STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

FILED
03/29/22
02:18 PM
R2005003

March 29, 2022

Agenda ID #20491
Ratesetting

TO PARTIES OF RECORD IN RULEMAKING 20-05-003:

This is the proposed decision of Administrative Law Judge Julie Fitch. 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 May 5, 2022 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).

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

AES:sgu
Attachment

Decision **PROPOSED DECISION OF ALJ FITCH** (Mailed 3/29/2022)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Continue Electric Integrated Resource Planning and Related Procurement Processes.	Rulemaking 20-05-003

DECISION ON MODIFIED COST ALLOCATION MECHANISM FOR OPT-OUT AND BACKSTOP PROCUREMENT OBLIGATIONS

Table of Contents

DECISION ON MODIFIED COST ALLOCATION MECHANISM FOR OPT-OUT AND BACKSTOP PROCUREMENT OBLIGATIONS - 1 -
Summary - 2 -
1. Background - 3 -
2. General Principles for Cost Allocation - 7 -
3. Billing And Rate Design Issues - 10 -
3.1. Parties' Positions - 11 -
3.2. Discussion - 17 -
4. IOU Proposals for a Modified Cost Allocation Mechanism - 19 -
4.1. SCE Proposal - 19 -
4.1.1. Implementation Timeline - 24 -
4.2. PG&E Proposal - 24 -
4.2.1. Implementation Timeline - 27 -
4.3. SDG&E Proposal - 28 -
4.3.1. Implementation Timeline - 31 -
4.4. IOU Responses to Each Other's Proposals - 32 -
4.5. Other Parties' Responses to IOU Allocation Proposals - 34 -
5. Modifications to D.19-11-016 Addressing Cost Recovery for Procurement on Behalf of Bundled Customers - 38 -
5.1. PG&E's Proposed Modifications - 38 -
5.2. Discussion - 39 -
6. Joint Southern California CCA Motion for Clarification and Interim Guidance - 40 -
6.1. Motion - 40 -
6.2. Responses to Motion - 41 -
6.3. Reply to Responses - 41 -
6.4. Discussion - 41 -
7. Adopted Implementation of Modified CAM - 42 -
7.1. Treatment of Opt-Out Procurement Costs and Benefits - 43 -
7.2. Treatment of Backstop Procurement Costs and Benefits - 45 -
7.3. Tracking and Billing Protocols - 49 -
7.4. Allocation of RA Benefits - 50 -
7.5. Allocation of Renewable Energy Credits (RECs) and GHG Attributes - 51 -
7.6. Summary - 53 -
8. Financial Protection in the Event of LSE Bankruptcy or Exit from Serving Load - 54 -

8.1. Parties' Positions ... - 54 -
8.2. Discussion ... - 55 -
9. MCAM Implementation ... - 56 -
10. Comments on Proposed Decision ... - 57 -
11. Assignment of Proceeding ... - 57 -
Findings of Fact ... - 58 -
Conclusions of Law ... - 64 -
Order ... 66

DECISION ON MODIFIED COST ALLOCATION MECHANISM FOR OPT-OUT AND BACKSTOP PROCUREMENT OBLIGATIONS

Summary

This decision adopts a Modified Cost Adjustment Mechanism (MCAM)[1] to ensure that the net costs of electric resource procurement obligations mandated in Decision (D.) 19-11-016 and D.21-06-035 are allocated and recovered in a fair, economical, and legally-compliant manner. We authorize the use of non-bypassable customer charges[2] as the means through which to recover above-market MCAM costs, while assigning the costs of the associated resource adequacy and renewable energy benefits at the relevant market price benchmark to the non-utility load-serving entities (LSEs).

In general, each LSE should be responsible for meeting procurement obligations to serve its own customers. The incumbent investor-owned utilities (IOUs), however, were directed in D.19-11-016 to procure additional resource generation capacity on behalf of other LSEs in their service territory that either (a) elected to opt out of self-procurement or (b) failed to acquire their share of required capacity after electing to do so. We refer to the procurement for the former situation as "opt-out procurement" and the latter as "backstop procurement." Eleven LSEs opted out of D.19-11-016 requirements, representing approximately 113 megawatts (MW) out of the total 3,300 MW of required capacity.

[1] The Modified Cost Adjustment Mechanism is thus entitled because it is a modification of the Cost Adjustment Mechanism originally adopted in Decision 06-07-030.

[2] Non-bypassable charges are billed in a separate line item to distribution customers by the investor-owned utilities.

Unlike D.19-11-016, D.21-06-035 did not allow for LSEs to opt out of self-providing capacity, but did provide for backstop procurement in the event of failure by one or more LSEs to deliver their share of the capacity and/or energy procurement requirements.

The MCAM adopted herein sets forth governing principles and methodologies whereby the costs associated with this incremental procurement conducted by the incumbent IOUs on behalf of other non-IOU LSEs will be allocated and recovered. The MCAM adopted herein sets precedent for any future backstop procurement authorized in the integrated resources planning (IRP) process in the future, unless and until the Commission adopts a more comprehensive programmatic approach to IRP procurement authorizations.

We authorize the IOUs to file Tier 2 advice letters to implement various aspects of the MCAM in accordance with the directives of this order. We also authorize the filing of Tier 1 advice letters to notify the Commission when a non-IOU LSE has entered into an agreement to purchase the resource adequacy capacity and renewable energy credits associated with opt-out or backstop procurement.

Rulemaking 20-05-003 remains open.

1. Background

The Commission instituted Rulemaking (R.) 20-05-003 to address the process for integrated resource planning (IRP) for implementation of Public Utilities Code Sections 454.51 and 454.52.[3] The instant decision is issued in

[3] All references to code sections in this Decision are to the Public Utilities Code, unless otherwise noted. Section 454.51(a) requires that the Commission "identify a diverse and balanced portfolio of resources needed to ensure a reliable electricity supply that provides optimal integration of renewable energy in a cost-effective manner."

R.20-05-003 to implement cost allocation and recovery provisions relating to the resource procurement obligations mandated in Decision (D.) 19-11-016, D.21-06-035, and any subsequent procurement orders where either opt-out procurement or backstop procurement are required by the Commission.

To address a potential reliability challenge, D.19-11-016 determined that LSEs[4] within the Commission's purview for IRP purposes required an additional 3,300 megawatts (MW) of resource adequacy (RA) capacity over the 2021-23 period.[5] D.21-06-035 addressed further reliability challenges in the medium term by requiring procurement of at least 11,500 MW of resource adequacy (RA) capacity over the 2023-2026 (with possible extension to 2028) period.[6]

While D.21-06-035 required each LSE to bear primary responsibility for resource procurement of its customers' needs, D.19-11-016 allowed non-IOU LSEs to opt out of procuring their share of the incremental capacity requirements and have IOUs procure these resources on their behalf (*i.e.,* Opt-Out LSEs). [7] Both decisions recognized the potential that LSEs could fail to self-procure, in

[4] As defined in Section 380(k) a "load serving entity" is an "electrical corporation, electric service provider, or community choice aggregator" subject to the Commission's resource adequacy requirements.

[5] D.19-11-016 required incremental procurement, beyond the baseline resources assumed for 2022, of system-level resource adequacy capacity of 3,300 megawatts (MW), by all load-serving entities serving load within the California Independent System Operator (CAISO) balancing authority area with at least 50% delivered by August 1, 2021, 75% delivered by August 1,2022, and 100% delivered by August 1, 2023.

[6] D.21-06-035 required incremental procurement of system-level resource adequacy capacity of 11,500 MW, with 2,000 MW delivered by August 1, 2023, 8,000 MW by August 1, 2024, 9,500 MW by August 1, 2025 and 11,500 MW by August 1, 2026, and allowing for a possible extension to 2028 for the last 2,000 MW.

[7] Ordering Paragraph 3 of D.19-11-016 and Ordering Paragraph 3 of D.21-06-035 prescribed the respective MW share of resource procurement obligation applicable to each specified LSE.

whole or in part, even after electing to do so (*i.e.*, Deficient LSEs). Pursuant to § 451.51(c), the Commission required the incumbent investor-owned utilities (IOUs) to conduct procurement as mandated in D.19-11-016 and D.21-06-035 on behalf of these Deficient LSEs (*i.e.*, backstop procurement).[8]

In D.20-12-044, issued on December 17, 2020, the Commission prescribed how IOUs may conduct backstop procurement for LSEs, and how to determine that LSEs who elected to self-provide capacity requirements had failed to do so. As noted therein, after the Commission determines that backstop procurement is required and an IOU initiates backstop procurement, all administrative and procurement costs associated therewith will be eligible for cost recovery by the IOU.

Because cost allocation issues originally raised in D.19-11-016 involve "complex questions that are not completely addressed by current mechanisms," the Commission called upon Energy Division to initiate a workshop "to begin to develop proposals for the exact mechanisms contemplated here."[9] A workshop was held on February 3, 2020, in which parties discussed options for implementing a cost allocation methodology. On June 5, 2020, an Administrative Law Judge's (ALJ's) Ruling was issued calling for detailed proposals on how to allocate costs for the procurement obligations in D.19-11-016. The ALJ Ruling invited any and all workable proposals, regardless of whether they conformed strictly to the directional language in D.19-11-016.

---

[8] D.19-11-016 noted, however, that designating the IOU as backstop provider was merely an interim step and not intended to prejudge the outcome of the central procurement entity discussions in the resource adequacy proceeding.

[9] D.19-11-016 at 67.

On July 22, 2020, comments in response to the ALJ Ruling were filed by: Southern California Edison Company (SCE); Pacific Gas and Electric Company (PG&E); and San Diego Gas & Electric Company (SDG&E) (together, the IOUs). Other parties filing comments were: Alliance for Retail Energy Markets (AReM); American Wind Energy Association of California (AWEA); California Community Choice Association (CalCCA); California Large Energy Consumers Association (CLECA); Public Advocates Office of the California Public Utilities Commission (Cal Advocates); Calpine Energy Solutions, LLC (Calpine); Constellation New Energy, Inc. (Constellation); CPower, California Efficiency and Demand Management Council (CEDMC), and Enel North America, Inc. (Enel), jointly; Green Power Institute (GPI); Protect Our Communities Foundation (PCF); Shell Energy North America (Shell).

Reply comments were filed on August 7, 2020 by each of the IOUs; AReM; AWEA; CalCCA; Constellation; GPI; PCF; The Utility Reform Network (TURN); and Women's Energy Matters (WEM).

In June 2021, additional system resource adequacy capacity procurement was required of LSEs in this proceeding in D.21-06-035. D.21-06-035 did not allow for opt-out procurement, but adopted an approach to backstop procurement that is identical to the backstop procurement allowed in D.19-11-016. D.21-06-035 also determined that the MCAM addressed herein would apply to any backstop procurement associated with D.21-06-035.

On December 10, 2021, San Diego Community Power (SDCP), Clean Energy Alliance (CEA), Desert Community Energy (DCE), City of Pomona (Pomona), and Santa Barbara Clean Energy (SBCE), (collectively the Joint Southern California CCAs), jointly filed a motion for clarification and interim guidance related to MCAM issues, on both the allocation of costs and benefits. The motion sought interim guidance while a final decision on MCAM was still pending. On December 22, 2021 SDG&E, PG&E, and SCE filed responses to the Joint Southern California CCA motion. The Joint Southern California CCAs filed a joint reply on the responses on January 10, 2022.

Based on this background and consideration of the filed comments, this decision adopts measures to ensure that net costs to meet procurement obligations mandated in D.19-11-016, D.21-06-035, and any subsequent procurement orders in the IRP context are allocated and recovered in an equitable, economical, and legally-compliant manner.

2. General Principles for Cost Allocation

As a starting point for designing cost allocation for our purposes here, we affirm the following guiding principles. In particular, the cost allocation must:

- meet cost causation principles (*i.e.*, generally, costs are borne by and benefits are credited to the customers on behalf of whom they were procured).
- require that customers of Opt-Out LSEs pay as close to equivalent costs and receive as close to equivalent benefits, per MW, as bundled customers.
- are based on publicly available information, avoiding reliance on confidential or commercially sensitive information, as much as possible.

As specified in D.19-11-016, the adopted MCAM will be generally more similar to the Cost Allocation Mechanism (CAM) adopted in D.06-07-029, and not the Power Charge Indifference Adjustment (PCIA), but with certain modifications. For purposes of allocating the net costs of backstop procurement subject to D.19-11-016 and D.21-06-035, the traditional CAM was to be applied on a modified basis (i.e., MCAM). The traditional CAM adopted in D.06-07-029 was a vehicle for allocating capacity costs net of related benefits of applicable generation resources among benefiting customers. [10] Over time, the CAM evolved through various decisions including D.14-06-050.[11] The MCAM adopted for our current purposes entails adjustments to the traditional CAM to account for the fact that procurement costs will only be recovered from bundled service customers, Opt-Out LSE customers, and potentially Deficient LSE customers, rather than all customers in an IOU's service territory. Regarding the MCAM, D.19-11-016, stated:

> We also clarify that the capacity procured by the IOUs in response to this decision will be allocated on a non-bypassable basis through a modified CAM mechanism and not PCIA. In other words, we will not reduce the cost allocation amounts to be recovered by the IOUs after load migrates. Thus, we do not make the modifications suggested by SDG&E, in its comments, to account for load migration before or after the

[10] D.06-07-029 at 52-53; Ordering Paragraph 1 of D.06-07-029 states: "The LSEs in the IOUs' service territory will be allocated rights to the capacity that can be applied toward each LSE's resource adequacy (RA) requirements. The LSEs' customers receiving the benefit of this additional capacity pay only for the net cost of this capacity, determined as a net of the total cost of the contract minus the energy revenues associated with dispatch of the contract."

As defined in D.06-07-029, benefitting customers are all bundled service, DA, and CCA customers, as well as customers located within a utility distribution service territory, but who take service from a local Publicly Owned Utility after the date the new generation goes into service.

[11] *See* D.13-02-015 at 98; also D.14-06-050 extended that the CAM as applied to Local Resource Adequacy (RA) benefits to include the allocation of Flexible RA CAM benefits to provide committed flexible capacity.

LSE elects whether it will self-provide, or for PCIA vintaging.[12]

The CAM adopted in D.06-07-029 offers a framework for design of the MCAM, based on its guiding principles as summarized herewith. [13]

- The IOUs were designated to procure new generation capacity while the LSEs in the IOU's service territory were allocated rights to the capacity as applied toward each LSE's resource adequacy (RA) requirements. The LSEs' customers receiving the benefit of the capacity were to pay the net cost of the capacity, (*i.e.*, total contract cost minus energy revenues associated with dispatch of the contract).
- The approved new generation eligible for the CAM was to receive cost recovery for the term of the respective contract up to 10 years from the time that the new unit comes online.
- The administrative costs of selecting the contract were borne only by bundled customers, because there was no way to easily separate out the costs. These costs were intermingled with the rest of IOU procurement activities.
- Bundled customers were to be responsible for long-term commitments entered into by the IOUs for 10 years, unless otherwise modified by the Commission.
- As determined in D.04-12-048, departing load remained responsible for the resource commitments entered into by the IOUs on their behalf for the previous period when they were bundled customers.
- If the utility signed a "hybrid" contract which included some years of service from an existing unit, and some years

[12] *See* D.19-11-016 at 67. PCIA vintaging refers to how each generation resource and departing customer is separately identified for cost recovery. Each vintage consists of a separate portfolio of resource costs based on the year a commitment to procure each resource was made. Customers are assigned a vintage according when they depart bundled service. Customers are responsible for the cumulative PCIA rates for their vintage.

[13] *See* D.06-07-029 at 26-33.

of service for a new unit on the same or on a near site—the CAM only applied to the part of the contract with the new facility. Any part of the contract using the existing facility must be paid fully by bundled ratepayers.

- If a new unit subject to the CAM falls within a local area, the local RA counting benefit would also go to all LSEs paying for the resource.
- The energy and capacity would be unbundled, with the costs and benefits of the RA capacity component socialized to all customers connected to the utility's distribution system.
- The IOU should charge the benefiting customers the net cost of capacity, determined as total contract cost minus the energy revenues associated with dispatch. All RA counting benefits and net costs were spread to the LSEs whose customers are allocated costs based on share of 12-month coincident peak, adjusted on a monthly basis to facilitate load migration. The contract costs paid and RA benefits received by DA (or CCA and municipal load) and bundled customers should be based on a share basis equal to the credit share received.

While these principles form a foundation, disputes remain regarding cost allocation for the opt-out and backstop procurement that has been mandated in D.19-11-016, as well as the backstop procurement associated with D.21-06-035, as discussed further below.

3. Billing And Rate Design Issues

As a threshold matter, we address issues regarding billing and rate design to recover MCAM costs. In particular, parties dispute whether to apply (a) a non-bypassable charge on retail customers' bills or (b) direct billing to each LSE on whose behalf the IOU incurs procurement costs.

3.1. Parties' Positions

The IOUs, CLECA, TURN, and Constellation all argue that the MCAM should be recovered through a non-bypassable customer charge to comply with statutory law. The IOUs, in particular, argue that Section 454.51(c) and 365.1(c)(2) together require that the net costs of IOU opt-out or backstop procurement required by D.19-11-016 be allocated on a fully non-bypassable basis to the benefitting customers. In this regard, Section 454.51(c) requires the Commission to

> "[e]nsure that the net costs of any incremental renewable energy integration resources procured by an electrical corporation to satisfy the need identified in subdivision (a) *are allocated on a fully nonbypassable basis consistent with the treatment of costs identified in paragraph (2) of subdivision (c) of Section 365.1*."

Section 365.1(c)(2) states that the Commission shall:

> ensure that, in the event that the commission authorizes, in the situation of a contract with a third party, or orders, in the situation of utility-owned generation, an electrical corporation to obtain generation resources that the commission determines are needed to meet system or local area reliability needs for the benefit of all customers in the electrical corporation's distribution service territory, the net capacity costs of those generation resources are allocated on a fully nonbypassable basis consistent with departing load provisions as determined by the commission, to all of the following:
>
> (i) Bundled service customers of the electrical corporation.
>
> (ii) Customers that purchase electricity through a direct transaction with other providers.
>
> (iii) Customers of community choice aggregators.

Based on these statutory provisions, the IOUs thus argue that the MCAM must ensure compliance with statutory cost indifference principles. They argue that requiring the IOUs to undertake backstop procurement on behalf of departing load customers may not, as a matter of law, result in increased costs for bundled service customers. They argue that direct billing of opt-out or Deficient LSEs for applicable procurement costs would violate the statutory prohibition against cost shifting because retail customers of the LSEs could bypass such costs. The IOUs argue that a non-bypassable customer charge is the only way to comply with the statutory requirements.

TURN also advocates for the allocation of backstop procurement costs to retail customers through a non-bypassable charge. TURN argues that direct billing of these procurement costs to the LSEs could be problematic if the overall customer load share served by an individual LSE changes over the duration of backstop procurement commitments. An LSE may opt to participate in the IOU procurement, receive an assigned share of resources based on current loads, and then lose (or gain) customer load. If the LSE's share of overall load changes over time, TURN argues, the LSE should bear a proportionate change in the original procurement obligation. TURN argues that assigning procurement to LSEs based on a static load share (determined at a single point in time) could lead to inequitable outcomes. An LSE that subsequently gained load (through customer migration) is not subject to increased obligations, and would have no appetite to procure excess resources assigned to other LSEs. An LSE that subsequently loses load may end up with excess commitments that are not easily resold unless other LSEs gaining load also receive an increased obligation.

Constellation notes that D.19-11-016 provided for cost recovery of procurement via a non-bypassable charge imposed on the customers of the Opt-Out LSEs. Constellation characterizes the proposals for an LSE-based cost allocation as an abrupt and retroactive change in the implementation of the capacity requirement. If the Commission approves such a change, Constellation argues, it that should be implemented prospectively only and should not be imposed retroactively. Constellation argues that substantial new risks should not be imposed on LSEs in comparison to the risks at the time they made their choice between self-provision and opting out.

CLECA also supports allocation of costs and benefits through a non-bypassable customer charge and opposes an LSE-based direct charge for procurement. CLECA believes an LSE-based direct charge would create problems as load migrates, and allow a non-utility LSE to allocate procurement costs among customer classes differently than would the IOU for its own customers. While acknowledging that non-IOU LSEs are free to allocate the costs of generation that they procure, CLECA believes that bundled and opt-out customers should be treated with similar cost allocations for IOU backstop procurement.

CLECA likewise argues that to maintain competitive neutrality, a separate interim CAM charge should appear on the bills of both the Opt-Out LSEs and, ideally, bundled customers' bills similar to the PCIA charge for bundled customers pursuant to D.18-11-019. CLECA believes a similar charge, denoted as a generation charge, should appear on bills of customers whose LSEs fail to self-procure, although at a different level. CLECA argues that in this manner, the rates of different LSEs can be compared by customers in a competitively neutral manner.

CalCCA, Calpine, PCF, and Shell all oppose the use of a non-bypassable charge on retail customers' bills for the MCAM. They propose that backstop procurement costs be directly assigned to (and billed to) the LSE on whose behalf the IOU undertakes backstop procurement. These parties propose direct billing of LSEs for all incremental costs procured by the IOU on behalf of those LSEs' customers.

CalCCA proposes using an EEI Master Agreement and Confirmation transaction structure for billing the LSEs directly. CalCCA claims that direct billing of LSEs (a) aligns with the principal of LSE cost responsibility adopted in D.19-11-016; (b) is simpler, with no need to develop new customer charges, (c) ensures that all LSEs equally bear the risk and costs of their choices, and (d) prevents billing distortions by keeping costs in each LSE's generation charges.

CalCCA argues that customers of LSEs who meet their commitment to self-procure their share of incremental resources should not be burdened with costs of any other LSE that relies on the IOU. CalCCA argues that billing retail customers, rather than the Deficient LSE, could shift credit risk and other administrative costs from the LSE to IOU bundled customers. If these costs are not internalized within the contract struck by the IOU or recovered through the associated charge, CalCCA argues, IOU customers would subsidize other LSE customers.

CalCCA argues that direct billing of the LSE creates incentives for LSEs to engage in the procurement required to meet their customers' needs. If, however, the costs are recovered from LSEs' customers, CalCCA argues, the LSE would face no financial consequences for incremental procurement costs when exiting the market.

CalCCA argues that billing the LSE directly would place all LSEs on a level playing field. Under CalCCA's proposal, the IOU's opt-out and backstop procurement costs would be allocated among and billed to Deficient LSEs directly using the ratio of their relative procurement obligations specified in Ordering Paragraph 3 of D.19-11-016. CalCCA argues that a ratio allocation ensures that excess procurement costs are spread proportionally only among Opt-Out and Deficient LSEs. By contrast, the CAM historically required the rights to capacity procured by designated IOUs be allocated among *all LSEs* in the IOU's service territory.[14]

Self-procuring LSEs' costs would also appear in their generation rates. CalCCA believes that treating opt-out and backstop procurement costs as CAM charges, however, undermines consumer protection and favors opt-out and Deficient LSEs relative to LSEs who do their own procurement.

CalCCA argues that directly billing LSEs eliminates the distortion in bill presentation inherent in the traditional CAM. CalCCA argues that the New System Generation Charge (NSGC), billed under the traditional CAM, is merged with delivery charges for billing purposes and does not differentiate customers based on which LSE serves them. Consequently, CalCCA argues, this bill presentation distorts markets and undermines consumers' ability to easily compare rates among generation providers.

[14] D.13-02-015, at 98.

CalCCA argues that reflecting cost recovery through the IOU distribution charge would allow a Deficient LSE to appear to have lower rates than one that elected to self-procure. CalCCA reasons that the cost of their IRP reliability procurement would be hidden within the IOU's distribution charge rather than appearing in the Deficient LSE's generation rate component. The cost of IRP reliability procurement incurred by an LSE who self-procures, however, would be fully reflected in its generation rate component. CalCCA argues that such treatment creates the appearance that the generation costs of the self-procuring LSE are higher than those of the opt-out or Deficient LSE, and customers' ability to perform an apples-to-apples rate comparison between non-IOU LSEs is hampered.

Shell likewise argues that under direct LSE billing, the LSE will include its costs in its generation rate. In this way, Shell argues, all LSEs will compete on an "apples-to-apples" basis, at least with respect to the cost of incremental system RA. All LSEs will include incremental system RA costs in their generation rate. If a CAM-like mechanism is adopted, however, Shell argues, the IOU may include the backstop procurement cost in customers' "distribution" charge, thus distorting price competition between and among LSEs.

Shell further argues that direct billing of LSEs ensures that the LSEs bear cost responsibility for the IOU's backstop procurement, eliminates cost shifting when customers migrate, and is the simplest allocation mechanism. Shell argues that the issue of a customer escaping its cost obligation by switching to another LSE is a matter of contract between the customer and its LSE. If, notwithstanding the contract language, a customer escapes its obligation by switching to another LSE, the ESP remains responsible for the backstop procurement cost. Shell argues there is no cost-shifting to the IOU's bundled sales customers or other customers.

Calpine argues if the Commission requires backstop procurement costs to be recovered at the customer level, those customers will have had their future energy procurement options and potential savings therefrom impaired. All other things being equal, Calpine argues, this will create two classes of customers and constrains one class to a reduced value for a decision they did not directly elect. To promote a level playing field associated with price visibility, Calpine supports allocation of the costs and/or benefits attributable to IOU procurement on behalf of Opt-Out LSEs directly to those LSEs and not their customers.

3.2. Discussion

In some ways it would be preferable, on a policy basis, to have the IOUs bill the appropriate LSEs directly for either opt-out or backstop procurement.[15] This would put responsibility for the management decisions of the LSE where it belongs, on the management of the LSE. LSEs who opted out or failed to procure capacity would be responsible for their own costs and approach to collecting the associated costs. In addition, this would be far easier to implement, because it would involve a direct contractual obligation between LSEs, with no requirement for billing system changes or the complexity of tracking customers over long periods of time by the IOUs.

One objection from PG&E to the proposal for direct billing of opt-out or Deficient LSEs is that it would result in a need for collateral, in some form, to

[15] We note that this issue was raised by CalCCA in its May 14, 2020 Petition for Modification of D.19-11-016. In D.20-09-026, the Commission deferred this issue to this proceeding, stating: "This is not an explicit endorsement of the concept, nor are we making conclusions about its legality. We are simply stating that the Commission is open to considering the possibility, subject to further legal and policy analysis."

address the IOUs' credit risk. Under that scenario, PG&E proposes that Opt-Out LSEs and Deficient LSEs should be required to pay upfront annually for procurement done on their behalf (e.g., in September after final RA allocations are made). Otherwise, PG&E argues, in the event an LSE defaults, the procurement costs (net of any collateral received by the defaulting LSE) would likely have to be allocated to the remaining bundled service customers and the customers of other Opt-Out and Deficient LSEs. This would result in cost shifting from customers whose LSE is in default to customers whose LSEs are not in default.

However, we can imagine options to guard against this credit risk issue, such as by allowing the IOU to retain the resource adequacy or RPS capacity credit in the event of default by the Opt-Out or Deficient LSE. Moreover, individual retail customers may also not have good credit.

Arguably, allocating the costs directly to the LSE could be characterized as allocating costs on a nonbypassable basis to the LSE on behalf of its customers. However, Section 365.1(c)(2)(i)-(iii) expressly direct cost allocation "on a fully nonbypassable basis" to "customers."

Accordingly, we do not adopt the option to allow for direct billing of the full MCAM costs from the IOU to the non-IOU LSE. We find that a non-bypassable customer charge on retail customers is most appropriate to recover the above-market procurement costs incurred by the IOUs for both opt-out and backstop LSE procurement pursuant to D.19-11-016 and backstop procurement pursuant to D.21-06-035. A non-bypassable charge has the benefit of ensuring bundled customer indifference and minimizing the potential for cost shifting.

The Commission's policy of requiring the IOUs to undertake opt-out or backstop procurement on behalf of customers of other LSEs may not, as a matter of law, result in increased costs for bundled service customers. Pursuant to Sections 454.51(c) and 365.1(c)(2), the above-market costs of any IOU opt-out or backstop procurement required by D.19-11-016 or D.21-06-035 must be allocated on a non-bypassable basis to customers, including the relevant benefitting bundled service customers, CCA customers, and ESP customers. Section 454.51(c) expressly requires the Commission to "[e]nsure that the net costs of any incremental renewable energy integration resources procured by an electrical corporation to satisfy the need identified in subdivision (a) *are allocated on a <u>fully</u> nonbypassable basis consistent with the treatment of costs identified in paragraph (2) of subdivision (c) of Section 365.1*." (Emphasis added.)

Therefore, we reject the proposals to adopt direct LSE billing for the entirety of backstop procurement costs. Instead, we require the above-market portion of the costs to be imposed through a non-bypassable customer charge for purposes of MCAM billing, which is consistent with applicable statutory law and our prior interpretations of it. In the sections below, we discuss the details of how the market costs and benefits will be addressed as part of the MCAM.

In addition, disputes remain around other details of the IOUs' proposals for a MCAM. Accordingly, we next review the IOUs' proposals and parties' responses thereto.

4. IOU Proposals for a Modified Cost Allocation Mechanism

4.1. SCE Proposal

Under SCE's proposal for MCAM, backstop procurement costs for both bundled service customers and Opt-Out LSE customers would be pooled in one bucket. Incremental administrative costs associated with the procurement would be pooled in one bucket. These cost pools would be segregated for recovery from bundled service customers and opt-out customers.

For incremental resources procured to meet the backstop procurement need, SCE seeks flexibility to either pool such costs with the existing pool of procurement costs serving bundled service and opt-out customers, or to create a separate pool of costs allocated only to Deficient LSE customers. This separate pool of costs would be derived based on Commission-approved contract(s) in the IOU's portfolio with the lowest Net Present Value (NPV). The costs would be removed from the pool of procurement costs recovered from bundled service and Opt-Out LSE customers.

For incremental administrative costs related to backstop procurement, SCE proposes pooling the costs in one bucket to be recovered from bundled service customers and Opt-Out LSE customers but excluding Deficient LSE customers. To the extent the IOU can use excess procurement to meet backstop procurement, Deficient LSE customers would pay their share from this pool of administrative costs. However, if a separate solicitation or other separate bilateral procurement is required, the full amount of incremental procurement costs would be recovered from Deficient LSE customers.

Under SCE's proposal, customers would be tagged with a specific classification in the billing system related to these costs. That tag tracks them if they migrate to any subsequent LSE(s). A similar "tagging" process would apply for Deficient LSE customers if backstop procurement is required.

Each customer would be classified as "bundled service" or "Opt-Out LSE" based on their status as of November 2019 when D.19-11-016 was issued. New bundled service or Opt-Out LSE customers (*i.e.,* excluding existing accounts changing LSEs) would be similarly tagged. SCE argues that customers would find it difficult to escape their cost obligation where they all are tagged with their respective costs. SCE argues that under its tagging proposal, the IOU would continue to recover the net costs of any procurement from the LSE's customers even in the event of bankruptcy of the LSE. Under SCE's proposal, all net costs follow bundled service, Opt-Out, and Deficient LSE customers in the event they switch LSEs.

SCE proposes that procurement-related costs be accounted as debit entries in an MCAM-specific balancing account or sub-account. These costs would be offset by a credit entry equal to the System RA market price benchmark (MPB) published pursuant to D.19-10-001 (paid for by the IOU or Opt-Out LSEs) and a credit entry(ies) equal to any net CAISO or other revenues received from the contracts. Remaining net costs would be recovered from bundled service and Opt-Out LSE customers via a per-kWh charge.

SCE proposes that MCAM-related charges be included in bundled service and Opt-Out LSE customers' delivery rate charge. The delivery rate charge is comprised of several rate components, one of which is the New System Generation Charge currently used to recover CAM-related costs. The portion of the MCAM related costs included in the delivery rate charge would be identified in the so-called "Fastlane" section of the bill, as shown in italics on the righthand side of the SCE bill.

SCE proposes that RA benefits be allocated on a CAM-like basis to specific LSEs remain fixed based on D.19-11-016 procurement requirements and not change them based on customer migration. [16] SCE proposes that to receive the RA benefits, however, the IOUs[17] and Opt-Out LSEs have to pay for their allocation at the System RA Adder MPB published pursuant to D.19-10-001 for the PCIA.[18] Any new CCA formed would receive a fixed RA and/or renewable energy credit (REC) allocation, reducing the IOU allocation. The same fixed RA and/or REC allocation from the IOU would be provided to any Deficient LSEs.

SCE's proposed allocation of RA benefits would apply only for LSEs that enter into a Commission-approved contracts with appropriate credit support terms for the RA allocation based on the System RA MPB for the term of the contracts.[19] Each Opt-Out LSE and the IOU would have the option to retain its share of RA benefits its customers (by paying the System RA MPB) or monetizing the RA value via a solicitation, with resulting revenues offsetting the procurement costs. Because forecast and final System RA MPBs are published annually pursuant to D.19-10-001, a year-end "true-up" would apply to the RA MPB. Allocation of RA benefits to Deficient LSEs would work the same way, except they would receive a fixed RA allocation once the IOU is required to

---

[16] New entrants into the market could be provided a fixed RA allocation from the IOU allocation at the time of formation.

[17] SCE would effectuate this for itself by recording a credit entry in the MCAM balancing account and a corresponding debit entry in the Energy Resource Recovery Account balancing account.

[18] Market Price Benchmarks (MPBs) are estimates of the value per unit associated with three principal sources of value in utility portfolios (energy, resource adequacy, and renewable energy). Each MPB is multiplied by the relevant portfolio volume as part of the overall calculation of Market Value.

[19] If the IOU and Opt-Out LSE fail to enter into an agreement and/or if the Opt-Out LSE fails to pay for any benefits, the IOU would have the option to either retain the benefit for use by bundled service customers (compensation would be based on the PCIA MPBs, where applicable) or monetize the value of the benefit, with the compensation/proceeds recording in the MCAM balancing account.

backstop them. RA reallocation would occur only for new entry into the IOU's service territory.

SCE proposes that Renewables Portfolio Standard (RPS)-eligible energy benefits such as RECs be treated the same way as RA benefits except payment will be at the RPS Adder MPB published pursuant to D.19-10-001 instead of the System RA MPB. [20]

Under SCE's proposal, the IOU would offer Opt-Out LSEs a Commission-approved agreement with credit support terms regarding payment for the RECs. If an Opt-Out LSE declines to pay for RECs at the RPS Adder MPB, SCE proposes having the option to retain that LSE's share of the RECs for bundled service customers (by paying the RPS Adder MPB or monetizing the REC value via a solicitation), using the resulting revenues to offset the procurement costs. Allocation of RECs to Deficient LSEs would work the same way, except Deficient LSEs would receive a fixed REC allocation from the IOU allocation at the time the IOU is required to backstop the Deficient LSE. RECs "would retain their original portfolio content category and long-term contract classification."[21]

With respect to accounting for other attributes of the procurement in the IRP process, such as greenhouse gas (GHG) emissions, SCE proposes to allocate the GHG attributes to bundled service, Opt-Out, and Deficient LSE customers by applying the relevant LSE's prior year's load share to determine the proportion of GHG attributes attributable to the LSE's customers

---

[20] SCE proposes that the IOUs would offer a 10-year agreement for RECs and that they would retain their original portfolio content category and long-term contract classification.

[21] SCE opening comments, at 25.

All remaining net costs (i.e., procurement/administrative and contract costs less System RA MPB, less RPS Adder MPB if applicable, less actual net CAISO or other revenues) would be recovered from bundled service, Opt-Out, and Deficient LSE customers via a non-bypassable charge. SCE argues that its proposal ensures that the net costs of procurement follow customers as they migrate to avoid cost-shifting, while simplifying the allocation of RA and other benefits based on the original procurement requirements in D.19-11-016.

4.1.1. Implementation Timeline

In its comments filed in 2020, SCE estimated that its billing system would be ready to bill MCAM costs at the earliest by first quarter of 2022, as SCE must avoid "freeze" and system stabilization periods associated with the implementation of its new billing system. In the interim, SCE proposed to open an MCAM balancing account or sub-account to track the costs associated with the MCAM procurement. Once the billing system changes are implemented (including "tagging" of customers), SCE proposes to amortize the tracked costs over a 12-month period for recovery from applicable customers.

4.2. PG&E Proposal

Under PG&E's proposal, procurement costs incurred by the IOU for bundled service and Opt-Out LSE customers would be allocated and recovered on a pro-rata basis according to their respective capacity procurement obligations. For bundled customers, PG&E proposes that procurement costs be recovered through bundled service generation rates and be eligible for cost recovery from future departing load customers via the Power Charge Indifference Adjustment (PCIA) mechanism.

PG&E proposes to use the existing PCIA vintaging structure to mitigate cost shifting resulting from bundled service customer migration. PG&E,

however, proposes one change to PCIA rules for allocation of procurement cost under D.19-11-016. The vintage for all Commission-approved contracts used to meet the procurement obligation for bundled service customers would be based on the load share at the effective date of D. 19-11-016.[22] If resource vintages are not modified from existing PCIA vintaging methodology, PG&E argues, customers departing between 2019 and 2023 (*i.e.*, the last year of the procurement obligation) could avoid paying for procurement conducted on their behalf.

The cost of procurement for Opt-Out LSEs would be recovered through PG&E's proposed Backstop Allocation Mechanism (BAM). PG&E notes that BAM mirrors the existing CAM, but with two differences. First, costs are only allocated to LSEs for which the procurement was conducted (e.g., the Opt-Out LSEs). LSEs that elect to self-procure and are successful in meeting their procurement obligation would not be responsible for costs recovered through the BAM. Second, PG&E proposes not to adjust the costs and RA benefits allocated to the Opt-Out LSEs for subsequent load migration. The Opt-Out LSE would pay for any backstop procurement being recovered through BAM and no customer tracking is expected to be needed.

To the extent IOUs commence backstop procurement on behalf of LSEs that have elected to self-procure, but fail to secure the required resources following formal notice by the Commission, PG&E argues that LSE must be fully responsible for the associated procurement costs.

To the extent excess procurement can meet backstop procurement need, PG&E proposes that Deficient LSE customers pay their share of administrative

[22] The 2019 PCIA vintage would apply the procurement costs to existing bundled service customers and departing load customers who departed between July 2019 and June 2020.

costs from the same pool of costs recovered from bundled service and opt-out customers. If a separate solicitation or other separate bilateral procurement activities are required to meet backstop procurement need, PG&E proposes that Deficient LSE customers not be included in this pool of administrative costs and that all incremental costs of the separate procurement activities be recovered from the Deficient LSE customers.

PG&E proposes that the costs associated with billing system upgrades and modifications solely for the benefit of Opt-Out LSEs or Deficient LSEs be allocated only to those benefiting LSEs and not to bundled service customers. PG&E suggests these costs be tracked in a memorandum account until the billing system changes are implemented and then be allocated proportionally to the benefitting LSEs' customers.

PG&E does not propose readjusting the cost allocation percentages if there is significant load departure from an Opt-Out LSE (except in the event of LSE bankruptcy). PG&E argues that this is consistent with how non-IOU LSEs would be responsible for the costs had they elected to self-procure and the IOU had not performed backstop procurement on their behalf.

PG&E argues that procurement and administrative costs incurred on behalf of Opt-Out LSEs should remain with those LSEs to promote equivalent cost recovery treatment with self-procuring LSEs. PG&E argues that allowing costs to migrate with departing load of Opt-Out LSEs would create a benefit unavailable to self-procuring LSEs. PG&E believes that Opt-Out LSEs should be indifferent relative to an entity that elected to self-procure its resource obligation and should not be given an incentive to opt out of procuring on their own behalf.

PG&E proposes that the incremental non-billing system administrative costs associated with the procurement conducted on behalf of bundled service customers and Opt-Out LSEs be shared on a pro-rata basis.

Under PG&E's proposal, procurement costs would appear on an Opt-Out LSE's customer bill in the same way as existing CAM costs, which are included in New System Generation Charges and appear under the "Distribution" charge portion of the bill. This would differ from the presentation of the D.19-11-016 procurement costs for LSEs that chose to self-procure, given that those costs appear under the "Generation" charge. Today, customers comparing PG&E bundled service rates to CCA or ESP rates must compare PG&E bundled service generation rates (a single number) to a CCA or DA generation rate plus the PCIA rate (two numbers), and, under PG&E's BAM proposal, customers would also have to compare differing "Distribution" charges.

PG&E proposes that RA benefits be allocated to Opt-Out LSEs in a manner similar to the current CAM, and not readjusted based on load migration. PG&E does not propose to use the MPB for RA allocations. If the IOU were to meet the RA procurement obligation for Opt-Out LSEs through the procurement of a bundled product (e.g., capacity plus energy), then the IOU would offset the contract costs with the energy revenues.

Under PG&E's proposal, the non-RA attributes (e.g. GHG-emissions, RPS and/or GHGs-free credits) would be allocated the same way as for other CAM resources.

4.2.1. Implementation Timeline

PG&E estimates that to modify its billing system to meet the requirements of its proposal would take 12- to-24 months after the Commission issues its decision. In the interim, a memorandum account would be used to track costs in a similar manner as proposed in PG&E's Advice Letter 5826-E.

PG&E estimates the costs of billing system changes under its proposal to be $3 million to $5 million. The total administrative costs are expected to be minimal compared to total procurement costs for bundled service and Opt-Out LSE customers. PG&E argues the added complexity (and cost) to implement tracking of customers migrating among multiple LSEs, as SCE proposes, would be significant and require significant billing system upgrades. PG&E argues that it would be increasingly difficult to track costs as customers move from one LSE to another, especially if there is backstop procurement for additional cycles.

PG&E proposes that any costs associated with billing system upgrades and modifications solely for the benefit of Opt-Out LSEs or Deficient LSEs should be allocated only to those benefiting LSEs and not to bundled service customers. These costs could be tracked in a memorandum account until the billing system changes are implemented and then be allocated proportionally to the benefiting LSEs' customers.

4.3. SDG&E Proposal

SDG&E proposes allocating costs in a manner similar to the current CAM methodology whereby bundled service customers pay for the duration of the procurement contract through a non-bypassable charge.

Under SDG&E's proposal, backstop procurement costs incurred on behalf of a Deficient LSE will continue to be recovered from customers of that LSE through a non-bypassable charge. The overall procurement cost allocated to the Deficient LSE would remain fixed for the life of the contract, but the non-bypassable rate would be calculated annually based on estimated usage of the customers and classes to which they belong.

Any customers that depart the Deficient LSE's service would not carry the costs of backstop procurement to their new LSE, just as they would not carry the cost of procurement had the LSE self-procured. That customer would pay the procurement costs imposed by the customer's new LSE. Effectively, this would create a system of LSE-specific customer rates based on modified CAM, similar to the unique commodity rates of each LSE, as if they had self-procured.

Given the statutory prohibition on cost-shifting and the need to distinguish between bundled versus backstop procurement, SDG&E argues, a backstop procurement mechanism should follow a sequential process. The first step would be to match resource contracts to bundled service customers to a reasonable extent, and then assign any additional contracts to LSEs relying on backstop procurement. SDG&E opposes any approach that seeks to equalize the costs allocated to bundled service customers and customers of Deficient LSEs or that matches a contract to the Deficient LSE's needs as first priority. SDG&E argues that such an approach is inequitable and contrary to the statutory prohibition on cost-shifting.

SDG&E argues that if the IOU procures energy and other attributes in additional to capacity as part of the contract, such benefits should also be allocated to the impacted LSEs. Energy revenues from the CAISO markets would offset total costs. SDG&E proposes to utilize actual CAISO costs and revenues, rather than the current backcast approach of expected CAISO revenues, to avoid either under- or over-collected costs due to differences with CAISO's own market model. SDG&E proposes not to "freeze" rates over the contract life to avoid over-collection or under-collection of costs as an LSE's load changes over time.

Where conducting separate solicitations for bundled and backstop load is not feasible and procurement for both sub-sets of customers occurs in a solicitation conducted by the IOU, SDG&E proposes that lower-ranked offers in the selection pool, and the associated costs, generally be allocated to the Deficient LSE(s).

SDG&E, like PG&E, does not propose to track customer migration for purposes of adjusting the allocation for backstop procurement cost recovery. SDG&E objects to tracking customers that depart from an Opt-Out LSE, arguing that doing so would create an unnecessary administrative burden. Under SDG&E's proposal, an LSE with backstop procurement that experiences load departure would seek to optimize its portfolio (*i.e.*, sell unneeded resources) in the same manner as if it had no backstop procurement.

Under the existing CAM, customers are tracked based on their LSE service provider. Since all customers are currently charged the same distribution rate, SDG&E argues that it is not necessary to individually track customers for purposes of traditional Section 365.1 CAM cost recovery. SDG&E does track customer migration to ensure correct billing of PCIA costs and determine eligibility for different vintages of PCIA costs.

If a bundled service customer migrates to another LSE within the SDG&E service territory, the departed customer continues to pay the same non-bypassable charge as when it was under bundled service. If departed load customers migrate back to bundled service, those "new" customers would still pay the same non-bypassable rate as other customers in their service category.

Under SDG&E's proposal, RA benefits associated with bundled customer procurement would follow the existing Section 365.1 CAM process and be allocated to LSEs that gain customers who depart bundled service. The IOU would receive a debit towards its RA requirements, while the LSE gaining customers who depart bundled service would receive a credit. For backstop procurement for Deficient LSEs, there would be a consistent allocation for the duration of the contract, not impacted by load migration.

Since, under SDG&E's proposal, procurement volumes remain with the Opt-Out or Deficient LSE for the life of the contract, the procurement costs and attributes do not vary as load migrates away from the Opt-Out or Deficient LSEs. SDG&E does not believe the mechanism should automatically optimize the LSE's portfolio with respect to procurement. SDG&E does not rely on a benchmark RA value, such as that used for PCIA, for departing customers, arguing that it is unnecessary where customers pay the full cost and receive full benefit of backstop procurement.

If SDG&E were to procure renewable resources that provide energy in addition to capacity, SDG&E proposes to transfer bundled energy and REC products in a manner consistent with the methodology for allocating procurement costs to impacted LSEs. If energy is procured from GHG-emitting resources, SDG&E proposes to utilize the methodology that is consistent and applicable to Power Content Label (PCL) rules to ensure each LSE accurately reflects the energy on its PCL.

4.3.1. Implementation Timeline

SDG&E anticipates that under its new billing system currently being implemented, non-bypassable charges could appear as a separate line item in the Unbundled Charges breakout on the bill. SDG&E is implementing a comprehensive new billing system and estimates that the costs of implementing the changes in the billing system to be between $500,000 and $1.5 million. The potential impact from debt equivalence is dependent on the types of resources procured. SDG&E is evaluating such impacts as it progresses with its solicitation.

4.4. IOU Responses to Each Other's Proposals

The IOU proposals for an MCAM all have in common certain broad principles, most notably, incorporation of a non-bypassable customer charge. Each of IOU proposal, however, differs with respect to terminology used and details of implementation. Each IOU favors applying its own approach for use within its service territory and points out disagreements over certain details of implementation in the other IOU proposals.

SCE and SDG&E, in particular, argue that mandating rigid uniformity in all details of implementation across IOU service territories would be unwieldy and costly. They argue that each IOU should be permitted to implement a cost allocation and recovery approach tailored to its own service territory and billing system. SDG&E believes that only foundational principles related to backstop procurement and cost allocation should be adopted at this time, with more detailed implementation done through IOU-specific Tier 2 advice letters. SDG&E argues that such an approach helps ensure that the IOUs recover opt-out and backstop procurement costs without further delay. SDG&E asks that the IOUs be authorized to establish the necessary balancing accounts to track backstop procurement costs incurred through Tier 2 Advice Letters, and to establish the rate design and rate recovery of applicable costs.

SCE critiques PG&E's allocation approach, arguing that it would only apply to customers of Opt-Out and Deficient LSEs. SCE expresses concern that migrating customers would shift costs to the remaining customers of Opt-Out or

Deficient LSE since these customers would not be tracked as they migrate. If significant load departure occurred, SCE believe that remaining customers could be left with a BAM charge that could shift costs back to bundled service customers if Opt-Out or Deficient LSE customers are unable to pay. PG&E notes, however, this same scenario exists today with respect to how Opt-Out LSEs perform procurement on an independent basis and how their customers can elect to depart their services for various reasons.

SCE, however, finds PG&E's approach simpler and easier to implement compared to that of SDG&E.[23] SDG&E's proposal would result in LSE-specific rates and require annual load forecasting and rebalancing of RA benefits between the IOU and each of the Opt-Out and Deficient LSEs. SCE has not proposed to allocate higher costs to the customers of Opt-Out LSEs compared to bundled service customers because it did not conduct its bundled service and opt-out procurement using separate solicitations. SCE agrees, however, that the customers of Deficient LSEs should be subject to the lowest NPV contract(s) in the IOU's portfolio and/or potentially a different pool of costs depending on whether excess procurement or separate procurement activities are used to fulfill a backstop procurement need.

SCE argues that implementation of LSE-specific rates would require significant billing system changes, and the recovery of those costs solely from customers of Opt-Out and Deficient LSEs could be challenging. While SDG&E's

[23] SCE states that if PG&E's proposal was implemented in SCE's own service territory, however, a different revenue allocation and rate design would result. For bundled service customers, SCE would allocate revenues based on generation allocators and recover the costs via time-differentiated generation demand and energy charges, depending on a customer's rate schedule. In contrast, for the customers of Opt-Out and Deficient LSEs, SCE would use a 12-CP allocation and the recovery would be via a flat energy charge.

approach may be workable in a service territory with a relatively smaller number of Opt-Out and Deficient LSEs, SCE argues, the process could be unworkable with the larger numbers of LSEs in its own service territory.

SDG&E, on the other hand, argues that customer tracking as proposed by SCE would not be compatible with SDG&E's system and would create an unnecessary administrative burden.

PG&E believes that its proposal achieves the same objectives as does the SDG&E proposal, but differs from SCE's proposal for customer tracking. PG&E agrees with SDG&E that the added complexity (and cost) to implement tracking of customers migrating among multiple LSEs would be significant. PG&E believes that the Opt-Out LSEs should be indifferent relative to an entity that elected to self-procure its procurement obligation. PG&E would have procurement and administrative costs incurred on behalf of Opt-Out LSEs remain with those LSEs to yield equivalent cost recovery treatment as that experienced by self-procuring LSEs.

4.5. Other Parties' Responses to IOU Allocation Proposals

Parties' opposition to IOUs' proposal for a non-bypassable rate were addressed above. Parties also expressed disagreement with other aspects of their proposals as noted below.

AReM takes issue with PG&E's proposal as to the vintaging of resources.[24] PG&E proposes to set the vintage for all the Commission approved contracts to

[24] Under the PCIA methodology, each generation resource and departing customer is assigned a "vintage," that is, a separate portfolio of generation resource costs based on the year when a commitment to procure each resource was made. Customers are assigned to vintage years according to the date they depart bundled IOU service. Each vintage is assigned a separate

Footnote continued on next page.

meet the procurement obligation for bundled service customers in the Decision should be set at 2019 because the procurement quantities were allocated based on the load share at that moment and for the existing LSEs at that moment (*e.g.*, new or expanding LSEs may not have been accounted for in the Decision). AReM argues that PG&E's proposal is a substantive change from the rules in D.06-07-030. The vintage of a resource is currently set by its procurement approval date. These vintaged resources costs are then incorporated into the same vintage for the PCIA paid by departing load customers. AReM argues that this proceeding is not the forum to change Commission policy on establishing the appropriate vintage for resources procured on behalf of bundled customers.

AReM believes that cost recovery through MCAM only applies to the customers of the LSEs who elected not to self-provide their IRP procurement obligations, not to bundled customers. AReM argues that D.19-11-016 does not provide for the IRP procurement costs to be recovered from bundled service customers through the MCAM, and that the IOUs should recover the procurement costs from bundled service customers via bundled generation rates.

SCE disagrees with AReM, arguing that the only cost allocation mechanism discussed in D.19-11-016 is the MCAM. SCE argues that this language supports recovery of procurement attributable to bundled service customers, as well as Opt-Out and Deficient LSEs, through the MCAM. There is no mention of a different cost recovery mechanism for bundled service customers in D.19-11-016.

"Indifference Amount" and customers are responsible for the cumulative PCIA rates for their vintage.

Constellation also argues that that the IOUs should not be allowed to differentiate between the MCAM Vintage charges assessed to bundled versus opt-out customers. Constellation believes that cost allocation and tagging protocols should be the same for bundled service as for customers supplied by an LSE who opted out of the procurement. Constellation recommends that tagging protocols allow costs and attribute allocations follow the bundled and opt-out customers if, and when, they migrate from one LSE to another. Constellation does not believe that sequential tagging should be necessary if customers migrate multiple times, but that the costs should follow tagged customers as is the case with traditional CAM.

TURN expresses concern with SCE's proposal that RECs and GHG attributes associated with backstop procurement be treated the same way as RA benefits and that RECs retain their original portfolio content category and long-term contract classification. TURN believes that SCE's approach may run afoul of existing law and state policy. We address the details of TURN's objections further in Section 7.5 below. TURN, however, agrees with SCE that bundled customers and those served by an LSE that opted out of self-provision in a timely manner should be treated similarly for purposes of the assignment of IOU procurement and administrative costs. TURN disagrees with SDG&E that all costs incremental to those needed to serve bundled customers should be subject to separate accounting. TURN believes the approach outlined by SCE would result in equivalent treatment of these customers, a reasonable outcome given their comparable contribution to cost-causation.

TURN further agrees that backstop procurement on behalf of customers of LSEs that choose to self-provide, but subsequently fail to satisfy their obligations, should be subject to a separate calculation of cost responsibility based on incremental cost to satisfy this additional need. Incremental costs could include those for selection of additional resources that are less competitively priced and any other costs to conduct subsequent solicitations.

Shell believes that an IOU's administrative costs associated with opt-out or backstop procurement should not be imposed on bundled sales customers or on the customers of LSEs that procure their own incremental system RA capacity in accordance with D.19-11-016.

Constellation argues there can be no proof that an IOU could have avoided excess procurement absent the Opt-Out LSE load being part of the solicitation. Constellation argues that for the cost of all procurement conducted by an IOU in excess of a *de minimis* amount in excess of the D.19-11-019 procurement obligation should be borne by bundled service customers only. PG&E responds that: (1) a least cost solution may involve purchasing more than the procurement obligation to address commercial risk; (2) this would circumvent long-established before-the-fact procurement standards and processes (*e.g.*, Bundled Procurement Plan, Procurement Review Group, Independent Evaluator, etc.); and (3) the quantity associated with a *de minimis* amount is not defined by Constellation.

Constellation argues that the same tagging process that allows the IOUs to allocate costs of procurement for its bundled and opt-out customers would work equally for allocation of RA benefits associated with that procurement. Constellation does not believe that a benchmark RA value is necessary if RA attributes are allocated directly to the LSE serving the customer paying the 2020 CAM Vintage.

Constellation argues that if the IOU procurement includes resources have RPS and/or GHG-free attributes, those attributes should follow the customers in the 2020 Modified CAM Vintage, and be made available to the customers' LSE. Alternatively, Constellation suggests the value of the attributes cold be accounted for in calculating the net capacity costs for the 2020 Modified CAM Vintage.

Constellation argues that the Commission should adopt a uniform cost allocation approach among all three IOU service territories to minimize confusion for customers whose businesses span more than one IOU territory.

5. Modifications to D.19-11-016 Addressing Cost Recovery for Procurement on Behalf of Bundled Customers

5.1. PG&E's Proposed Modifications

PG&E believes that specific language in D.19-11-016 may need to be modified to clarify the intent as well as to reflect principles described in the ALJ Ruling issued on June 5, 2020. PG&E's proposed modifications (italicized and underlined) to specific excerpts from D.19-11-016 are shown below. [25]

PG&E also requests clarification (or modification with the inserted text) from the Commission that the procurement referenced below is specifically regarding the procurement done by the IOU on behalf of the non-IOU LSEs and not procurement done on behalf of bundled service customers.

> We [The Commission] also clarify that the capacity procured by the IOUs *on behalf of non-IOU LSEs* in response to this

[25] PG&E proposed certain modifications for clarity in the event the Commission found that direct billing of LSEs was permissible. Since we are rejecting that option, PG&E's proposed modifications on that point are moot.

> decision will be allocated on a non-bypassable basis through a modified CAM mechanism and not PCIA.[26]

PG&E requests clarification (or modification with the inserted text) from the Commission the cost allocation amounts referenced below are regarding the costs allocated to the non-IOU LSEs for procurement done by the IOU on their behalf and it is not referring to costs for bundled service customers.

> In other words, we will not reduce the cost allocation amounts to be recovered by the IOUs after load migrates *from the non-IOU LSEs*.[27]

PG&E requests clarification that the "modifications" referenced below are changes to the procurement obligation of the IOU, not that the adopted cost recovery mechanism should account for IOU load migration.

> Thus, we do not make the modifications suggested by SDG&E, in its comments, to account for load migration *from non-IOU LSEs* before or after the CCA or ESP elects whether it will self-provide, or for PCIA vintaging *for non-IOU LSEs*.[28]

AReM supports PG&E's proposed minor revisions to D.19-11-016 to clarify the intended cost recovery for the IRP procurement.

5.2. Discussion

We agree with PG&E that the clarifications identified above are appropriate and reflect a correct understanding of D.19-11-016. The cost allocation amounts referenced in the cited text are regarding the costs allocated to the non-IOU LSEs for procurement done by the IOU on their behalf and it is not referring to costs for bundled service customers. We affirm that the modified

[26] D.19-11-016, p. 67.

[27] D.19-11-016, p. 67.

[28] D.19-11-016, p. 67.

language should be adopted. Accordingly, we adopt the requested modifications proposed by PG&E noted above.

We also further clarify that the purpose of the MCAM construct in general is to address cost recovery for procurement conducted by the IOUs on behalf of other LSEs, either opt-out procurement or backstop procurement. MCAM is not intended to address cost recovery for procurement conducted on behalf of bundled service customers.

Cost recovery for procurement on behalf of bundled service customers is a settled issue, and the Commission has longstanding policies addressing this. In addition, subsequent load migration also has associated established policy and is addressed through the PCIA mechanism and its vintaging policies addressing load departure at particular times. We do make a one-time provision for allocation of benefits of procurement related to D.19-11-016, as discussed further in the next section.

6. Joint Southern California CCA Motion for Clarification and Interim Guidance

6.1. Motion

The Joint Southern California CCAs filed a motion on December 10, 2021 out of concern that a decision addressing MCAM had not yet been issued and LSEs were making procurement decisions now. In particular, these CCAs were concerned about load that has departed IOU service since D.19-11-016 was issued, and sought assurance that the capacity procured in response to D.19-11-016 in particular would be allocated based on MCAM and not PCIA. D.21-06-035 already specified cost recovery for bundled service and load departure more precisely by vintaging the procurement requirements to 2021.

6.2. Responses to Motion

SCE, PG&E, and SDG&E all responded to the Joint Southern California CCA motion in substantially the same manner. Namely, all three essentially argued that the Commission should issue a decision addressing MCAM implementation expeditiously, rather than issue interim guidance that would then need to be assimilated into the ultimate mechanism at a later time. The IOUs all argue that interim guidance could create additional confusion and uncertainty.

6.3. Reply to Responses

The Joint Southern California CCAs replied to the IOUs' responses by reiterating the urgency of need for direction so that LSEs could make reasonable procurement decisions, since D.19-11-016 compliance periods extend the next two years. They also highlight the time that has passed since D.19-11-016 was issued and an MCAM decision was originally expected, prior to the first compliance date of August 1, 2021.

6.4. Discussion

We understand the request from the Joint Southern California CCAs that the Commission issue guidance as soon as possible. By issuance of this proposed decision, that need has been met, and therefore the motion is denied as moot. However, we also understand the concern of the Joint Southern California CCAs that is related to the significant load departure from IOU service that has occurred since 2019 and their desire to understand the impact on the obligations of all LSEs. Commission staff have calculated that the capacity requirements associated with load that has departed since 2019 are approximately 180 MW of the 3,300 MW total requirement in D.19-11-016. This procurement shall be assigned to the 2019 vintage of the PCIA.

The IOUs have largely, if not entirely, completed procurement based on the allocation of obligations in D.19-11-016, which began in 2021 and will extend through 2023. In light of these circumstances, we make a one-time provision associated with the procurement required in D.19-11-016 on behalf of customers who have now departed from IOU retail service. Namely, LSEs with new load since 2019 shall enter into bilateral agreements with the relevant IOUs to acquire resource adequacy capacity and RPS energy at the MPB as determined in the PCIA context pursuant to D.19-10-001.

The IOU and the non-IOU LSE shall enter into an agreement with appropriate credit support terms regarding payment for the RA and/or RPS allocations. The requirements for the RPS-related portions are discussed further in Section 7.5 below.

All such agreements should be filed with the Commission as Tier 1 Advice Letters (multiple agreements may be included in one Advice Letter), and agreements must be filed with the Commission no later than October 1, 2022.

7. Adopted Implementation of Modified CAM

We now turn to the primary purpose of this decision, which is to decide how to address cost recovery for opt-out procurement and backstop procurement associated with D.19-11-016 requirements, as well as backstop procurement associated with D.21-06-035 requirements.

In this section, we address opt-out procurement associated with D.19-11-016 requirements first, before turning to backstop procurement. Rather than adopting any IOU's proposal in total, this decision chooses to select aspects of the proposals of each IOU and assemble them in a different fashion from any of the complete IOU proposals presented to us. However, in general terms, the adopted approach is most similar to the proposal from SCE, except it does not require the customer tagging in the billing system to track load migrations that SCE proposed.

7.1. Treatment of Opt-Out Procurement Costs and Benefits

This section addresses measurement of costs and benefits, and cost recovery for procurement associated with LSEs who opted out of self-providing their capacity requirements associated with D.19-11-016.

LSEs who opted out of self-provision of capacity did so at the early stages of IOU procurement activities, as required by the Commission. The amount of capacity associated with the requirements of LSEs who opted out of self-provision totals 113.2 MW out of the 3,300 MW total required by D.19-11-016. Because the opt-outs occurred at the front end of procurement, the IOUs were able to plan for these activities from the beginning and consider opt-out procurement in conjunction with procurement on behalf of bundled customers.

For this reason, we find no compelling justification for charging Opt-Out LSE customers for the more expensive contract bids received, which was an aspect of SDG&E's proposed approach. Instead, we find it reasonable to pool the costs, both administrative and contractual, for opt-out procurement and procurement on behalf of bundled customers. The pooled costs will then be allocated on a proportional basis to both bundled and Opt-Out LSE customers.

We will also allow for a small amount of excess procurement caused by contract "lumpiness," only in the instance where the last contract or lowest NPV contract chosen to meet the overall capacity requirements leads to a small amount of excess procurement. That amount should not exceed 5 percent of the total opt-out procurement required. Where necessary, the small amount of excess procurement may be pooled and have the costs covered by both the Opt-Out LSE customers and bundled customers.

However, if an IOU chooses to intentionally procure beyond its required capacity for D.19-11-016 purposes in order to count the additional procurement toward its D.21-06-035 requirements, that additional discretionary procurement should be paid for only by, and benefits credited only to, bundled customers.

We also realize that not all contracts to meet the D.19-11-016 requirements will have the same contract duration. Though ten years is a minimum for new generation resources, some contracts may span 20 years or more, while contracts with demand response and existing generation resources will be shorter. For the actual procurement costs, the cost recovery period should be the life of the contract. To avoid stretching out the administrative costs for too long a period, for the IOU administrative costs associated with conducting the procurement, the portion attributable to the opt-out procurement shall be collected over a 10-year period, from both bundled and opt-out customers.

The opt-out costs and offsetting benefits shall be aggregated by each IOU into a single bucket for procurement and a single cost bucket for administrative costs. All of the actual procurement-related costs (including the incremental administrative costs) shall be recorded as debit entries in an MCAM-specific balancing account or sub-account. These costs shall be offset by a credit entry equal to the System RA MPB published pursuant to D.19-10-001 (which is paid for by the IOU or Opt-Out LSEs, pro-rated to their share of the required procurement) and a credit entry equal to any net energy or other revenues received from the contracts. Pursuant to D.19-10-001, a year end "true up" will apply to the RA MPB. The RPS-eligible energy benefits such as RECs will be treated the same way as the RA benefits, except payment will be at the RPS Adder MPB published pursuant to D.19-10-001. The remaining net costs (i.e., procurement/administrative and contract costs less System RA MPB, less RPS Adder MPB, if applicable, less actual net CAISO or other revenues) shall be recovered from bundled service and Opt-Out LSE customers via a non-bypassable charge.

In this way, the current customers of the Opt-Out LSE will continue to pay for the above-market costs of the capacity on a non-bypassable basis, while the Opt-Out LSE's customers pay their LSE directly for the market price of the capacity and RPS RECs, as detailed further in Sections 7.4 and 7.5, respectively, below.

The amount billed to bundled customers relative to Opt-Out LSE customers shall be based on the proportion of the capacity procurement obligation assigned to the LSEs in Ordering Paragraph 3 of D.19-11-016.

7.2. Treatment of Backstop Procurement Costs and Benefits

This section addresses cost recovery for procurement associated with LSEs who planned to procure the capacity associated with D.19-11-016 and D.21-06-035 requirements, but who were found to have failed to do so, according to a determination from the Commission. This is referred to as backstop procurement and/or procurement on behalf of Deficient LSEs. D.20-12-044 established the procedures for this backstop procurement to be required by the Commission and then conducted by the relevant IOU. Today's decision addresses how the costs of any such procurement associated with D.19-11-016 and D.21-06-035 requirements, or any similar backstop procurement in the future, will be allocated to customers.

Generally, unlike LSEs who opted out of self-provision of capacity and did so at the early stages of IOU procurement activities, backstop procurement will occur only after the non-IOU LSE has tried but failed to provide its required capacity and the Commission has determined that backstop procurement is required. Thus, this procurement will be, by definition, occurring much later, and most likely after the compliance deadline has passed. Thus, there is both an urgency and a potential system reliability deficit associated with backstop procurement.

As noted in D.19-11-016, backstop procurement for Deficient LSEs could be more costly compared to Opt-Out LSEs:

> ESPs or CCAs electing not to self-provide capacity at the beginning of this process is fundamentally different from the situation that will arise when an LSE tries but fails to self-provide its capacity. In that instance, the emergency procurement required is likely to be more limited and more costly than if it is procured in an orderly fashion of the time period expected for this decision. We make clear here that either way, if an IOU procures the necessary capacity on behalf of an LSE's customers, we will allow them to recover those full costs.[29]

As further stated in D.19-11-016: "by the time we determine noncompliance from any other LSEs that do not procure, time will be extremely short to procure and bring online the needed reliability resources and this type of "just in time" procurement is typically quite expensive."[30]

[29] D.19-11-016 at 67.

[30] D.19-11-016 at 38.

Given these circumstances, we find that it would be reasonable for an IOU with a backstop procurement requirement assigned by the Commission to either 1) choose lower NPV (or higher cost) contract bids from among bids in a solicitation already conducted, and/or 2) conduct an entirely new solicitation to procure the backstop capacity. The choice may depend on the status of an IOU's existing solicitations, the quality of the existing bids, the contract volumes available, and the general state of the market.

For MCAM purposes, we find that if an IOU chooses to conduct a new solicitation, then it is clear that all costs, administrative and contractual, should be attributed to the customers of the Deficient LSE(s).

If an IOU chooses to select bids from among those in a pre-existing solicitation, then the administrative costs of the IOU should be pro-rated between bundled and Deficient LSE customers on the basis of the amount of capacity procured for each. The contract costs for the backstop procurement should be allocated to the customers of the Deficient LSEs only.

It is also possible that the IOU chooses to conduct backstop procurement from a combination of bids from a pre-existing solicitation along with bids in a new solicitation. In this case, pro-rated administrative costs for the existing solicitation would be pooled with administrative costs for the new solicitation, and then allocated to the customers of the Deficient LSEs proportionally on the basis of the capacity needs of each Deficient LSE. As with the opt-out procurement, administrative costs should be collected over a period of ten years.

In a similar fashion, the capacity contract costs for all backstop procurement, whether from an existing solicitation or a new one, would be pooled and then collected over the life of the contracts from all Deficient LSEs proportionally based on the backstop capacity required for each.

Similar to the situation for opt-out procurement, we will also allow for a small amount of excess backstop procurement caused by contract "lumpiness" (only an amount associated with the last contract or lowest NPV contract chosen to meet the overall capacity requirements, not to exceed five percent of the total backstop procurement amount) to be pooled and have the costs covered by all Deficient LSEs.

These backstop costs and offsetting benefits shall be aggregated by each IOU into a single bucket for procurement and a single cost bucket for administrative costs. The cost buckets shall be allocated to customers of Deficient LSEs based on the proportion of capacity required for each Deficient LSE.

All of these actual procurement-related costs (including the incremental administrative costs) shall be recorded as debit entries in an MCAM-specific balancing account or sub-account. These costs shall be offset by a credit entry equal to the System RA MPB published pursuant to D.19-10-001 (which is paid for by the IOU or backstop LSEs) and a credit entry equal to any energy or other revenues received from the contracts. Pursuant to D.19-10-001, a year end "true up" will apply to the RA MPB. The RPS-eligible energy benefits such as RECs will be treated the same way as the RA benefits, except payment will be at the RPS Adder MPB published pursuant to D.19-10-001. The remaining net costs (i.e., procurement/administrative and contract costs less System RA MPB, less RPS Adder MPB, if applicable, less actual net CAISO or other revenues) shall be recovered from bundled service and Deficient LSE customers via a non-bypassable charge.

In this way, the current customers of the Deficient LSE will continue to pay for the above-market costs of the capacity on a non-bypassable basis, while the backstop LSE's customers pay their LSE directly for the market price of the capacity and the RPS RECs, as detailed further in Sections 7.4 and 7.5 respectively, below.

7.3. Tracking and Billing Protocols

The IOUs each propose a slightly different approach to billing protocols for customers subject to the non-bypassable charges for MCAM costs. SCE, in particular, proposes to track and tag in the billing system individual customers subject to the MCAM charges, even if an individual customer subsequently migrates to another LSE separate from the one associated with the opt-out decision allowed by D.19-11-016 or the Deficient LSE subject to backstop procurement for D.19-11-016 or D.21-06-035. Though this SCE proposal is clearly more accurate for tracking costs, we find it to be onerous from the perspective of both billing and tracking costs, and ultimately unnecessary to achieve the basic principle of bundled customer indifference.

Instead, we adopt an approach to require the IOU to bill all current customers of the Opt-Out or Deficient LSE, but not to track and tag customers should they subsequently migrate to the service of a third LSE or return to bundled service. We recognize that under this approach, if an Opt-Out or Deficient LSE loses load, the remaining customers of that Opt-Out or Deficient LSE will be paying a higher rate to cover these procurement costs. However, the simplification that this approach allows outweighs the importance and costs of tracking individual customers for a minimum of ten years.

With respect to the question of whether these procurement costs appear in bill presentation as part of the generation rates or the distribution rates for customers of Opt-Out or Deficient LSEs, we agree with most of the non-IOU LSE commenters who are concerned that embedding the opt-out and backstop procurement costs in the distribution rates is not transparent and does not allow for real comparisons between the costs of different providers, causing the potential for unfair competition.

While we cannot correct this fully, because there are already several different generation and distribution charges on both IOU and other LSE customers' bills, we can take steps not to make the situation worse or more confusing to customers.

For these reasons, we direct the IOUs to apply the MPB portion of the costs to the LSE's generation portion of the bill, which is appropriate since the LSE is paying the IOUs these costs. For the above-market costs, we favor and adopt the SCE proposal to bill this portion of the MCAM costs in the "fast lane" section of the bill (similar to what is done for CAM costs) so that the MCAM charges are broken out separately. We will require SDG&E and PG&E to include a similar separate line item in billing opt-out and backstop LSE customers, so that customers can more effectively compare costs that are related to provision of generation and distribution services.

7.4. Allocation of RA Benefits

As noted in D. 19-11-016 and D.21-06-035, the energy resources to be procured thereunder qualify to meet the Commission's system resource adequacy requirements.[31] Accordingly, the RA benefits associated with the procured energy must also be allocated. We authorize the allocation of RA benefits associated with procurement for customers of Opt-Out and Deficient LSEs to correspond to the allocation of LSE procurement requirements adopted in D.19-11-016 and D.21-06-035. The IOU and the opt-out and/or backstop LSEs will pay for their allocation at the System RA MPB published pursuant to D.19-10-001 for PCIA purposes. The IOU and the opt-out and/or backstop LSE should enter into a Commission-approved agreement with appropriate credit support terms regarding payment for the System RA allocation. Each such agreement should be filed with the Commission as a Tier 1 Advice Letter. Multiple such agreements may be grouped into an individual advice letter.

7.5. Allocation of Renewable Energy Credits (RECs) and GHG Attributes

We authorize RECs and GHG attributes to be allocated on the same basis as the resource adequacy benefits. We note the concerns raised by TURN, however, regarding SCE's proposal about RECs and GHG attributes associated with opt-out and backstop procurement allocation. TURN argues that under the SCE proposal, an LSE could acquire unbundled REC attributes and apply them to reduce, or eliminate, GHG emissions associated with purchase of unspecified energy. TURN advises caution about permitting LSEs to acquire unbundled GHG reduction attributes to reduce portfolio emissions in the context of an IRP plan. TURN argues that any initiative to create a new class of unbundled GHG-free attributes traded separately from the electricity generated by the associated units would run afoul of the IRP Clean System Power methodology

[31] Section 380(a)1 established that: "The commission, in consultation with the Independent System Operator, shall establish resource adequacy requirements for all load-serving entities."

and the California Energy Commission's Power Source Disclosure Program (PSDP). Neither program allows LSEs to acquire unbundled attributes to offset portfolio GHG emissions for reporting purposes.

We find that TURN's concern has merit. A transfer of RECs to LSEs must be accompanied by a forward sale of the associated energy to satisfy the Product Content Category (PCC) requirements of Public Utilities Code §399. Arrangements that remarket or allocate unbundled RECs on a stand-alone basis cannot retain a PCC1 categorization regardless of whether the RECs were previously transacted as part of a bundled arrangement (energy + RECs).

D.11-12-052 outlined the conditions governing resale of "part or all of a contract for RPS procurement" eligible for PCC1 treatment to include the obligation to transfer "only electricity and RECs that have not yet been generated prior to the effective date of the resale contract" and to ensure that "the electricity transferred by the resale contract is transferred to the ultimate buyer in real time."[32] There are no exceptions to this requirement under existing law.

In recognition of these restrictions, we thus prescribe that for purposes of the MCAM, REC and GHG attributes shall not be traded among LSEs separately from the electricity generated by the associated units. As affirmed in D.17-06-026, repackaging of a long-term contract must remain consistent with the approach adopted in D.12-06-038.[33] Each retail seller must demonstrate it has made a long-term commitment (via ownership or contract) for output from RPS-eligible facilities. As TURN notes, repackaging does not permit a long-term

[32] D.11-12-052 at 36-37.

[33] D.17-06-026 at 21-22. Repackaging occurs where a long-term contract for a large volume of generation is divided into smaller pieces, with the pieces being sold to several different parties.

contract or ownership agreement to retain its compliance value under §399.13(b) if it is resold or allocated for a term under 10 years. To demonstrate compliance with the long-term contracting requirement relating to the resource obligations mandated under D. 19-11-016 and D.21-06-035, an LSE must enter into a binding commitment for at least 10 years. So long as each LSE is obligated to the opt-out procurement commitments for at least 10 years, the resulting procurement quantities should be eligible for long-term treatment.

The details of any of these arrangements between Opt-Out LSEs and/or Deficient LSEs and the IOUs should be detailed in the Tier 1 advice letters filed with the Commission, to ensure conformity with these requirements.

7.6. Summary

To summarize how we are implementing the provisions of MCAM cost recovery, this section provides a set of formulas, as follows:

Non-Bypassable Charge = Non-IOU LSE Customer Portion of Total Costs – At-Market Costs

Where:

1. Non-IOU LSE Customer Portion of Total Costs = Total Costs * LSE Load Share at Time of D.19-11-016 (or D.21-06-035)
2. Total Costs = Administrative Costs + Procurement Costs
3. At-Market Costs = Market Revenues + System RA MPB + RPS MPB
4. Procurement Costs = At-Market Costs (Defined in D.19-10-001) + Above-Market Costs

8. Financial Protection in the Event of LSE Bankruptcy or Exit from Serving Load

8.1. Parties' Positions

Various parties raised concerns regarding how the MCAM could or should impact the financial protection of LSEs and their customers in the event of an LSE bankruptcy.

Under the SCE proposal, the IOU would enter into a standard contract with the LSE with appropriate credit support to pay for the RA benefits and/or RECs at the System RA MPB and/or RPS Adder MPB, as applicable. If the non-IOU LSE were to go bankrupt and default, the IOU would retain the collateral to offset the net costs paid by customers.

Under PG&E's proposal, in the event of an LSE bankruptcy, the costs and benefits of procurement on behalf of Opt-Out and Backstop LSEs be recovered and allocated through the existing CAM. Since the resource procured by the IOU is to meet a system reliability need, PG&E recommends that all customers in the respective distribution service territory be allocated the costs and benefits in the event of an LSE bankruptcy.

Under SDG&E's proposal, in the event of an LSE bankruptcy, the opt-out or backstop procurement costs would continue to be collected from customers of the LSEs that opted out or required backstop. The opt-out or backstopped LSE would also continue to receive its share benefits as well. Once a bankrupt LSE ceases its operations and its customers migrate to other LSEs or the provider of last resort, SDG&E recommends that the backstopped capacity and other attributes of the contract be auctioned off, with all LSEs eligible to participate in the auction and assume the contract, including any dispatch rights.

Shell notes that if an ESP becomes insolvent and unable to pay the full costs of billed opt-out- or backstop procurement, the IOU will be a creditor of the ESP and the ESP's direct access customers would be responsible for any unrecovered costs. Shell argues that the IOUs' tariffs provide credit and financial security requirements for ESPs and CCAs, enabling the IOUs to take action if an ESP is in a difficult financial position. Shell argues that the incremental IOU procurement costs can be imposed on affected customers (in accordance with the Transitional Bundle Service (TBS) tariff) if the customers return to bundled IOU service.

Calpine argues that some, if not all, of the LSE credit risk concerns can be addressed by requiring the Opt-Out LSEs to post financial security to the IOU(s) in the form of a bond, an irrevocable letter of credit, a cash deposit, a guarantee from an investment grade rated guarantor and/or other financial security reasonably acceptable to the Commission.

8.2. Discussion

We conclude that the MCAM measures adopted herein, together with other existing rate support structures, provide reasonable financial protection to the IOUs and ratepayers in the event of an LSE bankruptcy. We will not require the posting of additional security by LSEs at this time. Proposals to adopt rules for broader sharing of costs in the event of an LSE bankruptcy raise broader issues that would require further inquiry and are beyond the scope of the MCAM.

However, we do agree with PG&E that in the event of an LSE bankruptcy, or any other exit from the market or serving retail load, it makes the most sense to allocate any remaining costs attributable to either opt-out procurement or backstop procurement via the regular CAM, since at least initially and under current policy, customers of the bankrupt non-IOU LSE would revert to IOU service. We will make this a requirement in the context of this MCAM decision.

In addition, any capacity allocated to an Opt-Out LSE or a Deficient LSE will revert to the IOU at the time of the bankruptcy filing or notification that the non-IOU LSE is ceasing to serve retail load.

These provisions will ensure that bundled customers are not burdened with excess costs without benefits, in the event of the failure or market exit of another non-IOU LSE.

9. MCAM Implementation

We authorize each of the IOUs to file a Tier 2 Advice Letter to implement the MCAM in accordance with the directives of this decision. The Tier 2 Advice Letter shall be filed no more than 60 days from the effective date of this decision. The Tier 2 Advice Letter shall include a proposed time schedule for complying with the requirements for the MCAM implementation including the design of non-bypassable customer charges, the creation and/or adaptation of any balancing accounts and other related tracking necessary to account for actual costs and benefits incurred by the IOUs for opt-out and backstop procurement in reference to D.19-11-016, and backstop procurement for D.21-06-035. To the extent that further details and/or refinements are incorporated by an IOU in its Tier 2 Advice Letter filing to implement the MCAM beyond what has been specified by this decision, those elements must not conflict with the principles and requirements adopted in this decision. To the extent that our MCAM rules leave specific details of implementation to the IOU's discretion, the IOU shall provide the requisite degree of detail in their Tier 2 Advice Letter filings explaining these implementation measures.

In addition, as with CAM procurement generally, all procurement for which MCAM cost recovery treatment is requested must be presented to the CAM procurement review group (PRG) and must contain the request for cost recovery treatment when the advice letter is filed seeking Commission authorization, for any procurement not already authorized as of the effective date of this order. IOUs who have conducted procurement pursuant to D.19-11-016 or D.21-06-035 requirements and for which Commission approval has already been granted are not required to file additional advice letters only to address the cost recovery and allocation treatment, since those provisions are already addressed within the requirements of this order.

Further, as with certain PCIA and CAM costs, we will require the IOUs to file periodic reports to summarize the costs associated with implementation of the MCAM. We delegate to the Deputy Executive Director for Energy and Climate Policy, responsible for the Commission's Energy Division, to determine the form and frequency of the reporting that is necessary to monitor the implementation of MCAM. Where possible, the reporting should be combined with PCIA and/or CAM reporting for administrative efficiency.

10. Comments on Proposed Decision

The proposed decision of ALJ Fitch in this matter 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 on ___________ and reply comments were filed on _____________.

11. Assignment of Proceeding

Clifford Rechtschaffen is the assigned Commissioner and Julie A. Fitch is the assigned ALJ in this proceeding.

Findings of Fact

1. In D.19-11-016, load serving entities subject to the IRP were required to procure an aggregate of 3,300 MWs in additional resource adequacy capacity over a three-year period beginning in 2021 to meet statewide reliability needs, unless the LSE opted-out of the required procurement.

2. As prescribed in D.19-11-016, if an LSE notified the Commission that it elected not to procure its designated share of the incremental requirements for system resource capacity required thereunder, the relevant incumbent IOU was to conduct procurement on behalf of that LSE.

3. D.19-11-016 established preliminary guidelines, but deferred specific issues regarding how costs relating to opt-out procurement incurred by the IOUs on behalf of other LSEs should be allocated.

4. With regard to the IOU procurement conducted on behalf of other LSEs as directed D.19-11-016, the mechanism to allocate the associated costs was to address both Opt-Out LSEs and Deficient LSEs.

5. As determined in D.19-11-016, LSEs electing not to self-provide capacity at the beginning is a fundamentally different situation from an LSE that tries but fails to self-provide its capacity. Any emergency procurement to meet the latter situation is likely to be more limited and more costly than if it is procured in an orderly fashion over a longer timeframe.

6. As determined in D.20-12-044, once the Commission adopts a resolution requiring an IOU to conduct backstop procurement on behalf of other LSEs, the resulting administrative and procurement costs incurred by that IOU are recoverable.

7. In D.21-06-035, load serving entities subject to the IRP were required to procure an aggregate of 11,500 MWs in additional resource adequacy capacity

over a four-year period beginning in 2023, with a possible two-year extension for certain resources, to meet statewide reliability needs.

8. D.21-06-035 specified that the MCAM developed for D.19-11-016 purposes would also be used for any Commission-ordered backstop procurement associated with D.21-06-035 requirements.

9. The Cost Allocation Mechanism adopted in D.06-07-030 provides a framework for designing cost allocation of opt-out and backstop procurement costs incurred pursuant to D.19-11-016, and backstop procurement costs incurred pursuant to D.21-06-035, but on a modified basis.

10. For purposes of allocating the opt-out and backstop procurement costs incurred pursuant to D.19-11-016 and backstop procurement costs incurred pursuant to D.21-06-035, adjustments to the traditional CAM are needed to account for the fact that procurement costs will only be recovered from bundled service customers, Opt-Out LSE customers, and potentially Deficient LSE customers, rather than all customers in an IOU's service territory.

11. The IOUs' implementation proposals for an MCAM all incorporate a non-bypassable charge on the customer bills of Opt-Out and Deficient LSEs.

12. Public Utilities Code Sections 454.51(c) and 365.1(c)(2), taken together, require that the above-market costs of any IOU opt-out or backstop procurement required by D.19-11-016, or backstop procurement required by D.21-06-035, be allocated on a non-bypassable basis to the relevant benefitting customers.

13. To meet statutory requirements against cost shifting, a non-bypassable customer charge is required as a billing mechanism for recovering the above-market procurement costs incurred by the IOUs on behalf of other LSEs pursuant to D.19-11-016 and D.21-06-035.

14. The MCAM adopted in this decision addresses the following requirements: (a) meeting cost causation principles (*i.e.*, costs are borne by and benefits are credited to the customers on behalf of whom they were procured); (b) requiring that customers of Opt-Out LSEs pay as close to equivalent costs and receive as close to equivalent benefits, per MW, as bundled customers; and (c) being based on publicly-available information, avoiding reliance on confidential or commercially-sensitive information, as much as possible.

15. The modifications to D.19-11-016 as PG&E proposed are appropriate and reflect a correct understanding of D.19-11-016. The cost allocation amounts referenced in the cited text are regarding the costs allocated to the non-IOU LSEs for procurement done by the IOU on their behalf and it is not referring to costs for bundled service customers. PG&E's proposed modified language should be adopted.

16. The December 10, 2021 Joint Southern California CCA motion for clarification and interim guidance is now moot with the issuance of this decision.

17. It is important to have transparency of costs in bill presentation, as much as possible, so customers can more effectively compare costs related to generation and distribution services, and to promote fair competition among retail providers.

18. As noted in D.19-11-016, the energy resources to be procured thereunder qualify to meet the Commission's system resource adequacy requirements, and therefore RA benefits should be allocated on the same basis as costs for purposes of the MCAM.

19. Under the SCE proposal for the MCAM, an LSE could acquire unbundled REC attributes and apply them to reduce, or eliminate, GHG emissions associated with purchase of unspecified energy.

20. Any initiative to create a new class of unbundled GHG-free attributes traded separately from the electricity generated by the associated units would run afoul of the IRP Clean System Power methodology and the California Energy Commission's Power Source Disclosure Program. Neither program allows LSEs to acquire unbundled attributes to offset portfolio GHG emissions for reporting purposes.

21. A transfer of RECs to LSEs must be accompanied by a forward sale of the associated energy to satisfy the PCC requirements of Public Utilities Code §399. Arrangements that remarket or allocate unbundled RECs on a stand-alone basis cannot retain a PCC1 categorization regardless of whether the RECs were previously transacted as part of a bundled arrangement.

22. The applicable costs and offsetting benefits of opt-out and backstop procurement conducted under the MCAM should be allocated based on the load share designated for each applicable LSE as specified in Ordering Paragraph 3 of D.19-11-016 or Ordering Paragraph 5 of D.21-06-035, as applicable.

23. Using the process adopted by the Commission in D.19-11-016, eleven LSEs opted out of self-providing their capacity, with a capacity obligation of 113.20 MW.

24. To date, the Commission has not required any backstop procurement associated with either D.19-11-016 or D.21-06-035 requirements.

25. The opt-out procurement costs and offsetting benefits should be aggregated by each IOU with costs for bundled service customers into a single

bucket for procurement and a single cost bucket for administrative costs and allocated both to bundled service customers and customers of Opt-Out LSEs on a proportional basis. Procurement costs should be recovered over the life of the contracts, with administrative costs recovered over a period of ten years.

26. An IOU conducting backstop procurement for the requirements of D.19-11-016 or D.21-06-035, after being required to do so by the Commission, should have the option to choose contracts from an existing solicitation or a new solicitation, depending on the status of an IOU's existing solicitations, the quality of the existing bids, the contract volumes available, and the general state of the market.

27. If an IOU chooses to conduct a new solicitation for Commission-required backstop procurement, then all costs and offsetting benefits, administrative and contractual, should be attributed to the customers of the Deficient LSEs.

28. If an IOU chooses to select bids from an existing solicitation for Commission-required backstop procurement, then all costs and offsetting benefits, administrative and contractual, should be pro-rated based on capacity allocation, between bundled service customers and customers of the Deficient LSEs.

29. If an IOU chooses to combine bids from an existing solicitation with a new solicitation for Commission-required backstop procurement, then all costs and offsetting benefits, administrative and contractual, should be combined (pro-rated costs between bundled customers and Deficient LSE customers for an existing solicitation, and total costs of new solicitation) and then allocated to Deficient LSE customers.

30. As with opt-out procurement costs, backstop procurement costs should be recovered over the life of the contracts, with administrative costs recovered over a period of 10 years.

31. The opt-out and backstop energy resources to be procured under D.19-11-016 and backstop resources to be procured under D.21-06-035 must qualify to meet the Commission's system resource adequacy requirements.

32. Opt-out and backstop procurement-related costs (including any incremental administrative costs) incurred by the IOUs should be recorded as debit entries in an MCAM-specific balancing account or other appropriate sub-account. These costs should be offset by a credit entry equal to the System RA MPB and the RPS REC MPB published pursuant to D.19-10-001 and a credit entry(ies) equal to any net energy sales or other revenues received from the contracts.

33. A year-end "true up" should be applied to the RA MPB and RPS REC MPB.

34. The remaining net costs shall be recovered from current Opt-Out or Deficient LSE customers via a non-bypassable charge. The IOUs should not tag or track the customers of non-IOU LSEs for these purposes.

35. In the event of a bankruptcy of a non-IOU LSE, or if a non-IOU LSE ceases providing retail electricity in California, and the non-IOU LSE has a procurement obligation under D.19-11-016, D.21-06-035, or any subsequent procurement order under the IRP framework, the remaining capacity and costs associated with any backstop or opt-out procurement should revert to the relevant IOU. Thereafter, the remaining costs and benefits should be allocated using the traditional CAM

and not the MCAM, with costs and benefits shared among all IOU distribution customers.

Conclusions of Law

1. The Commission has the authority, articulated in Section 454.51(c), to direct the IOUs to procure renewable integration resources on behalf of the electricity system as a whole, and to allocate those costs on a non-bypassable basis to all benefiting customers.

2. Under statutory requirements in Section 454.51(c) and 365.1(c)(2), the above-market costs of any IOU backstop procurement required by D.19-11-016 must be recovered by imposing non-bypassable customer charges billed to benefitting retail customers.

3. D.19-11-016 should be modified to reflect the revised language proposed by PG&E as set forth in the ordering paragraphs of this decision.

4. The December 10, 2021 motion by the Joint Southern California CCA for clarification and interim guidance should be denied as moot.

5. To address the significant load migration that has taken place since the issuance of D.19-11-016, the LSEs with the new load should receive a one-time allocation of the RA capacity and RPS RECs and energy to be paid for at the MPB determined in the PCIA pursuant to D.19-10-001. The IOU should file all such agreements as Tier 1 advice letters (multiple agreements may be grouped in one advice letter) by no later than October 1, 2022. The procurement associated with this departed load should be assigned a 2019 vintage.

6. After the Commission requires an IOU to initiate backstop procurement by adopting a resolution brought forward by Commission staff pursuant to the requirements of D.20-12-044, all administrative and procurement costs associated with the backstop procurement should be eligible for cost recovery.

7. The traditional CAM adopted in D.06-07-030 should be modified for purposes of developing cost allocation for the opt-out or backstop procurement costs associated with D.19-11-016 requirements and the backstop procurement costs associated with D.21-06-035 requirements. Modifications should recognize that procurement costs will only be recovered from bundled service customers, Opt-Out LSE customers, and potentially Deficient LSE customers, rather than all customers in an IOU's service territory.

8. The MCAM adopted in this order is compliant with statutory law and results in just and reasonable rates insofar as it: (a) meets cost causation principles (*i.e.*, costs are borne by and benefits are credited to the customers on behalf of whom they were procured; (b) requires customers of Opt-Out LSEs to pay as close to equivalent costs and receive as close to equivalent benefits, per MW, as bundled customers; and (c) is based on publicly-available information, avoiding reliance on confidential or commercially-sensitive information, as much as possible.

9. The MCAM adopted in this order meets statutory requirements by allocating above-market costs to bundled service customers, Opt-Out LSE customers, and Deficient LSE customers on a non-bypassable basis and market costs to Opt-Out or Deficient LSEs.

10. It is not necessary to track and tag every customer of a non-IOU LSE in order to achieve the principles of bundled customer indifference and compliance with statutory requirements under the MCAM structure adopted herein.

11. MCAM charges should be required to appear as a separate billing line item for non-IOU LSE customers, so that customers can more effectively compare costs related to the provision of generation and distribution services.

12. Allocation of benefits associated with backstop procurement must be consistent with allocation of costs through the approved MCAM.

13. Agreements to transfer resource adequacy capacity at the System RA and RPS REC MPB as identified in the context of PCIA in D.19-10-001, shall be filed with the Commission as a Tier 1 advice letter. Multiple such agreements may be grouped together in one advice letter filing.

14. Renewable Energy Credits should be allocated on the same basis as the RA capacity for purposes of the MCAM.

15. A transfer of RECs between LSEs must be accompanied by a forward sale of the associated energy to satisfy the PCC requirements of Public Utilities Code § 399. Arrangements that remarket or allocate unbundled RECs on a stand-alone basis cannot retain a PCC1 categorization regardless of whether the RECs were previously transacted as part of a bundled arrangement.

16. For purposes of MCAM, REC and GHG attributes should not be traded among LSEs separately from the electricity generated by the associated units.

17. In the event of a bankruptcy of a non-IOU LSE, or if a non-IOU LSE ceases providing retail electricity in California, and the non-IOU LSE has a procurement obligation under D.19-11-016, D.21-06-035, or any subsequent procurement order under the IRP framework, the remaining capacity and costs associated with any backstop or opt-out procurement should revert to the relevant IOU. Thereafter, the remaining costs and benefits should be allocated using the traditional CAM and not the MCAM, with costs and benefits shared among all IOU distribution customers.

18. The IOUs should be authorized to file Tier 2 Advice Letters to implement the MCAM in accordance with requirements of this order.

19. The IOUs should be required to present any procurement after the effective date of this order for which MCAM cost recovery is sought to the CAM PRG.

20. It is appropriate to require the IOUs to file periodic reports related to the implementation of MCAM with the Commission. It is reasonable to delegate the form and frequent of such reporting to be determined by the Commission's Deputy Executive Director for Energy and Climate Policy.

21. Rulemaking 20-05-003 should remain open.

O R D E R

IT IS ORDERED that:

1. The December 10, 2021 Motion for Clarification and Interim Guidance filed jointly by San Diego Community Power, Clean Energy Alliance, Desert Community Energy, City of Pomona and Santa Barbara Clean Energy is denied as moot.

2. The modifications to Decision 19-11-016 set forth below, as proposed by Pacific Gas and Electric Company, are hereby adopted;

> Text on page 67 of Decision 19-11-016 is modified as follows (with adding of wording shown in italics):
>
> We [The Commission] also clarify that the capacity procured by the IOUs *on behalf of non-IOU LSEs* in response to this decision will be allocated on a non-bypassable basis through a modified CAM mechanism and not PCIA.
>
> Thus, we do not make the modifications suggested by SDG&E, in its comments, to account for load migration *from non-IOU LSEs* before or after CCA or ESP elects whether it will self-provide, or for PCIA vintaging *for non-IOU LSEs*.

Southern California Edison Company (SCE); Pacific Gas and Electric Company (PG&E); and San Diego Gas & Electric Company (SDG&E) are each directed to file a Tier 2 Advice Letter within 60 days of the effective date of this order for authority to implement the Modified Cost Adjustment Mechanism (MCAM) in accordance with this order. The MCAM shall apply to recovery of costs associated with procurement of energy resources by PG&E, SCE, and SDG&E incurred on behalf of certain other load-serving entities in the following circumstances: a) opt-out procurement associated with Decision (D.) 19-11-016 requirements; b) backstop procurement associated with D.19-11-016 requirements; c) backstop procurement associated with D.21-06-035 requirements; and d) backstop procurement associated with any future procurement requirements ordered by the Commission in the context of the integrated resources planning process. Any further details and/or refinements included in the Tier 2 advice letter filings to implement the MCAM beyond what is specifically prescribed in this decision shall not conflict with any principles or requirements adopted in this decision.

3. All load-serving entities with procurement obligations as identified in Decision (D.) 19-11-016, D.21-06-035, and any future procurement order in the context of the integrated resources planning (IRP) process, unless or until procurement orders are replaced with a programmatic IRP framework, are subject to the requirements for cost allocation of procurement costs incurred by an incumbent investor-owned utility on their behalf, as adopted in this decision.

4. For procurement conducted on behalf of bundled customers of the investor-owned utilities (IOU) in 2019 in accordance with Decision 19-11-016, where the load has subsequently migrated to service by another load-serving entity (LSE), the LSE with new load shall enter into an agreement with the relevant IOU to purchase the system resource adequacy capacity and the

renewables portfolio standard renewable energy credits at the Market Price Benchmark calculated in accordance with the provisions of Decision 19-10-001. This procurement shall be assigned a 2019 vintage and the above-market costs shall be collected from all customers of the non-IOU LSEs with a non-bypassable charge. Once executed, the IOU(s) shall file Tier 1 Advice Letters with all such agreements (one advice letter may contain more than one agreement) by no later than October 1, 2022.

5. Any load-serving entity (LSE) with a compliance obligation emanating from Decision (D.) 19-11-016 and/or D.21-06-035 that opted out of self-providing capacity in D.19-11-016 or failed to procure the requisite capacity shall enter into a contract with the investor-owned utility (IOU) to purchase the system resource adequacy and renewables portfolio standard renewable energy credits at the Market Price Benchmark calculated in accordance with the provisions of Decision 19-10-001, with appropriate credit support provisions regarding payment for the system resource adequacy allocation. The IOU shall file each such agreement in a Tier 1 advice letter with the Commission. Multiple such agreements may be grouped into a single advice letter.

6. Renewable energy credits (RECs) and renewable energy transferred under the provisions of this order shall not be conveyed separately and shall follow the provisions of Decision 17-06-026.

7. In the event that a non-investor-owned-utility (IOU) load serving entity (LSE) declares bankruptcy or ceases providing retail service in California and has acquired capacity and/or renewable energy credits (RECs) in an agreement with an IOU as authorized in this decision, the capacity and RECs shall revert to the

relevant IOU, with the costs of the associated procurement allocated thereafter using the Cost Allocation Mechanism detailed in Decision 06-07-030.

8. Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall each file a Tier 2 advice letter by no later than 60 days after the effective date of this decision to implement the Modified Cost Allocation Mechanism set forth in this order.

9. Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall present any procurement conducted subsequent to this order for which Modified Cost Allocation Mechanism cost recovery is sought to the procurement review group for the Cost Allocation Mechanism.

10. The Commission delegates to the Deputy Executive Director for Energy and Climate Policy to determine the form and frequency of reporting associated with the Modified Cost Allocation Mechanism.

11. Rulemaking 20-05-003 remains open.

This order is effective today.

Dated _________, at Sacramento, California.