observable RA market transactions, and the Commission adopted the proposal in D.19-10-001. CalCCA's new criticism of the RA MPB appears to be primarily driven by the rejection of its proposal and CCA supports its arguments, in part, by observed scarcity in the RA market.[10/] However, the MPB valuing PG&E's retained RA reflects such scarcity. Moreover, a scarce market for marginal RA resources is used to value *all* of PG&E's retained RA, and is subject to true-up for updated market conditions.[11] A review of recent RA MPBs demonstrates a significant increase in the RA MPB

6/ D.18-10-019, p. 35.

7/ Id.

8/ *See* Protect Our Communities Foundation, Petition for Writ of Review, Commission Decision Nos. D.18-10-019 & D.20-01-030, Cal. 4th App. Div. 1, Case D077271, page 60 (arguing that the Commission should assign a hypothetical long-term value to value resources rather than using actual market price).

9/ PCF's Petition was denied on August 4, 2020, and PCF did not appeal such denial.

10/ CalCCA Comments, pp. 10-11.

11 / The price true-up prevents cost shifting in both scarcity and surplus conditions: in recent years with a tight RA market, the final benchmark for RA has exceeded the forecast benchmark. However, as the Joint IOUs demonstrated in their April 2018 testimony in the first phase of this proceeding, the price of RA declined or stayed flat from 2012-2016 in surplus conditions. PG&E anticipates future cycles of scarcity and surplus.

rendering CalCCA's argument more questionable. In 2019, the final RA MPB for system RA was $2.77 per kilowatt-month (/kW-Month). In 2020, the final MPB for system RA was $5.20/kW-Month. The forecasted RA MPB for 2021 is now $6.10/kW-Month, *more than double* from just two years ago. When the MPB is higher, fewer RA-related costs are recovered from departed load. This is further evidence that a ROFR value is meritless and CalCCA's concerns with Section 366.2 (g) are misplaced: the value of RA benefits remaining with bundled service customers are reduced through the market-based methodology.

B. The PD is Consistent with Section 365.2 Because the Existing Methodology for RA and GHG-Free Resources Prevents Cost Shifts to Departed Load Customers

CalCCA further submits that, by not adopting VAMO for RA, the PD "shifts costs from bundled to unbundled customers" in contravention of Section 365.2, which prohibits cost shifts between bundled and unbundled customers. CalCCA does not clearly describe how costs are shifted to departed load customers, but its argument is based on attacking the PCIA methodology established by D.18-10-019.[12/] The lawfulness of the Commission's current PCIA methodology is addressed above.

CalCCA also misconstrues the PD's concern with increasing costs and market inefficiencies, and PG&E's conclusion that VAMO for RA would increase costs for *all* customers to insinuate costs are therefore *shifted* to departed load customers.[13/] The simple fact is VAMO for RA would increase costs for *all* customers and this outcome is inconsistent with principles in this proceeding.[14/] These costs include IOU system and administrative costs, increased requirements for regulatory agencies, and increased RA Availability Incentive Mechanism costs and compliance risk. Under the WG 3 Proposal, VAMO would not leave capacity reserves for RA substitution and the Co-Chairs admitted that "costs may increase as the IOUs may need to procure additional capacity for substitution."[15/] The VAMO RA proposal lacked a price floor, which could cause IOUs to sell RA attributes below the expected costs associated with an RA commitment, an outcome which would only *increase* total PCIA portfolio costs. The PD is correct to reject a framework that would increase costs and risks for *all* customers, and that is

12/ CalCCA Comments, pp. 8-9.

13/ *See* CalCCA's Comments, pp. 8-10. *But see* PG&E's Opening Comments on the PCIA Phase 2, Working Group 3 Final Report, pp. 7-12.

14/ *See* Phase 1 Scoping Memo (September 25 2017), p. 13 and D.18-10-019, p. 127 (stating that any PCIA methodology adopted by the Commission [should] prevent cost increases for either bundled or departing load.

15/ PCIA Phase 2, Working Group 3 Final Report, p 24.

wholly inconsistent with regulatory proceedings addressing the state's reliability needs. That CalCCA vehemently disagrees with the PD's outcome is not evidence of a cost shift.

III. ALLOCATING ALL GHG-ATTRIBUTES IS A RESONABLE RESOLUTION OF LONG-CONTESTED BUT UNSUBSTANTIATED CLAIMS OF GHG-FREE "VALUE"

Multiple parties observed that the issue of whether GHG-Free resources have additional value, beyond that is observed in the market, was well-litigated in Phase 1 and should not be litigated again. PG&E maintains that any Commission reconsideration should also consider diminution of value for GHG-emitting resources. However, PG&E agrees that resolution of GHG-Free issues would preserve valuable time and party resources. As such, PG&E supports SCE's recommendation that, as an alternative, the Commission require the IOUs to offer two buckets of GHG-Free allocations, one for nuclear, and one for large hydroelectric, pooled with GHG-emitting resources, for any LSE willing to accept one or both pooled buckets. Voluntary allocation of *all* GHG attributes is a reasonable resolution of this issue, addresses CCA concerns regarding nuclear attribute allocations, and would accurately reflect all GHG-related attributes in the PCIA portfolio.

IV. PG&E SUPPORTS CERTAIN IMPROVEMENTS TO VAMO FOR RPS-ELIGIBLE RESOURCES

Multiple parties suggested improvements to the RPS VAMO process to include (1) resale of allocated volumes; and (2) voluntary reallocation of unallocated and unsold RPS attributes after VAMO. PG&E supports these improvements. Resales of allocated attributes do not cause significant cost or risks, provided that PG&E is not required to manage the subsequent transaction or transactions. Under such a resale, PG&E would transfer renewable energy credits (RECs) to the LSE accepting the allocation, and not manage the contract, volumes, or transfer of RECs to a downstream buyer. Second, multiple parties observed ratemaking ambiguities concerning unsold and unallocated RPS attributes. PG&E agrees with SCE and CalCCA that, as an alternative to addressing these ambiguities, the PD could authorize redistribution of unsold RPS on a pro-rata basis to eligible LSEs that elected to receive the allocation. In such a case, the voluntary redistribution should be treated as a sale at $0/MWh and be considered as a transaction for annual RPS MPB calculation purposes. To ensure a level playing field, RPS attributes associated with this redistribution process that are used by LSEs, including the IOUs, would not be valued at the RPS MPB when used for compliance with the RPS program. In the attached Appendix, PG&E proposes modifications to Conclusion of Law 12 consistent with these comments.

Respectfully Submitted,

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Attachment A: Proposed Modifications to Findings, Conclusions, and Orders

Note: Proposed Modifications are shown in bolded strikeout and underline. For purposes of brevity, PG&E has only reproduced those findings, conclusions, or orders for which it has recommended additional modifications as part of its Reply Comments.

12. The Commission should incorporate the RPS VAMO into the PCIA ratemaking methodology as follows:
(a) Treat RPS Voluntary Allocations as sales at the applicable year's MPB.
(b) LSE payments for Voluntary Allocations will be recorded in PABA and will offset costs in the PCIA.
(c) Treat Voluntary Reallocations as sales at $0.
~~**(c)**~~ **(d)** IOUs will pay for their Voluntary Allocations as a debit from the ERRA balancing account and a credit to PABA.
~~**(d)**~~ **(e)** Record Market Offer sales revenue in PABA.
(f) All LSEs, including the IOUs, do not pay for Voluntary Reallocation products in the year Voluntary Reallocation RECs are used. No additional debit from the ERRA balancing account is required.