Decision 21-05-030 May 20, 2021

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

PHASE 2 DECISION ON POWER CHARGE INDIFFERENCE ADJUSTMENT CAP AND PORTFOLIO OPTIMIZATION

TABLE OF CONTENTS

Title **Page**

PHASE 2 DECISION ON POWER CHARGE INDIFFERENCE ADJUSTMENT CAP AND PORTFOLIO OPTIMIZATION

Summary

This Phase 2 decision (a) removes the cap and trigger for Power Charge Indifference Adjustment (PCIA) rate increases, (b) authorizes new Voluntary Allocation, Market Offer, and Request for Information processes for Renewables Portfolio Standard contracts subject to the PCIA, (c) approves a process for increasing transparency of investor-owned utilities' Resource Adequacy resources, and (d) authorizes Southern California Edison Company to continue to apply the approach to greenhouse-gas free resources approved in Resolution E-5095 through December 31, 2023.[1] This proceeding remains open to consider (i) Phase 2 issues relating to Energy Resource Recovery Account proceedings and (ii) whether GHG-Free resources are under-valued in the PCIA methodology, and if so, the appropriate way to address this problem.

1. Background

The California Public Utilities Commission (Commission) opened Rulemaking (R.) 17-06-026 on June 26, 2017 to review, revise and consider alternatives to the Power Charge Indifference Adjustment (PCIA). The Commission adopted the PCIA to ensure that when electric customers of an investor-owned utility (IOU) depart from IOU service and receive their electricity from a non-IOU provider, those customers remain responsible for costs previously incurred on their behalf by the IOUs.

In Phase 1 of this proceeding, we considered issues regarding exemptions from the PCIA for customers who participate in the California Alternate Rates

[1] Resolution E-5111 authorized Pacific Gas & Electric Company to extend the interim approach to GHG-Free resources through 2023.

for Energy (CARE) program or are served by Medical Baseline rates. The Commission resolved these issues in Decision (D.) 18-07-009 and D.18-09-013. The Commission also examined the PCIA methodology and considered alternatives to that mechanism in Phase 1. In D.18-10-019, the Commission resolved those issues, implemented an annual 0.5 cent/Kilowatt-hour (kWh) cap on PCIA rate increases (PCIA Cap), and opened a second phase of this proceeding.

On December 19, 2018, the Commission held a prehearing conference to discuss the scope and schedule of Phase 2. On February 1, 2019, the assigned Commissioner issued a Scoping Memo and Ruling (2019 Scoping Memo), which established a working group process, scope and schedule for the proceeding.

The 2019 Scoping Memo organized Phase 2 issues into three working group processes and schedules:

1. Benchmarking issues;
2. Prepayment; and
3. Portfolio optimization.

The Commission resolved the first two issues in D.19-10-001, D.20-03-019, and D.20-08-004. This decision considers the Working Group 3 issues.

The 2019 Scoping Memo designated Southern California Edison Company (SCE), California Community Choice Association (CalCCA), and Commercial Energy of California (Commercial Energy) as co-chairs of Working Group 3 (WG3) and listed tasks for the working group to complete. The 2019 Scoping Memo directed WG3 to begin meeting in March 2019. The co-chairs of WG3 filed and served a final report on February 21, 2020.

The final report of WG3 (WG3 Proposal) includes the proposals of the Working Group 3 co-chairs, along with informal comments from parties. On or after March 16, 2020, the following parties filed opening comments on the WG3 Proposal: Alliance for Retail Energy Markets and Direct Access Customer Coalition (AReM/DACC), American Wind Energy Association California Caucus (AWEA), California Community Choice Association (CalCCA), Commercial Energy of California (Commercial Energy), the Coalition of California Utility Employees (CUE), Independent Energy Producers Association (IEP), NextEra Energy Resources, LLC (NextEra), Pacific Gas and Electric Company (PG&E), Protect Our Communities Foundation (POC), the Commission's Public Advocates Office (Cal Advocates), San Diego Community Power (SDCP), San Diego Gas & Electric Company (SDG&E), Southern California Edison Company (SCE), Shell Energy North America (US), L.P. (Shell Energy), The Utility Reform Network (TURN), and Utilities Consumers' Action Network (UCAN).[2] On March 27, 2020, AReM/DACC, CalCCA, Commercial Energy, CUE, PG&E, POC, Cal Advocates, SDCP, SCE, SDG&E, TURN, and UCAN filed reply comments.

On December 16, 2020, the assigned Commissioner issued an Amended Scoping Memo and Ruling (2020 Scoping Memo) to add issues to the scope of Phase 2 of this proceeding, including considering modification or removal of the PCIA Cap. CalCCA, Cal Advocates, TURN, SCE, PG&E, SDG&E, CUE, and AReM/DACC filed opening comments on the PCIA Cap on January 22, 2021.

[2] On March 19, 2020, the assigned Administrative Law Judge (ALJ) granted IEP's motion to late-file comments. On April 15, 2020, the assigned ALJ granted UCAN's motion to late-file comments.

CalCCA, AReM/DACC, SDG&E, SCE, PG&E, and CalCCA filed reply comments on February 9, 2021.

2. Issues Before the Commission

The 2019 Scoping Memo assigned the four issues listed below to WG3. In this decision, we will consider the WG3 Proposal based on these four issues.

1. What are the structures, processes, and rules governing portfolio optimization that the Commission should consider in order to address excess resources in utility portfolios? How should these processes and rules be structured so as to be compatible with the Commission's ongoing Integrated Resource Planning and Resource Adequacy program modifications in other proceedings?
2. What are the standards the Commission should adopt for more active management of the utilities' portfolios in response to departing load in the future in order to minimize further accumulation of uneconomic costs?
3. If the Commission were to adopt standards for more active management of the utility portfolios, how should the transition to new standards occur (e.g. timeframe, process, etc.)?; and
4. Should the Commission consider new or modified shareholder responsibility for future portfolio mismanagement, if any, so that neither bundled nor departing customers bear full cost responsibility if utilities do not meet established portfolio management standards? If so, are Energy Resource Recovery Account (ERRA) or General Rate Case proceedings the appropriate forums to address prudent management of portfolios?

In the 2020 Scoping Memo, the assigned Commissioner added issues to the scope of Phase 2. We will also address the following issue in this decision.

5. Should the Commission remove or modify the PCIA cap?

After review of party comments on the 2020 Scoping Memo, we determined that the PCIA issues relating to the ERRA proceeding require further

record development. We will continue to explore ERRA proceeding timing, ERRA data transparency, and methods for crediting or charging departing customers for ERRA balances.

3. PCIA Cap

In D.18-10-019, which resolved Phase 1 of this proceeding, the Commission implemented an annual 0.5 cent/kWh cap on PCIA rate increases. The decision established a rate cap to "reduce extreme PCIA spikes, and bill impacts" while seeking to "not enable a continual state of significant undercollection."[3] The Commission also established a trigger mechanism that requires IOUs to file an expedited application within 60 days if PCIA undercollection reaches a 7 percent threshold and is forecast to reach 10 percent. The application must propose to bring the projected undercollection balance back below 7 percent until January 1 of the following year.

Parties agree that the PCIA cap must be removed.[4] CalCCA, on behalf of intended beneficiaries of the cap, argues that the cap has had the unintended consequence of increasing rate volatility after the first year. Recent Commission decisions on the PCIA trigger applications have determined that a surcharge for repaying the capped amount of the undercollection may be paid above the level of the cap. As a result, the combined amount of the capped PCIA rate and the surcharge for repaying amounts above the cap may be substantially higher than uncapped PCIA rates. CalCCA further asserts that increasing the cap would exacerbate the problem.[5] TURN supports removal of the cap and agrees with

[3] D.18-10-019 at 75.

[4] All parties who expressed a position on the issue agreed that the PCIA cap should be eliminated, not modified. AReM/DACC commented on the cap but did not express a position on whether the cap should be eliminated.

[5] CalCCA's PCIA Cap opening comments.

CalCCA that the cap does not serve its intended purpose of reducing rate volatility and uncertainty.[6]

PG&E, SCE, and SDG&E jointly commented that the cap must be removed since it creates a material risk of continual cost-shift to bundled service customers, which violates the Commission's statutory obligation to maintain bundled ratepayer indifference to departing load under Public Utilities Code Section 365.2, as well as the duty under Public Utilities Code Section 451 to ensure reasonable rates.[7]

In reply comments, CalCCA urges the Commission to eliminate the cap and trigger as soon as practicable. CalCCA notes that the cap removal is not as urgent for SCE and PG&E service territories.[8] However, addressing the cap remains urgent in SDG&E territory. In reply comments, CalCCA recommends that the Commission mitigate volatility in SDG&E territory in 2021 by directing that the 2021 undercollection be "rolled forward to amortization in the next ERRA forecast proceeding."[9] However, parties have not had the opportunity to comment on CalCCA's recommendation. We will address any SDG&E 2021 undercollection in the 2022 SDG&E ERRA forecast proceeding.

In opening comments on the proposed decision, SDG&E requested clarification about whether to (i) remove the PCIA cap and trigger at its first available rate change in 2021 following Commission adoption of a final decision, or (ii) leave its 2021 capped PCIA rates and rate adders unchanged and in effect

[6] TURN's PCIA Cap opening comments.

[7] PG&E, SCE, and SDG&E's joint PCIA Cap opening comments.

[8] In D.20-12-038 and D.20-12-035, the Commission addressed the projected 2021 PCIA cap undercollections for PG&E and SCE.

[9] CalCCA's PCIA Cap reply comments.

through 2021 and remove the PCIA cap in rates effective January 1, 2022. San Diego Community Power and Clean Energy Alliance filed reply comments on the proposed decision to strongly support the second option to mitigate rate uncertainty and volatility.

For the reasons above, we remove the PCIA cap and trigger mechanisms as of the effective date of this decision. Each IOU should address its projected 2021 year-end PCIA cap under-collection account balance in its 2022 ERRA forecast application. We clarify that SDG&E should leave its 2021 capped PCIA rates and rate adders in effect through 2021 and implement the removal of the PCIA cap in rates effective January 1, 2022.

4. Framework for Portfolio Optimization

The WG3 co-chairs recommend adopting a Voluntary Allocation and Market Offer (VAMO) framework for disposition of the utilities' PCIA-eligible products. The proposal recommends disposition of four products – Local Resource Adequacy (RA), System and Flexible RA, greenhouse gas (GHG)-free energy, and Renewables Portfolio Standard (RPS) eligible energy. The co-chairs propose that IOUs offer PCIA-eligible load serving entities (LSEs) voluntary allocations of PCIA-eligible resources, and then sell any unallocated resources through an annual market offer process.

Table 1. WG3 Proposal Summary[10]

Product	Framework	Description
RPS Energy	Voluntary Allocation, Market Offer, Mandatory Allocation	PCIA-eligible LSEs will be provided an annual option to receive an allocation from the IOUs' PCIA-eligible RPS energy portfolios based upon each LSE's forecasted, vintaged, annual load share (MWh). To receive long-term contracting benefits from allocations, however, an LSE must elect to take its allocations through the remaining life of the longest contract in their PCIA vintage, which must last at least 10 years from the allocation start date. Declined allocations will be offered for sale by the IOUs through a market offer process. IOUs will make a portion of declined allocations available through long term sales contracts. Any unsold RPS eligible energy remaining after the market offer process will be re-distributed among all LSEs at no cost and on a pro-rata basis.
Local Resource Adequacy	Mandatory Allocation	Allocation of the IOUs' PCIA-eligible Local RA portfolio to all PCIA-eligible load serving entities based on their forecasted, vintaged, coincident peak load share (MW). Allocations will utilize a "CAM-like" mechanism in which the IOU shows capacity on behalf of other LSEs.
System & Flexible Resource Adequacy	Voluntary Allocation, Market Offer	PCIA-eligible LSEs will be provided an annual option to receive an allocation from the IOUs' PCIA-eligible System and Flex RA portfolios based upon each LSE's forecasted, vintaged, coincident peak load share (MW). Declined allocations will be offered by the IOUs to the market twice annually through a competitive solicitation process. System and Flex RA will utilize the PCIA Showing mechanism for allocations.
GHG-Free Energy	Voluntary Allocation,	PCIA-eligible LSEs will be provided an annual option to receive an allocation of GHG-free energy from the IOUs' PCIA-eligible large hydroelectric and/or

[10] WG3 Proposal at 4-5.

	Mandatory Allocation	nuclear portfolios based upon each LSE's forecasted, vintaged, annual load share (MWh). Declined allocations will be reallocated among the PCIA-eligible LSEs that accepted allocations in accordance with their forecasted, vintaged, annual load shares.

In D.18-10-019, the Commission opened a second phase of this proceeding "to consider the development and implementation of a comprehensive solution to the issue of excess resources in utility portfolios."[11] The Commission indicated its expectation that the solution would be "based on a voluntary, market-based redistribution of excess resources in the electric supply portfolios of Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company."[12]

In D.18-10-019, the Commission also anticipated that "some of the proposals offered by parties thus far in this proceeding would, if adopted, require coordination with other Commission proceedings, including the Integrated Resource Planning (IRP), Resource Adequacy (RA), and Renewable Portfolio Standard (RPS) proceedings."[13]

In accordance with the direction provided by D.18-10-019, the 2019 Scoping Memo directed WG3 to propose (a) an approach to portfolio optimization "in order to address excess resources in utility portfolios" in a manner that is "structured so as to be compatible" with the Commission's ongoing compliance programs, and (b) standards "for more active management of the utilities' portfolios in response to departing load in the future in order to minimize further accumulation of uneconomic costs."

[11] D.18-10-019 at 3.

[12] D.18-10-019 at 3.

[13] D.18-10-019 at 112.

The WG3 co-chairs recommend a framework for allocating resources in utility portfolios that were procured on behalf of departing load to all load serving entities serving customers who pay the PCIA.[14] The WG3 co-chairs rejected its initial goal of developing an "excess sales" solution, which it defined as an "approach in which the IOUs offer attributes in excess of bundled service customers' compliance requirements to the market."[15]

The WG3 co-chairs abandoned the goal of disposing of excess resources because they were "challenged in finding alignment on defining 'excess' resources in the context of Resource Adequacy."[16] In reply comments, co-chair CalCCA explained that the greatest downside to the excess sales construct is "the idea that IOU needs alone determine what is "excess," and non-IOUs bear all of the costs of whatever volumes the IOU determines it does not need, without any ability to plan for what that amount might be."

Several parties argue that the WG3 Proposal for portfolio optimization does not comply with D.18-10-019 or the direction to WG3 in the 2019 Scoping Memo regarding excess resources.[17] AReM/DACC argues that the proposal fails to focus on "right sizing" the IOU portfolios as directed by the Commission, and instead proposes approaches that have previously been rejected by the Commission, including mandatory allocations.[18] PG&E observes that the WG3 Proposal would require the allocation and/or sale of the IOU PCIA-eligible

[14] WG3 Proposal at 14.

[15] WG3 Proposal at 14.

[16] WG3 Proposal at 14-15.

[17] See the WG3 Proposal opening comments of each of the following parties: PG&E, SDG&E, AReM/DACC and CUE.

[18] AReM/DACC's WG3 Proposal opening comments.

portfolio on an annual basis, based on LSE load share, regardless of whether such resources comprise excess procurement.[19]

In reply comments, CalCCA argues that the WG3 Proposal is consistent with our direction in D.18-10-019 by interpreting "excess" resources as "excess to the bundled customers' share of the portfolio to which they are reasonably entitled. The Co-Chairs crafted proposals that distribute out of the IOUs' portfolios resources that are excess to the IOUs' bundled customers' shares." However, CalCCA's interpretation of "excess resources" conflicts with the plain language of our decision. In D.18-10-019, we stated, "Recognizing that parts of the IOU portfolio are in excess of bundled customers' needs, phase two of this proceeding will work toward portfolio optimization and cost reduction."

In D.18-10-019, we expressed our intent to consider a comprehensive, voluntary, and market-based solution to the problem of excess resources. In the 2019 Scoping Memo, we also asked for a proposal for more active management of the utilities' portfolios in response to departing load in the future to minimize further accumulation of uneconomic costs. We recognize that effective solutions with the foregoing attributes may result in disposition of more or less resources than the excess amount needed to serve bundled customers' needs over time. Portfolio optimization solutions should also be consistent with Commission decisions, applicable law and state compliance programs. In opening comments on the proposed decision, CalCCA argues that LSEs are entitled to allocations of PCIA resources, regardless of whether IOUs have excess or uneconomic resources, under Public Utilities Code Section 366.2(g).[20]

[19] PG&E's WG3 Proposal opening comments.

[20] CalCCA proposed decision opening comments at 4.

Section 366.2(g) provides as follows:

> Estimated net unavoidable electricity costs paid by the customers of a community choice aggregator shall be reduced by the value of any benefits that remain with bundled service customers, unless the customers of the community choice aggregator are allocated a fair and equitable share of those benefits.

In D.18-10-019, we noted that Section 366.2(g) is an example of legislative direction to prevent cost shifts for both bundled and unbundled load.[21] Section 366.2(g) requires PCIA costs paid by community choice aggregator (CCA) customers to be reduced by the value of benefits that remain with bundled customers. Section 366.2(g) provides that alternatively, CCA customers may be allocated a fair and equitable share of benefits retained by bundled load that are not reflected in PCIA calculations. We will discuss CalCCA's specific arguments regarding Section 366.2(g) compliance in Sections 6 and 7 below.

Parties also raise the potential for the WG3 Proposal to result in unintended consequences. PG&E warns that the WG3 Proposal would create a "significant and unprecedented market, regulatory, and planning transformation" that would open 80 percent of its portfolio for allocation.[22] Specifically, PG&E raises concerns that the WG3 Proposal would increase costs for bundled and departing customers alike, require PG&E to procure additional resources for RPS and RA compliance, and increase IOU system and administrative costs.[23]

---

[21] D.18-10-019 at 6-7.

[22] PG&E's WG3 Proposal opening comments.

[23] PG&E's WG3 Proposal opening comments.

In Cal Advocates view, the WG3 Proposal has the potential to violate the statutory requirement of ensuring that bundled retail customers do not experience cost increases as a result of retail customer electing to receive service from other providers. If utilities were required to allocate all PCIA-eligible resources, they would risk paying more for energy they would have to procure to meet any shortfalls, as well as any fines for noncompliance with Resource Adequacy (RA), Renewables Portfolio Standard (RPS), and/or policy goals.[24] AReM/DACC similarly argues that the proposal could increase the PCIA and urges the Commission to direct the utilities to model rate impacts before approving any portion of the WG3 Proposal.[25]

We acknowledge these significant concerns. Especially in light of our decision today to remove the PCIA Cap, we require portfolio optimization solutions to mitigate risks of unintended consequences.

For the reasons above, we will review the WG3 Proposal based on the following portfolio optimization review criteria:

1. Solutions should reduce excess and/or uneconomic resources in IOUs' PCIA portfolios. "Excess resources" are defined as resources that are not necessary to meet bundled customers' needs and compliance requirements.
2. Solutions should be voluntary and/or market-based.
3. Solutions should be consistent with Commission decisions, applicable law and state compliance programs.
4. Solutions should be tailored to minimize the risk of unintended consequences.

[24] Cal Advocates' WG3 Proposal reply comments.

[25] AReM/DACC's WG3 Proposal opening comments.

Commercial argues that the WG3 Proposal is a compromise among a broad range of stakeholders and should be considered a package.[26] SCE similarly notes that the co-chairs' "consensus" proposals reflect unanimity among co-chairs, who represent a broad spectrum of stakeholder interests.[27]

We recognize that the WG3 Proposal reflects significant collaboration and consensus building among parties with diverse interests. However, most parties have significant reservations about aspects of the proposal or outright oppose the proposal. PG&E, SDG&E, AReM/DACC, CUE, and UCAN each generally oppose the WG3 Proposal in comments; two of these parties offer counter-proposals.[28] AWEA, IEP, NextEra and Shell each raise concerns about protecting integrity of power purchase agreements and oppose disclosure of confidential contract information. POC and SDCP urge the Commission to adopt shareholder responsibility mechanisms despite the co-chairs' consensus that no new mechanisms are needed. TURN opposes specific aspects of the WG3 Proposal, including GHG-free allocations and treatment of long-term RPS contracts. Cal Advocates generally supports the proposal but expresses concerns about GHG-free allocations and urges the Commission to minimize the administrative and technical costs of the proposal.

Accordingly, we will consider whether to adopt each aspect of the WG3 Proposal based on our portfolio optimization review criteria and party comments.

---

[26] Commercial's WG3 Proposal opening comments.

[27] SCE's WG3 Proposal opening comments.

[28] PG&E and SDG&E offer alternate approaches in their individual WG3 Proposal opening comments. UCAN offered a supplemental proposal.

5. Renewables Portfolio Standard

The Renewables Portfolio Standard (RPS) requires LSEs to demonstrate compliance with requirements to procure eligible renewable energy resources over the course of three or four-year compliance period. Section 399.13(b) requires LSEs to enter into ownership or contractual arrangements of 10 years or longer for 65 percent of their RPS procurement requirements beginning January 1, 2021.

The WG3 co-chairs propose an annual, "Voluntary Allocation" of the IOUs' PCIA-eligible RPS energy among all PCIA-eligible LSEs on the basis of their forecasted, vintaged, annual load (MWh) shares and the actual, vintaged, annual RPS energy production. Any unallocated RPS energy will be made available for sale through an annual "Market Offer" process to be held by the IOU prior to the delivery year.[29] Any unsold RPS eligible energy remaining after the market offer process "will be re-distributed among all LSEs at no cost and on a pro-rata basis according to their forecasted, vintaged, annual load shares."[30] The re-allocated RPS energy attributes will be treated as sales at $0/MWh and will be reported, along with the volumes re-allocated, by the IOUs to the Energy Division for the purposes of establishing the RPS market price benchmark (MPB).[31] The WG3 co-chairs propose that the IOU or its contracted counterparties, as applicable, will remain the scheduling coordinators of RPS resources.

First, we consider whether this RPS proposal advances the goal of reducing excess and/or uneconomic resources in utilities' PCIA portfolios.

[29] WG3 Proposal at 34.

[30] WG3 Proposal at 37.

[31] WG3 Proposal at 63.

CalCCA points out that the Commission's ERRA forecast decisions have approved IOU forecasts of significant amounts of excess, unsold RPS resources. The unsold RPS results in a zero valuation and associated PCIA increases. CalCCA urges the Commission to depart from the status quo excess sales approach to address this problem.[32]

Parties agree that IOUs' RPS portfolios include significant amounts of uneconomic RPS resources contracted for when RPS contract prices were higher. In D.18-10-019, we cited the IOUs' explanation for the why the PCIA is so high. The IOUs jointly explained that the market value of their RPS portfolios have "steadily declined over time as the market price of renewable energy has decreased." Meanwhile, the IOUs' payment obligations to the generator counterparties have remained fixed at the original contract prices.[33] Similarly, POC cites a chart in a 2019 Commission report showing the dramatic reductions of RPS contract costs over time to support this point.[34]

Second, we consider whether the RPS proposal is voluntary and/or market-based. Parties do not dispute that the Voluntary Allocation and Market Offer aspects of the proposal are voluntary and market-based solutions.

The co-chairs also propose to redistribute any unsold RPS energy remaining after the Market Offer process among all LSEs at no cost on a pro-rata basis. AReM/DACC argues that this aspect of the proposal is a mandatory allocation, and the Commission established in D.18-10-019 that it would not

[32] CalCCA's WG3 Proposal opening comments.

[33] D.18-10-019 at 36.

[34] POC's WG3 Proposal opening comments cite the Commission's 2019 Report on the Costs and Costs Savings for the RPS Program (Public Utilities Code Section 913.3) (May 1, 2019)).

approve mandatory allocation for resolving portfolio optimization issues.[35] We agree that this aspect of the proposal is not consistent with prior Commission decision, and we reject the mandatory allocation aspect of the proposal.

Without the mandatory allocation component, we expect that the WG3 Proposal for RPS resources would advance the goal of reducing excess and uneconomic resources in the utilities' PCIA portfolio through voluntary and market-based solutions. We conclude that it is appropriate to approve the WG3 Proposal regarding Voluntary Allocations and Market Offers of RPS resources to the extent that it is consistent with the Commission's RPS program and proceedings, as well as tailored to mitigate risks of unintended consequences. Next, we review each component of the WG3 Proposal for RPS resources.

5.1. Voluntary Allocations

The WG3 co-chairs propose that LSEs may elect to take a short-term allocation, a long-term allocation, or may choose to decline all or a portion of their allocation. Voluntary Allocations shall comprise a "slice" of an IOU's entire PCIA-eligible RPS portfolio. Each election must be made in l0 percent increments of the LSE's vintaged, forecasted annual load share.[36] LSEs electing to accept allocations would be required to pay the IOU the applicable year's MPB for the products received and may be required to meet certain credit or collateral requirements, netting agreements or other commercial arrangements.[37]

---

[35] AReM/DACC's WG3 Proposal opening comments.

[36] WG3 Proposal at 34.

[37] Parties generally did not comment directly on these features of the proposal. Commercial Energy raised concerns that requiring credit or collateral requirements or similar arrangements could make it difficult for new LSEs to accept a Voluntary Allocation. However, Commercial Energy joined the co-chairs in supporting this provision regardless.

The co-chairs propose that short-term allocations will have a term of one calendar year. TURN proposes a minimum allocation term of three to five years to "minimize uncertainty with respect to RPS compliance positions and enable better mid-term planning."[38] While we agree that Voluntary Allocations should be tailored to align with RPS planning, it is not clear whether one-year or multi-year short-term allocations would best suit IOU and LSE planning. We decline to adopt a specific length for short-term allocations at this time.[39]

SDG&E and PG&E argue that the Commission should not require IOUs to dispose of resources needed for bundled service customer compliance.[40] PG&E and AReM/DACC flag that Voluntary Allocations could increase costs for bundled ratepayers if IOUs must procure additional resources for compliance. However, as discussed above, legacy RPS contracts originally procured for customers that subsequently departed IOU service are uneconomic compared with today's RPS prices. We expect that IOUs should generally be able to procure replacement RPS contracts with lower costs, while acknowledging that replacing resources could still increase costs for bundled ratepayers. PG&E asserts that the Commission can mitigate cost risks and noncompliance risks by reducing the frequency of allocations and providing sufficient time for IOUs to meet their compliance obligations.[41] We agree that frequency and timing is important for mitigating these risks and will address this concern in Section 5.6 below.

---

[38] TURN's WG3 Proposal reply comments.

[39] In Section 5.6 below, we discuss the implementation of the RPS Voluntary Allocations through the RPS proceeding. IOUs and LSEs may propose the length of short-term allocations through their RPS procurement plans.

[40] SDG&E's WG3 Proposal opening comments and PG&E's WG3 Proposal reply comments.

[41] PG&E's WG3 Proposal opening comments.

The WG3 Proposal provides that long-term allocations will last through the end of the term of the longest contract in the particular PCIA vintage. The co-chairs propose an exclusion of this calculation for evergreen contracts and utility-owned generation resources so the LSE would not be bound indefinitely to take RPS energy from the IOU. Once accepted, the LSE may not decline its long-term allocation election in future years. Parties did not raise concerns with these provisions.

The WG3 Proposal recommends that an LSE's long-term allocation election will be set at a fixed percentage of its forecasted, vintaged, annual load share. Both the LSE's forecasted vintaged, annual load shares and the RPS energy deliveries will change from year to year based on the updated forecasts of vintaged, annual loads and the actual RPS energy volumes realized in each year of the allocation term.

AReM/DACC argues that this approach disregards that the customer base for each non-IOU LSE varies considerably by vintage and, as a result, allocations could be very disproportionate to need due to other procurement activities.[42] We recognize that a Voluntary Allocation will not appeal to all LSEs. However, the support of co-chairs representing a variety of LSEs indicate that the Voluntary Allocation approach will generate significant interest. An LSE may decline their shares if an allocation is not a good fit for their portfolio.

The WG3 Proposal provides that long-term allocations will convey rights to credit for long-term RPS procurement requirements each election period.[43] The Report also advances a one-time proposal to capture the long term RPS

[42] AReM/DACC's WG3 Proposal opening comments.

[43] WG3 Proposal at 37.

contract value for departing load customers. Under this proposal, "in the first election period only, if the remaining term of the longest, non-evergreen contract or UOG life within an LSE's PCIA vintage is less than ten years, then the LSE will be grandfathered in to receive the same long-term credit for the allocated RPS energy as the IOU would have received from those contracts within its portfolio, provided at least one contract in the vintage had a term of at least l0 years in length." The co-chairs reason that this one-time exception will prevent the destruction of value from the long-term RPS attributes. The co-chairs also assert that this exception is appropriate because the RPS contracts were originally procured on behalf of the customers that would benefit from the Voluntary Allocations.

TURN opposes this proposal for long-term contracts with less than 10 years remaining, asserting it would violate Public Utilities Code Section 399.13(b).[44] TURN refers to a line of Commission decisions applying the statute when an existing long-term contract held by one market participant is resold, in whole or in part, to a retail seller. In D.12-06-038, the Commission rejected requests to permit "slicing and dicing" of eligible long-term contracts into short-term resale contracts that retain a "long-term" attribute. In D.17-06-026, the Commission affirmed that any "repackaging" of a long-term contract must remain consistent with the approach adopted in D.12-06-038. Recently, in D.18-05-026, the Commission rejected a petition by Shell to allow the requirements of Section 399.13(b) to be satisfied when a long-term contract is repackaged with portions resold to a subsequent buyer making a commitment of

[44] TURN's WG3 Proposal opening comments.

less than 10 years. TURN's analysis of the Commission's decisions on Section 399.13(b) is correct.

CalCCA, Commercial, and SCE respond that the Commission's decisions do not expressly interpret the application of Section 399.13(b) to allocations.[45] However, the WG3 co-chairs propose for Voluntary Allocations to be implemented in a manner that is structurally the same as previous requests to repackage and resell contracts that the Commission rejected. The co-chairs propose that LSEs may elect a long-term allocation of RPS contracts in 10 percent increments of the LSE's forecasted annual load share; the allocations would be structured as forward contracts.

We conclude that providing an opportunity for LSEs to receive long-term credit for RPS contracts that have less than 10 years remaining through Voluntary Allocations would violate Section 399.13(b). Thus, generation from IOUs' long--term contracts in an allocation with less than 10 years remaining will be included in short-term allocations.

The WG3 Proposal recommends allowing LSEs to re-sell allocated RPS energy. In comments on the proposed decision, multiple parties urged the Commission to allow resale of allocation shares and no party opposed resale of allocation shares.[46]

For these reasons, we conclude that LSEs shall be able to resell Voluntary Allocation shares of RPS energy, subject to the same RPS compliance requirements which already apply to IOU sales of RPS in their portfolios today. The RPS proceeding shall establish LSE reporting requirements for the resale of

---

[45] *See* the individual WG3 Proposal reply comments of CalCCA, Commercial, and SCE.

[46] *See* opening comments on proposed decision by AReM/DACC, CalCCA, Commercial Energy, POC, SCE and Shell Energy and reply comments on proposed decision by PG&E.

Voluntary Allocations shares to enable effective oversight over RPS compliance. These reporting requirements shall be based on RPS reporting requirements that apply to IOUs.

5.2. Market Offer

The WG3 co-chairs propose that all unallocated RPS eligible energy will be offered for sale through an annual Market Offer process to be held by the IOU. The co-chairs propose that IOUs offer no more than 35 percent of each LSEs' annual declined allocation share as long-term sales, with terms ranging from 10 years to the life of relevant PCIA vintages. The co-chairs assert that it is reasonable to initially cap long-term sales at 35 percent "to prevent issues that could arise when load migration, coupled with greater long-term sales volumes and portfolio optimization activities, may cause challenges for the IOUs to fulfill the volumes required to meet each LSEs' eligible allocation share." The co-chairs propose reevaluating the 35 percent cap after two years.[47]

The WG3 co-chairs propose that the Market Offer process will be conducted using Commission pre-approved mechanisms for the solicitation's administration, valuation, selection, and contracting, which would be approved through each IOU's submittal of updates to its RPS Procurement Plan.

Party comments support use of existing processes and rules to facilitate the market offer. PG&E raised concerns that the WG3 Proposal would require PG&E to develop new systems to track, conduct, and settle Voluntary Allocations and Market Offers.[48] Cal Advocates urged the Commission to minimize the administrative and technical costs of implementing the VAMO.[49]

---

[47] WG3 Proposal at 36.

[48] PG&E 's WG3 Proposal opening comments.

[49] Cal Advocates' WG3 Proposal reply comments.

We expect that the IOUs' Market Offer proposals will be based upon processes and mechanisms for IOU REC sales previously approved in the Commission's RPS proceeding. We will review and approve the details of these Market Offer proposals through the IOUs' RPS Procurement Plans. To reduce the administrative costs of overseeing the VAMO, we may direct the IOUs to jointly propose one set of Market Offer processes and mechanisms in the RPS proceeding.

Rather than establishing detailed requirements for the Market Offer in this decision, we will rely on the ongoing RPS proceeding to refine the Market Offer proposals and ensure alignment with existing RPS compliance processes and rules. This approach will also mitigate the risks of unintended consequences of establishing restrictive requirements that would become procedurally difficult to change after this proceeding closes.

SCE proposes that long-term sales would be structured to convey a percentage slice of the unallocated RPS portfolio vintages.[50] We decline to direct IOUs to structure long-term Market Offer sales in a particular manner in this decision, or to restrict long-term sales to a specific percentage of Market Offer sales. While all unallocated shares must be offered through the Market Offer, IOUs may propose how to structure long-term sales products and which portion of unallocated shares to offer as long-term sales.

We will review IOU proposals for Market Offer products in the RPS proceeding. Establishing restrictions on Market Offer product design with our limited record in this proceeding could stifle innovation and result in unintended consequences.

[50] WG3 Proposal at 36.

The WG3 Proposal recommends making the Market Offer process open to all market participants, including the IOU administering the process. If the IOU is participating in its own Market Offer, the IOU must (i) submit bids to the IE and ED in advance of the Market Offer launch or (ii) establish dual procurement teams separated by an ethical wall, with monitoring by the IE to ensure a fair and non-preferential process.

PG&E flags that the WG3 Proposal's lack of a bid floor for Market Offers could raise costs for customers. PG&E argues that a Market Offer with no bid floor would contradict the Commission's Standard of Conduct 4, which requires utilities to prudently manage their portfolios when the costs of the sale are considered.[51] PG&E also urges the Commission to adopt market rules to protect customers from market manipulation and collusion. PG&E raises concerns that CCAs will work together to coordinate bid pricing. We note that IOUs will have opportunities to propose market rules in their Market Offer proposals.

In comments on the proposed decision, several parties urged the Commission to prohibit a bid floor for Market Offers to reduce the likelihood of unsold shares remaining after a Market Offer. AReM/DACC also recommended that IOUs hold additional Market Offers if unsold shares remain.[52] In Section 5.6 below, we allow IOUs to propose more than one Market Offer and/or additional RPS sales during an RPS compliance period to address unsold RPS resources.

POC urges the Commission to restrict IOU participation in solicitations they administer to pre-set bids. POC argues that an ethical wall is inappropriate for unlicensed professions, as well as more complicated and expensive to

[51] PG&E's WG3 Proposal opening comments.

[52] AReM/DACC's opening comments on the proposed decision.

administer than pre-set bids.[53] We will consider appropriate rules for IOU participation in Market Offers they administer as part of our review of IOUs' Market Offer Proposals.

The co-chairs also propose that an independent evaluator will monitor the solicitation and the Cost Allocation Mechanism (CAM) Group will be consulted on offer selections. We expect to adopt Market Offer oversight requirements in the RPS proceeding based upon requirements for IOU REC solicitations, which include monitoring by an independent evaluator and the Procurement Review Group. Monitoring by the CAM Group is not appropriate because this group includes LSEs that may participate in the Market Offers.

Additionally, the co-chairs propose that the Commission's Energy Division compile an annual report following the completion of the IOUs' Market Offer solicitations, which will summarize the results of the auctions and the potential impact that their proposed cap on long-term sales had on realized RPS energy market value. Rather than create a parallel set of reporting requirements, we will integrate Market Offer reporting into the existing RPS submissions, which include annual RPS Procurement Plans and RPS Compliance Reports. In these RPS filings, IOUs and LSEs will report on their procurement and solicitation activities for allocations, Market Offers, and resales, and the shares that remain after a Market Offer or resale. These remaining shares will be treated as unsold.

IOUs will continue to include independent evaluator reports on solicitations in advice letters requesting approval for contracts. This approach will reduce administrative and regulatory costs and support consistency between the Market Offer and other RPS processes. In addition, IOUs must file and serve

[53] POC's WG3 Proposal opening comments.

reports on the effectiveness of their Voluntary Allocations and/or Market Offers in accordance with Section 5.6 below.

5.3. Compliance Credit

The WG3 Proposal seeks to convey rights to various compliance attributes of the RPS energy for both Voluntary Allocations and Market Offer sales, including Renewable Energy Credits (RECs), Power Content Label (PCL) attributes, and Portfolio Content Categories (PCC) status from underlying contracts. The co-chairs also propose to allow LSEs to apply VAMO energy to forecasted RPS energy allocations in the Integrated Resources Plan (IRP) process in proportion to the hourly generation from the IOU's vintaged RPS portfolio from which the allocations are sourced.

The co-chairs propose to convey these compliance attributes through sales contracts that preserve the bundled nature of the energy and attributes. The co-chairs also request that the IRP proceeding determine procedures for how LSEs may reflect these transactions in their individual IRPs.

It is reasonable and consistent with existing Commission decisions on RPS contracts to preserve the bundled nature of energy and associated RECs through sales contracts. PCL attributes are within the jurisdiction of the California Energy Commission. The Commission will continue to determine PCC classification through the RPS compliance processes.

To ensure consistency with rules for conveying RECs, IOUs should propose standard contracts for Voluntary Allocations and Market Offers for approval through the RPS proceeding. The IRP proceeding may consider whether new methodologies or procedures are required for reflecting these transactions in LSE's individual IRPs.

5.4. Ratemaking Treatment

Under the current PCIA ratemaking methodology, the final PCIA portfolio value is calculated as the value of the resources retained in the bundled utility portfolio plus the value obtained in the market for resources in excess of bundled requirements. The portfolio value is forecasted in each IOU's ERRA forecast application each year and trued-up in the November Update to the ERRA forecast application, with any over- or under-collection recovered in rates the next year. Costs and revenues are charged and credited on a vintaged basis to the Portfolio Allocation Balancing Account's (PABA) vintage-specific sub-accounts, with departing load customers responsible for the net costs realized from their vintage and prior through their PCIA rates.

The WG3 co-chairs propose the following modifications to the PCIA ratemaking methodology for the RPS VAMO.

- Treat RPS Voluntary Allocations as sales at the applicable year's MPB. LSE payments would be recorded in PABA and would offset costs in the PCIA. Require IOUs to pay for their allocations as a debit from the ERRA balancing account and a credit to PABA.
- Record Market Offer sales revenue in PABA. Allocate sales revenues pro rata across vintages in proportion to the declined allocation volumes in each vintage.
- Value unsold RPS volumes as $0 for MPB calculations.

The WG3 Proposal notes that the co-chairs initially considered an alternative ratemaking approach that would result in full cost recovery through PCIA rates for products subject to the VAMO process. To realize the economic value directly associated with unallocated attributes sold in the Market Offer, LSEs would receive a payment from the IOU for the LSE's share of sales revenues.

CalCCA advocated against this alternative approach since it could result in dramatically higher PCIA rates. The full contract costs would be recovered through the PCIA rate with no offsetting attribute values.

The WG3 co-chairs note that the consensus approach received general stakeholder support. In informal comments to the third WG3 workshop, AReM and DACC each expressed strong support for the consensus approach to ratemaking. DACC noted that the consensus approach supports the choice of LSEs to procure their own resources outside of the VAMO since "only the stranded cost of the IOUs' portfolios are in the PCIA."[54]

The consensus approach to ratemaking is generally reasonable since it allows LSEs to opt out of VAMO participation without facing higher PCIA rates. We will adopt the WG3 Proposal's recommendations to (a) treat RPS Voluntary Allocations as sales at the applicable year's MPB, and (b) require IOUs to pay for their allocations as a debit from the ERRA balancing account and a credit to PABA. However, we will not modify how unsold RPS volumes are valued for MPB or PCIA purposes in this decision.

We also decline to require allocation of Market Offer sales revenues pro rata across vintages in proportion to the declined allocation volumes in each vintage. Utilities will propose Market Offer products in the RPS proceeding, and we envision that some proposals could include vintage-specific products. Utilities should propose how to allocate sales revenues as part of their Market Offer proposals.

[54] *See* WG3 Proposal at B-5 and B-10.

5.5. RFIs for Contract Modifications and Assignments

The WG3 co-chairs propose that the IOUs will hold a request for information (RFI) process with their RPS contract counterparties (Sellers) for interest in a contract assignment or a termination that facilitates a re-contracting by the Seller to another LSE (Contract Assignment). The co-chairs propose that the RFI be conducted in 2021 and 2022 and every other year thereafter. Additionally, the IOUs will solicit proposals for termination, buy-out, or amendment transactions unrelated to a Contract Assignment (Contract Modifications).

Parties do not dispute that RFIs are a reasonable solution for portfolio optimization. We conclude it is reasonable to direct IOUs to propose RFIs for Contract Modifications and Contract Assignments. We will consider the timing and frequency of RFIs in Section 5.6 below.

However, several parties expressed concerns about IOU discretion to respond to RFIs. The co-chairs disagree on whether IOUs should be subject to disallowances based on actions not taken in response to RFI negotiations.

CalCCA argues that the Commission has authority to make disallowances based on an IOU's inactions in response to RFI negotiations under Assembly Bill (AB) 57 through the application of Standard of Conduct 4 (SOC 4). CalCCA argues that SOC 4 applies the prudent administrator standard to the IOUs which, in turn, requires "not only making sure that the IOU complies with the terms and conditions of each contract, but that the IOU makes efforts to manage its overall portfolio by taking other actions such as buy-outs, buy-downs and other contract

modifications when the contracts are no longer needed or economic to serve bundled customers."[55]

SCE and PG&E each argue that AB 57 does not provide for disallowance risk to IOUs for inactions.[56] SCE also argues that CalCCA conflates the law on the prudent manager standard for contract negotiations and least cost dispatch requirements.[57] SCE contends that there are no "upfront, achievable standards" that obligate the IOU to accept, or pursue, or otherwise decline an offer from a counterparty to modify or terminate an existing procurement contract already approved for cost recovery. SCE further contends that absent such upfront, achievable standards, the IOU bears no disallowance risk under the prudent manager standard for declining to accept or pursue an offer from a counterparty to modify or terminate an existing procurement contract.

SOC 4 orders that "utilities shall prudently administer all contracts and generation resources and dispatch the energy in a least-cost manner." We agree that CalCCA's argument appears to conflate the requirement for least-cost dispatch with the other requirement for "prudent contract administration."

The prudent contract administration standard will apply to RFIs for Contract Assignments and Contract Modifications. The prudent contract administration standard is based upon the "reasonable manager standard."[58] This standard does not specify how IOUs should respond to RFIs for Contract Assignments and Contract Modifications. We will continue to determine how

[55] CalCCA's WG3 Proposal opening comments.

[56] SCE's WG3 Proposal opening comments, PG&E's WG3 Proposal reply comments.

[57] SCE's WG3 Proposal opening comments.

[58] D.05-01-054 at 15.

well IOUs manage their contracts in ERRA compliance proceedings, the appropriate venue for such determinations.[59]

PG&E proposes delaying RFIs until the Commission approves upfront, achievable standards. SCE proposes that the Commission consider whether there is a need for upfront, achievable standards and criteria for IOU responses to offers from the RFI process after reporting on the first two years of the RFI process. We may consider in the RPS proceeding whether there is a need to define upfront, achievable standards after the first RFI has been conducted.

Parties also raised the need to protect the integrity and confidentiality of existing RPS contracts. NextEra, IEP, and AWEA urge the Commission to confirm that portfolio optimization mechanisms will not force contract counterparties to participate. IEP and AWEA also oppose the WG3 co-chair proposal to include in RFI reporting a list of the Contract Assignment proposals rejected by the IOU and the rationale for the rejection, as well as contracts currently in negotiation. IEP and AWEA argue that this is market-sensitive information that should remain confidential. Finally, IEP raises the concern that the RFI process could pressure IOUs to invoke the termination provisions of its contracts for minor or technical breaches. POC, in contrast, argues that the Commission should establish a new requirement that IOUs must terminate any PCIA-eligible contract.

As with the Market Offer, we will rely on the ongoing RPS proceeding's procurement and compliance processes to implement these RFIs and related reporting requirements. This decision does not affect the Commission's policies regarding the integrity of existing RPS contracts or confidentiality.

[59] D.15-05-005 at 3-5.

In addition, IOUs must file and serve reports on the effectiveness of their first RPS RFIs in accordance with Section 5.6 below.

5.6. Timing and Implementation

The WG3 co-chairs propose an annual RPS VAMO process prior to each delivery year. PG&E raises concerns that holding an annual VAMO would increase uncertainty for RPS compliance. PG&E proposes a one-time voluntary allocation (with a one-time option for future LSEs), followed by the sale of unallocated resources. PG&E proposes that after the initial one-time voluntary election, any newly formed LSE would be able to make an allocation election after filing its Implementation Plan in the year prior to the first year they serve load.[60]

TURN agrees that the "disconnect between multi-year RPS compliance periods and annual allocations" would create a variety of challenges in forecasting and planning. However, TURN asserts that PG&E's proposal to limit allocations to a one-time event is too restrictive, and they recommend that allocations be offered every three to five years.[61]

We agree that the frequency and timing of the RPS VAMO process should align with RPS compliance periods and the Commission's ongoing RPS proceeding. We must also balance LSEs' need for flexibility with the needs of IOUs and LSEs for sufficient time and certainty for RPS compliance.

We also recognize that the amount of excess RPS resources may decline precipitously within the next few years. WG3 Co-chair Commercial Energy commented that, with the increasing RPS mandates that apply all LSEs, the

[60] PG&E's WG3 Proposal opening comments.

[61] TURN's WG3 Proposal reply comments.

excess resources the working group process was intended to address "may evaporate in a matter of 5 years or less" without intervention.[62] Higher RPS requirements and the potential for a successful RPS VAMO and RFI process may greatly reduce the need for future distributions. Accordingly, we conclude that RPS Voluntary Allocations should be held no more than once an RPS compliance period. In a given compliance period, an IOU may propose more than one Market Offer or additional RPS sales in the RPS proceeding.

However, any newly formed LSE may request an initial Voluntary Allocation if its launch does not coincide with a regular VAMO cycle, regardless of whether a Voluntary Allocation has been held during the applicable RPS compliance period, by filing a Tier 1 advice letter after filing its implementation plan in the year prior to the first year they serve load. Within 30 days of service of an LSE's request, the IOU shall file a Tier 2 advice letter to propose the calculation of the Voluntary Allocation shares.

We recognize that all LSEs need to know in advance whether and when RPS VAMO processes will occur to support RPS portfolio planning. Our goal in establishing the RPS VAMO is to create an effective way to allocate and sell RPS resources as needed over time. However, we cannot predict in advance whether additional RPS VAMOs should be held in an upcoming RPS compliance period, whether due to the VAMO's great success or unanticipated issues that may arise.

For this reason, we plan for an initial RPS VAMO, require a report and workshop on its effectiveness, and provide for an advice letter process to determine whether and when to hold the next VAMO. We will require a similar process, without a workshop, after subsequent VAMOs. The following process

[62] Commercial Energy's WG3 Proposal opening comments.

applies to the first RPS VAMO and any future RPS Voluntary Allocation and/or Market Offer process.

Within 90 days of completing an RPS Voluntary Allocation and/or Market Offer, each IOU shall file and serve in this proceeding a report on the effectiveness of its RPS Voluntary Allocation, Market Offer(s), and/or first RPS RFI, as applicable. Each report shall include the IOU's calculation of remaining shares, propose whether and when to hold a future RPS Voluntary Allocation and/or Market Offer, and include best practices and lessons learned. These reports shall also be served on the service lists of the RPS proceeding and the Integrated Resources Plans proceeding. After the first RPS Voluntary Allocations and Market Offers, the IOUs shall host a joint workshop to discuss these reports within 60 days of the date that the last RPS VAMO report was filed. Within 90 days after filing a report on an RPS Voluntary Allocation and/or Market Offer, each IOU shall file a Tier 2 advice letter to propose whether and when to hold a future RPS Voluntary Allocation and/or Market Offer.

In addition, any LSE serving customers in the service territories of the IOUs may file a Tier 2 advice letter to request a VAMO for an RPS compliance period where no RPS Voluntary Allocation and/or Market Offer has been held in the applicable utility service territory, with a copy to the service lists of this proceeding, the RPS proceeding, and the IRP proceeding.

The WG3 co-chairs propose that the Commission implement the RPS VAMO through the IOUs' annual RPS procurement plans (RPS Plans). We agree that it is appropriate to rely upon the Commission's existing RPS proceeding and compliance processes to review, approve, and monitor the RPS VAMO and RFI activities. IOUs should include VAMO proposals in their annual RPS Plans.

LSEs should report VAMO participation in their annual RPS Plans and RPS compliance reports.

We expect that the VAMO review and approval process will proceed as follows, subject to adjustments in the RPS proceeding. First, IOUs will inform LSEs of their potential Voluntary Allocation shares based on vintaged, annual load forecasts. Next, LSEs will inform IOUs of their interest in Voluntary Allocation shares. Then IOUs and LSEs will include the proposed Voluntary Allocations in their RPS Plans. IOUs will also jointly propose a Market Offer process and schedule in their RPS procurement Plans. Once RPS Plans are approved, IOUs and LSEs will commence contracting for the Voluntary Allocations. After contracting for Voluntary Allocations is complete, IOUs will hold Market Offers.

The WG3 co-chairs propose an interim RPS Voluntary Allocation, before the first full RPS VAMO is held, on the basis of LSEs' actual, vintaged, annual load shares and without a Market Offer process. In comments, co-chair CalCCA argues that implementation of an interim allocation as soon as possible is necessary to minimize further accumulation of uneconomic costs.[63]

However, the co-chairs disagree on the timing of the interim allocation. CalCCA and Commercial propose that changes to the IOUs' RPS Plans could be accomplished by a Motion to Update soon after a decision on the WG3 Proposal, with allocations to commence no less than 30 days after approval.

SCE proposes that the Commission allow the IOUs approximately 12 months from a final decision to implement RPS allocations on an interim basis. SCE asserts 12 months is necessary to provide adequate time to adjust IOU

[63] CalCCA's WG3 Proposal reply comments.

plans and operations, mitigate risks, and ensure continued RPS compliance. SCE also proposes that if interim RPS allocations would jeopardize an IOU's ability to meet its RPS compliance requirements or cause cost increases for bundled customers to meet RPS compliance requirements, the IOU may petition the Commission to delay implementation of the initial allocation.

Cal Advocates agrees with SCE that the Commission should provide a reasonable amount of time to allow the IOUs to prepare for the allocation and remain compliant with all regulatory requirements. PG&E similarly notes that the incremental costs of rebalancing the bundled customer portfolio can be mitigated in part if given sufficient time for procuring replacement resources.

We must balance LSEs' interest in commencing Voluntary Allocations as soon as possible with the concerns raised by SCE, PG&E, and Cal Advocates. In addition, we must align the RPS VAMO process with the existing RPS processes.

Accordingly, we direct the IOUs to confirm Voluntary Allocations and to propose Market Offers in their 2022 RPS Plans for deliveries of energy in 2023. This timing aligns with the existing RPS proceeding and provides sufficient time for IOUs to prepare.

We expect to implement the initial RPS VAMO and RFI as follows, subject to adjustments in the RPS proceeding.

Table 2: Timeline for First RPS VAMO and RFI

VAMO Milestone	Date	Description
File RFI Proposals	Q3 2021	Parties shall file RFI information in the RPS proceeding. The RPS proceeding will issue further guidance on when and how to file the RFIs in 2021.
Propose methodology for Voluntary Allocations	Within 90 days of the effective date	IOUs shall meet and confer with parties and jointly file a Tier 2 advice letter to propose (i) a methodology for calculating potential Voluntary Allocation shares based on

	of this decision	vintaged, annual load forecasts and (ii) a methodology for dividing their RPS portfolios into shares to be allocated. IOUs shall host a joint workshop within 14 days of filing the advice letter to discuss the proposed methodologies.
Request approval for Contract Assignments and Contract Modifications	January 2022	Once the 2021 RFIs are approved, the IOUs may request approval for Contract Assignments and Contract Modifications in response to the RFI by filing Tier 3 advice letters.
Confirm Voluntary Allocations	February 2022	After approval of the joint methodology advice letter, IOUs will inform LSEs of their potential Voluntary Allocation shares. IOUs and LSEs will confirm LSEs' elections for Voluntary Allocations.
Complete Voluntary Allocation Process	May 2022	IOUs and LSEs should complete the process of determining interest in Allocation elections in order to include outcomes and proposals in their 2022 RPS Plans filings.
Propose REC Sales Pro Forma Contract	June 2022	With 2022 RPS Plans, IOUs will propose Allocation REC Sales Pro Forma Contract.
Request approval for Voluntary Allocations	June 2022	With 2022 RPS Plans, LSEs will request approval for Voluntary Allocations.
Propose Market Offer	June 2022	With 2022 RPS Plans, IOUs will jointly propose a process and schedule for Market Offers.
Report on RFI Status	June 2022	With 2022 RPS Plans, IOUs will report on the status of RFI negotiations.
Approve RPS Plans	December 2022	Commission will issue a decision on 2022 RPS Plans in RPS proceeding. Decision will address VAMO, RFIs, Allocation REC Sales Pro Forma Contracts.
File Final RPS Procurement Plans	January 2023	With Final 2022 RPS Plans, IOUs will each file final RPS VAMO Plans to comply with Commission decision.
Commence Allocation Process	21 days after Final RPS Plans filed	IOUs commence Voluntary Allocation contracting and submit Tier 2 Advice Letter to Energy Division.

Commence Market Offer	Per joint Market Offer proposal	Based on schedule jointly proposed by IOUs in the 2022 RPS Plans.

The WG3 co-chairs propose that the Commission direct the IOUs to issue RFIs for Contract Assignments and Contract Modifications in 2021 and 2022, and every other year thereafter. We direct IOUs to file RFI proposals in 2021 and 2022 in the RPS proceeding. However, we decline to require IOUs to issue RFIs in future years. As discussed above, we recognize that the amount of excess or uneconomic RPS resources may decline precipitously within the next few years. After the second RFI, an IOU may propose in its annual RPS Procurement Plan whether to hold another RFI.

5.7. Administrative Costs

PG&E asserts that implementing the VAMO would require PG&E to develop new systems to track, conduct, and settle: (1) Voluntary Allocations to 33 or more LSEs, some with multiple vintages, (2) Market Offers, and (3) certain transactions that result from an RFI. PG&E expects to act as scheduling coordinator, act as administrator of VAMO, manage contracts, and make regulatory filings for PCIA-eligible resources.[64] SDG&E agreed with PG&E's description of administrative costs.[65] Cal Advocates also acknowledged the potential for VAMO to create significant administrative and technical costs.[66]

PG&E requests that the Commission approve incremental staffing costs and systems costs related to the VAMO through ERRA forecast proceedings and allow utilities to recover these costs directly from departing load customers

[64] PG&E's WG3 Proposal opening comments.

[65] SDG&E's WG3 Proposal reply comments.

[66] Cal Advocates' WG3 Proposal reply comments.

through the Portfolio Allocation Balancing Account.[67] Commercial opposed this proposal, arguing that since other LSEs must absorb these costs, so should IOUs.[68] However, Commercial's argument does not address costs that are specific to the IOUs' role as administrators of the RPS VAMO. Accordingly, we conclude that it is reasonable to direct each IOU to establish a memorandum account to track the incremental staffing and systems costs of administering the RPS VAMO and seek recovery of these costs in their ERRA forecast applications.

6. Resource Adequacy

For Local RA resources, the WG3 Proposal would require each IOU to allocate all of its local RA capacity to all LSEs based on each LSE's forecasted, vintaged, coincident peak load share, as informed by the year-ahead RA procurement obligations within the RA process, in a similar manner to CAM.[69] While SCE and CalCCA propose that LSEs may not decline their Local RA allocation, Commercial supports a voluntary allocation of Local RA followed by a Market Offer of any unallocated Local RA.

The WG3 co-chairs propose a voluntary allocation of each IOU's System and Flexible RA capacity to PCIA-eligible LSEs, semi-annually in the year prior to the compliance year. After the voluntary allocations, the co-chairs propose that capacity declined by LSEs will be made available through a market offer process.

The WG3 co-chairs consider their proposal to be superior to an "excess sales" approach because it eliminates the need to address the complex issues of buffers, uncertainty tranches, and sales timing.

---

[67] PG&E's WG3 Proposal opening comments.

[68] Commercial's WG3 Proposal reply comments.

[69] WG3 Proposal at 19.

First, we consider whether the RA proposal advances the goal of reducing excess and/or uneconomic resources in utilities' PCIA portfolios. Parties did not provide sufficient evidence in this proceeding to establish whether each IOU will have excess and/or uneconomic resources. However, PG&E's comments on the WG3 Proposal indicate that it will not have excess resources. PG&E asserts that, based on its forecasted August 2020 RA capacity, resources that would be subject to VAMO represent more than 80 percent of PG&E's total electric portfolio. PG&E explains that it has actively managed its RA portfolio to sell excess products in response to departed load, and also considered forecasted load departure in determining incremental procurement quantities.

In opening comments on the proposed decision, CalCCA argues that LSEs have a right to allocations of RA resources under Public Utilities Code Section 366.2(g). CalCCA argues that the PCIA does not capture the full benefits of RA resources because bundled customers alone benefit from a right of first refusal over these resources.

Section 366.2(g) provides that CCA customers have a right to an allocation of benefits of a PCIA resource only in the event that PCIA calculations do not include the benefits retained by bundled customers. In reply comments to the proposed decision, PG&E points to D.18-10-019, where the Commission rejected a similar argument about the potential "option" or "hedge" value of PCIA resources.

In D.18-10-019, we addressed POC's contention that the brown power MPB fails to capture the full value of portfolio resources because it fails to credit departing load for the "inherent hedge and option value" in long-term contracts. In that decision, we stated:

> We do not dismiss the analysis and contentions of POC and other parties regarding the question of whether the current benchmarks completely capture the long-term value of portfolio resources. At the same time, these parties have had difficulty proving that this is the case. We are left to base our decision on what we are able to observe and verify. On that basis, we find that AReM/DACC's analysis has established that the brown power index continues to be reasonable. Therefore, we leave this particular MPB unchanged in this decision.[70]

As in D.18-10-019, we are left to base our decision on what we are able to observe and verify. CalCCA did not raise this argument until proposed decision comments. We do not have sufficient evidence of an observable and verifiable "right of first refusal" benefit retained by bundled customers that would justify modifying PCIA calculations or requiring allocations of Resource Adequacy resources. Second, we consider whether the RA proposal advances voluntary and/or market-based solutions. The co-chairs agreed that System and Flexible RA should be made through voluntary allocations followed by a market offer. For Local RA, SCE and CalCCA propose a mandatory allocation, while Commercial Energy supports a voluntary allocation followed by a market offer. While the co-chairs have proposed a voluntary and market-based approach for System and Flexible RA, they were not able to reach consensus on a voluntary and/or market-based approach to Local RA.

Third, we ask whether the co-chairs' RA proposal is compatible with Commission decisions, applicable law, and state compliance programs. There are many existing Commission compliance processes and proceedings dedicated to maintaining the resource adequacy. Any efforts to reduce the PCIA or

[70] D.18-10-019 at 35-36.

support indifference for unbundled customers must be compatible with the Commission's ongoing efforts to ensure reliable access to electricity.

Since the WG3 Proposal was filed, the Commission approved a Central Procurement Entity for Local RA procurement in PG&E and SCE service territories in D.20-06-002. The co-chairs note that the WG3 Proposal does not consider the potential impact of a CPE on Local RA procurement. Neither does the WG3 Proposal recommend how to make its RA proposal compatible with the new CPE.

Further, the new CPE addresses many of the concerns the WG3 co-chairs raised about RA procurement. In D.20-06-002, the Commission adopted a CPE to "secure a portfolio of the most effective local resources, use its purchasing power in constrained local areas, mitigate the need for costly backstop procurement in certain local areas, and ensure a least cost solution for customers and equitable cost allocation. The [CPE] approach also allows individual LSEs to voluntarily procure local resources to meet their system and flexible RA requirements and count them towards the collective local RA requirements, providing LSEs flexibility and autonomy to procure local resources. By allocating costs directly to end customers, inequitable cost allocation and load migration issues are addressed since all customers pay equitably for the cost of local reliability regardless of which LSE serves them."[71]

Fourth, we consider whether the proposal is tailored to minimize the risk of unintended consequences. The WG3 Proposal aims to reallocate all PCIA-eligible Local, System and Flexible Resource Adequacy without limitations. PG&E argues that implementing VAMO would leave PG&E with insufficient

[71] D.20-06-002 at 23.

resources to meet bundled customer needs and would increase electric portfolio costs for bundled service and departing load customers alike.[72] AReM/DACC asserts that this proposal could also require LSEs to accept Local RA that they do not need, resulting in inefficiencies and over-procurement.[73]

Maintaining reliable access to affordable electricity is a top priority and core responsibility of the Commission. This proposal is not properly tailored to minimize the risks that the allocations would create market inefficiencies for RA, raise costs for bundled and unbundled customers alike, or create RA planning and compliance problems when layered with the new CPE and RA compliance requirements.

PG&E offered an alternate proposal to increase transparency to address concerns raised by WG3 co-chairs regarding the excess sales framework for System and Flexible RA. PG&E proposes that each IOU file an advice letter to justify its methodology for determining how much of its PCIA-eligible RA is reserved as part of the IOU's Bundled Portfolio Plan. Interested LSEs may confidentially review the proposed methodology prior to a Commission resolution.

For the reasons above, we decline to adopt the WG3 Proposal for Resource Adequacy. However, we approve PG&E's proposal to require each IOU to file an advice letter to justify its methodology for determining how much of its PCIA-eligible RA is reserved as part of the IOU's Bundled Portfolio Plan. This approach is appropriately tailored to address the transparency concerns raised by WG3 co-chairs while minimizing the risk of unintended consequences.

[72] PG&E's WG3 Proposal opening comments.

[73] AReM/DACC's WG3 Proposal opening comments.

7. GHG-Free Energy

The WG3 co-chairs seek to allocate non-RPS, PCIA-eligible, GHG-free (GHG-Free) energy to LSEs for showing GHG-free energy on an LSE's PCL and for planning purposes in the IRP. The WG3 Proposal explains that the status quo is not fair because the Commission declined to assign GHG-Free energy any specific MPB "adder" in the PCIA formula, and thus GHG-Free energy is treated the same as brown power in the PCIA formula.[74]

The co-chairs propose that the IOUs will annually provide a voluntary, all-or-nothing allocation of GHG-Free energy from their PCIA-eligible nuclear and/or large hydroelectric (and any other GHG-Free) resources to all PCIA-eligible LSEs. The WG3 Proposal provides that GHG-Free energy will be bifurcated into two pools: a nuclear pool and a non-nuclear pool. LSEs may make an election to accept or decline either or both pools in its (or their) entirety prior to the start of the flow year.[75]

The WG3 co-chairs propose that GHG-Free energy allocations will be distributed on the basis of the forecasted, vintaged, annual-load (MWh) share of the PCIA-eligible LSEs, multiplied by the actual GHG-Free energy production realized from the IOU's PCIA-eligible resources in each pool over the course of the flow year. LSEs who decline their allocation for either pool will have their allocation share of that pool redistributed among LSEs who accepted their allocation according to their vintaged, annual load share among the LSEs accepting that pool's allocations.[76]

---

[74] WG3 Proposal at 30-32.

[75] WG3 Proposal at 31-32.

[76] WG3 Proposal at 31.

The WG3 Proposal provides that the IOU or its contracted counterparties will remain the scheduling coordinators of the resources, as applicable, and the benefiting LSEs will have no rights to specify how the resources are scheduled.[77] LSEs accepting their allocations may claim the GHG-Free energy deliveries on their PCL, subject to approval by the CEC, and may claim credit toward Clean System Power procurement requirements in IRP based on the hourly generation profile of the vintaged portfolio.[78] The co-chairs provided the following rationale for this proposal.

> The primary interest in pursuing allocations of GHG-free energy is for showing GHG-free energy procurement on an LSE's PCL and for planning purposes in the IRP. The Commission declined to assign GHG-free energy any specific MPB "adder" in the PCIA formula, and thus GHG-free energy is treated the same as brown power in the PCIA formula, receiving credit according to the realized CAISO energy and ancillary services revenues…The IOUs' GHG-free energy resources were built many years ago and were procured and/or built on behalf of all customers. These GHG-free energy resources are being paid for through the PCIA and the energy revenues are being realized by PCIA-paying customers. Therefore, the Co-Chairs believe it is only fair that these attributes be voluntarily allocated, and PCIA-paying customers benefit from the energy deliveries on their LSEs' PCLs and in IRP.[79]

The Commission previously approved PG&E's and SCE's requests to make one-year allocations of nuclear and large hydroelectric power to LSEs as an "interim" solution pending a longer-term solution for GHG-Free resources in this

---

[77] WG3 Proposal at 31-32.

[78] WG3 Proposal at 31-32 refers to "Clean Net Short" procurement requirements in IRP. We interpret this to refer to GHG benchmarks, as measured through the Clean System Power calculator in the IRP proceeding.

[79] WG3 Proposal at 30-32.

proceeding. The Commission issued Resolution E-5046, which approved PG&E's proposal to make one-year allocations of nuclear and large hydroelectric resources available to LSEs in 2019 and 2020. Resolution E-5046 specifically provides, "We agree with PG&E and the Joint CCAs that AL 5705-E proposes an interim solution, and the PCIA proceeding will determine this interim solution's permanent replacement."[80] In December 2020, the Commission issued Resolution E-5111,[81] which approved PG&E's request to extend this "interim process" through 2021, with an option to extend through 2022 and 2023, which effectively authorizes PG&E to extend the interim approach to GHG-Free resources through 2023. In August 2020, we issued Resolution E-5095 to approve SCE's similar request to allocate nuclear and large hydroelectric resources to LSEs until the earlier of (a) December 31, 2022, (b) 3 months after the effective date of a decision denying an ongoing GHG-Free mechanism issued in this proceeding, or (c) the effective date for a decision authorizing an ongoing allocation of GHG-Free energy in this proceeding.

The WG3 Proposal seeks approval to apply the interim approach to GHG-Free resources as a long-term portfolio optimization solution. The WG3 Proposal differs from the interim approach by redistributing declined allocation shares to LSEs who accepted an allocation. We will review this proposal in accordance with our review criteria for portfolio optimization proposals.

First, we consider whether the WG3 Proposal for GHG-Free resources advances the goal of reducing excess and/or uneconomic resources in utilities' PCIA portfolios. Since IOUs' GHG-Free resources primarily consist of nuclear

[80] Resolution E-5046 at 9 and 16.

[81] Resolution E-5111 at 7.

and large hydropower resources, we will focus our analysis on these categories of resources.

In D.20-03-028, the Commission adopted an optimal 2019-20 portfolio, known as the Reference System Portfolio (RSP), to be used by all LSEs required to file individual integrated resource plans (IRPs) in 2020. The 2019-20 RSP incorporates the 2030 GHG emissions target for the electric sector consistent with Senate Bill 350 (DeLeón, 2015). The 2019-20 RSP includes the following amounts of IOU-owned nuclear and large hydroelectric resources.[82]

Table 3. 2019-20 RSP IOU-Owned Nuclear and Large Hydroelectric Resources

Resource Type	2020-2023	2024	2025-2030
Nuclear	2,935	1,785	635
Large Hydroelectric	7,070	7,070	7,070

California's IOUs currently have ownership interests in only two operational nuclear power plants, Diablo Canyon and Palo Verde. In D.18-01-022, the Commission approved PG&E's proposal to retire the Diablo Canyon Power Plant, which currently generates approximately 2,300 Megawatts (MWs), in 2024 and 2025. SCE has an ownership share in Palo Verde Nuclear Generating Station, which delivers approximately 635 MW.

The WG3 Proposal did not assert that IOUs will have excess or uneconomic GHG-Free resources after 2023. We have a limited record on this topic. However, we expect that retiring Diablo Canyon and holding an RPS VAMO will have large impact on PG&E's portfolio over the next few years. PG&E will likely need to procure replacement resources to meet its GHG

[82] D.20-03-028 at 42 (Table 6).

benchmarks, as measured through the Clean System Power calculator in the IRP proceeding.

Second, we consider whether the GHG-Free proposal advances a voluntary and/or market-based solution. Consistent with our conclusions for the RPS and RA portions of the WG3 Proposal, we find that the voluntary allocation portion of the proposal meets this standard. On the other hand, the proposal to distribute declined shares of GHG-Free resources to LSEs that elected to accept their shares also appears to be a mandatory allocation in conflict with our review criteria for portfolio optimization proposals. In comparison, a voluntary approach would allow an LSE to accept a nuclear allocation without the risk of being required to accept all declined shares of nuclear power.

Third, we ask whether the proposal is compatible with Commission decisions, applicable law, and state compliance programs. PG&E disagrees with the WG3 Proposal's treatment of GHG-Free and GHG-emitting energy for the purposes of calculating the California Energy Commission's Power Content Label (PCL). The co-chairs propose that PCIA-eligible LSEs take credit for GHG-Free resources, without requiring LSEs to take credit for GHG-emitting resources.

PG&E argues that this proposal would allow LSEs to "cherry-pick" energy content, allowing LSEs to appear greener than the incumbent IOU in the PCL. Further, PG&E argues that the co-chairs' proposal to seek to change the California Energy Commission's rules regarding emissions accounting for PCIA-eligible resources is misleading because it would result in "waiving away" the non-IOU share of emissions. The co-chairs propose to change the PCL rules so that neither the IOU nor the LSE will report the non-IOU share of

GHG-emissions. PG&E envisions a future where all load has departed an IOU and no LSE reports the GHG-emitting resources for PCL purposes.[83]

TURN, Cal Advocates and CUE agreed with PG&E.[84] TURN noted that it is not appropriate to decide this issue based on the assumption that the California Energy Commission will change PCL accounting.[85]

Cal Advocates expressed concerns that the WG3 Proposal would "would effectively hide a portion of known GHG emissions" and urged the Commission to ensure that non-IOU LSEs properly account for emissions so PCLs accurately represent their share of overall GHG emissions.[86] Similarly, CUE argues that the proposal would allow LSEs to "game the system and misrepresent on their PCL the GHG content of the power that they provide."[87]

CalCCA argues that PG&E previously supported the WG3 Proposal's approach to GHG-Free resources, citing Resolution E-5046.[88] However, as discussed above, the Commission explicitly approved the proposed approach as an "interim solution" without prejudice for its decision in this proceeding. We share parties' concerns that the WG3 Proposal's approach to PCL accounting for GHG-Free and GHG-emitting resources would reduce customer transparency, which is the original objective of the PCL.

PG&E proposes that PCIA-eligible LSEs should only have the option to accept their combined share of GHG-Free resources pooled with GHG-emitting

---

[83] PG&E WG3 Proposal opening comments.

[84] TURN's WG3 Proposal reply comments, Cal Advocates' WG3 Proposal reply comments, and CUE's WG3 Proposal opening comments.

[85] TURN WG3 Proposal reply comments.

[86] Cal Advocates' WG3 Proposal reply comments.

[87] CUE's WG3 Proposal opening comments.

[88] CalCCA's WG3 Proposal reply comments.

resources for both PCL and IRP reporting. TURN and Cal Advocates support this proposal.[89]

CalCCA opposes PG&E's proposal, asserting that by bundling the GHG-Free and GHG-emitting resources together, PG&E removes LSE choice and value from the proposal. CalCCA claims that many CCAs cannot accept nuclear power, and other CCAs will not be interested in accepting a voluntary allocation that includes GHG-emitting resources and nuclear resources.

Fourth, we consider whether the proposal is tailored to minimize the risk of unintended consequences. As discussed above, the WG3 Proposal's approach to PCL accounting for GHG-Free and GHG-emitting resources would require IOUs' PCLs to show GHG-emitting resources of departed load unless the California Energy Commission changes PCL reporting requirements. In response to PG&E's comment that the proposal would require IOUs to procure replacement resources to comply with IRP requirements, Cal Advocates replied that requiring GHG-Free allocations could result in higher rates for bundled customers.[90]

In opening comments on the proposed decision, CalCCA argues pursuant to Section 366.2(g) that the benefits of GHG-Free resources must be allocated fairly and equitably to CCAs because these resources are undervalued in the PCIA methodology. CalCCA argues that D.18-10-019 indicates that "the record showed that GHG-Free energy has a unique value, the Commission rejected the proposal due largely to the lack of robust market price data to provide a reference value."

[89] TURN's WG3 Proposal reply comments, Cal Advocates' WG3 Proposal reply comments.

[90] Cal Advocates' WG3 Proposal reply comments.

However, the language of D.18-10-019 does not support CalCCA's assertion.

> CalCCA did not demonstrate the need for a separate GHG-free adder (which would apply to hydroelectric and nuclear power) in this proceeding. CalCCA's position in testimony was that we should administratively apply the RPS adder to all GHG- free generation. This approach is untethered to any reliable, observable market premium. While CalCCA's advocacy on alternative amounts for such an adder has shifted, there remains a paucity of evidence in this proceeding supporting an observable, reliable market premium for this category of energy resources. A market premium attributable to GHG-free resources, to the extent it exists, will be captured in our true-up.[91]

D.18-10-019 observes that any market premium attributable to GHG-Free resources would be captured in the annual true-up. That decision goes on to explain that dispatched GHG-Free resources command the same market-clearing prices as other resources, but do not have a corresponding GHG compliance cost, and this value is already pro-rata shared with departing load customers, as it is captured in the PCIA's "brown" market price benchmark when trued-up for actual market revenues.[92]

D.18-10-019 notes, "[i]f market changes demonstrate a consistent heightened value for GHG-free resources in the coming years, then it might be appropriate to re-evaluate the need for a GHG-free adder to reduce the gap between a forecast PCIA and a trued-up PCIA." [93]

---

[91] D.18-10-019 at 150.

[92] D.18-10-019 at 150-151.

[93] D.18-10-019 at 152.

In comments on the proposed decision, several parties point out that D.18-10-019 found no heightened market value for GHG-Free resources and opposed relitigating the need for a GHG-Free adder for PCIA calculations.[94] WG3 co-chair SCE argues as follows.

> The PD errs in seeking to revisit the Commission's determination in D.18-10-019 that the PCIA methodology, as corrected therein, does not undervalue the GHG-Free resources. Indeed, the PD fails to acknowledge that this issue was fully litigated and resolved in D.18-10-019 in Phase 1 of this OIR. There, the Commission found that PCIA portfolio attributes, including GHG-Free resources, only have value to the extent they capture revenues in the CAISO market or otherwise. As such, a proxy GHG-Free adder is inappropriate and unnecessary. Rather, GHG-Free resources earn more net revenues in the market because they have no GHG emissions compliance costs. In this way, the Brown Power MPB accurately reflects the (higher) net market value of GHG-Free resources relative to GHG-emitting resources, and all customers with PCIA cost responsibility benefit from the higher net market revenues earned by GHG-Free resources in the market relative to GHG-Free emitting resources.[95]

We do not have a sufficient record to support adoption or rejection of the WG3 Proposal or an alternate proposal at this time.[96] We will consider as a next step in this phase of this proceeding whether GHG-Free resources are under-valued in the PCIA methodology, and whether to adopt a GHG-Free adder or an allocation mechanism.

---

[94] *See* opening comments on the proposed decision by CalCCA, Commercial Energy, CUE, PG&E, SCE and TURN.

[95] SCE's opening comments on the proposed decision.

[96] SCE proposed a modified version of PG&E's GHG-Free proposal in opening comments on the proposed decision.

As noted above, Resolution E-5111 authorized PG&E to extend the interim approach to GHG-Free resources through 2023. During this interim period, we authorize SCE to continue to apply the approach to GHG-Free resources we approved in Resolution E-5095 through December 31, 2023.

8. Shareholder Responsibility for Portfolio Optimization

The co-chairs did not propose new or modified IOU shareholder responsibility for alleged portfolio mismanagement. Most parties did not object to this approach.

POC proposes an "automatic enforcement and shareholder responsibility mechanism" to ensure that IOUs meet their obligations under the voluntary allocation and market offer framework.[97] However, no other party supports this proposal. SDCP asserts that shareholder responsibility is a critical component of portfolio management but did not specifically support the POC approach.

SCE replies that POC's proposal is unnecessary since the Commission has sufficient authority to address IOU non-compliance with Commission orders. Further, SCE argues POC's proposal is unreasonable because it does not provide IOUs with due process in advance of the imposition of a shareholder penalty.[98]

We decline to adopt POC's proposal. The Commission will exercise its existing authority and discretion to enforce IOU compliance with this decision.

9. Motions Requesting Evidentiary Hearings

The 2019 Scoping Memo determined that evidentiary hearings were not required. The 2020 Scoping Memo, issued on December 16, 2020, affirmed that evidentiary hearings were not required.

[97] POC's WG3 Proposal opening comments.

[98] SCE's WG3 Proposal reply comments.

On April 3, 2020, POC filed a motion requesting evidentiary hearings on the working group's proposals, including the use of shareholder responsibility mechanisms, the function of mechanisms to distribute local resource adequacy, and the use of ethical walls by IOUs.

On April 3, 2020, UCAN filed a motion requesting evidentiary hearings, expressing concern that the WG3 Proposal and alternative proposals advanced by other parties in opening and reply comments were not supported by sufficient data and quantitative analysis.

On April 17, 2020, CalCCA, Commercial, PG&E, SCE, and SDG&E filed a joint response (Joint Response) in opposition to these motions.

In its motion, POC claims that the working group did not operate transparently and did not provide due process. In POC's view, the working group process left unresolved contested facts that form the foundation of the co-chairs' proposals, including the need for shareholder responsibility, the need for Local RA auctions, and the use of ethical walls by IOUs. If POC's motion was granted, POC would "illustrate, through examples" the effectiveness of its proposals for IOU shareholder responsibility and show that its RA proposals are reasonable and feasible.

Claiming that there are "present distortions in the allocation of net costs and benefits received by LSEs and IOUs under current rules and accounting practice," UCAN seeks to explore consumption data, cost shifts, and allocation of benefits.

The Joint Response argues that the motions do not identify any material facts in dispute that would necessitate cross-examination. Rather, each motion focuses on policy and legal issues. Further, the Joint Response points out that UCAN raises issues outside the scope of WG3.

We deny POC's and UCAN's motions requesting evidentiary hearings for the following reasons. First, POC and UCAN had the opportunity to raise their questions and proposals in informal WG3 comments and in filed comments on the WG3 Proposal. Second, POC intends to illustrate its proposals through examples, which is not an appropriate use of evidentiary hearings. Third, UCAN's questions are outside the scope of the issues addressed in this decision.

10. Comments on Proposed Decision

The proposed decision of Administrative Law Judge (ALJ) Stephanie S. Wang in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code. Comments allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure were filed on April 26, 2021 by AReM/DACC, American Clean Power California, CalCCA, Cal Advocates, Commercial Energy, CUE, Joint CCAs (Peninsula Clean Energy Authority, East Bay Community Energy, Sonoma Clean Power, Silicon Valley Clean Energy Authority, and SDCP), IEP, PG&E, POC, SDG&E, SCE, Shell Energy, TURN, and UCAN and reply comments were filed on May 3, 2021 by AReM/DACC, American Clean Power California, CalCCA, Cal Advocates, Joint CCAs, IEP, NextEra Energy Resources, LLC, PG&E, POC, SDCP and Clean Energy Alliance, SDG&E, SCE, and TURN.11. Assignment of Proceeding

Martha Guzman Aceves is the assigned Commissioner and Stephanie S. Wang is the assigned ALJ in this proceeding.

Findings of Fact

1. The PCIA cap does not serve its intended purpose of reducing rate volatility and uncertainty.

2. In accordance with the direction provided in D.18-10-019, the 2019 Scoping Memo directed WG3 to propose (a) an approach to portfolio optimization "in

order to address excess resources in utility portfolios" in a manner that is "structured so as to be compatible" with the Commission's ongoing compliance programs, and (b) standards "for more active management of the utilities' portfolios in response to departing load in the future in order to minimize further accumulation of uneconomic costs."

3. The WG3 Proposal includes consensus proposals that reflect unanimity among the 3 co-chairs: CalCCA, Commercial, and SCE.

4. The WG3 Proposal reflects significant collaboration and consensus building. However, most parties either oppose the co-chairs' proposal or have significant reservations about aspects of the proposal.

5. IOUs' RPS portfolios include significant amounts of legacy, uneconomic RPS resources procured when RPS contract prices were higher.

6. Reducing the frequency of allocations and providing sufficient time for IOUs to meet their compliance obligations would mitigate the risks of unintended consequences of RPS Voluntary Allocations and Market Offers.

7. The record does not establish that IOUs will have excess and/or uneconomic RA or GHG-Free resources.

8. The WG3 Proposal does not consider the potential impact of the new Central Procurement Entities for Local RA in PG&E and SCE's service territories authorized in D.20-06-002.

9. The WG3 Proposal for RA does not mitigate risks of unintended consequences.

Conclusions of Law

1. The Commission should remove the PCIA cap and trigger mechanisms as of the effective date of this decision. SDG&E should leave its 2021 capped PCIA

rates and rate adders in effect through 2021 and implement the removal of the PCIA cap in rates effective January 1, 2022.

2. The Commission should review the WG3 Proposal based on the following criteria:

(a) Solutions should reduce excess and/or uneconomic resources in IOUs' PCIA portfolios. "Excess resources" are defined as resources that are not necessary to meet bundled customers' needs and compliance requirements.

(b) Solutions should be voluntary and/or market-based.

(c) Solutions should be consistent with Commission compliance programs and applicable law and decisions.

(d) Solutions should be tailored to minimize the risk of unintended consequences.

3. Each IOU should address its projected 2021 year-end PCIA cap under-collection account balance in its 2022 ERRA forecast application.

4. The Commission should approve the WG3 Proposal regarding Voluntary Allocations and Market Offers of PCIA-eligible RPS resources to the extent that it is consistent with the Commission's compliance programs and proceedings, as well as tailored to mitigate risks of unintended consequences.

5. The Commission should not adopt the WG3 Proposal regarding mandatory allocations of resources remaining after a Voluntary Allocation and Market Offer of RPS resources.

6. Providing an opportunity for LSEs to receive long-term credit for RPS contracts that have less than 10 years remaining through Voluntary Allocations would violate Public Utilities Code Section 399.13(b).

7. Voluntary Allocations of RPS resources should include the following features:

a) Voluntary Allocations shall comprise a "slice" of an IOU's entire PCIA-eligible RPS portfolio. LSEs may elect to take a short-term allocation, a long-term allocation, or may choose to decline all or a portion of their allocation.

b) LSEs will be offered allocations of the RPS portfolio in proportion to their vintaged, forecasted annual load share. Each election must be made in l0 percent increments of the LSE's forecasted, vintaged annual load share.

c) LSEs electing to accept allocations should be required to pay the IOU the applicable year's MPB for attributes received and may be required to meet certain credit or collateral requirements, netting agreements or other commercial arrangements.

d) Long-term allocations should last through the end of the term of the longest contract in the particular PCIA vintage, with the exclusion of evergreen contracts and utility-owned generation resources. Once accepted, the LSE may not decline its long-term allocation election in future years.

e) An LSE's long-term allocation election should be set at a fixed percentage of its forecasted, vintaged, annual load share. Both the LSE's forecasted vintaged, annual load shares and the RPS energy deliveries will change from year to year based on the updated forecasts of vintaged, annual loads and the actual RPS energy volumes realized in each year of the allocation term.

f) LSEs should be able to resell Voluntary Allocation shares of RPS energy, subject to the same RPS compliance requirements which already apply to IOU sales of RPS in their portfolios today. The RPS proceeding shall establish LSE reporting requirements for the resale of Voluntary Allocations shares.

8. Market Offers of RPS resources should include the following features:

a) The Market Offer should offer for sale all PCIA-eligible RPS energy remaining after a Voluntary Allocation.

b) The Market Offer process should be based upon existing processes, rules, oversight requirements, and reporting requirements for IOU REC solicitations previously approved in the Commission's RPS proceeding.

c) The Market Offer process should include rules for IOU participation in solicitations they administer.

9. Within 90 days of completing an RPS Voluntary Allocation and/or Market Offer, each IOU should file and serve in this proceeding a report on the effectiveness of its RPS Voluntary Allocation, Market Offer, and/or first RPS Requests For Information, as applicable. Each report should include the IOU's calculation of remaining shares, propose whether and when to hold a future RPS Voluntary Allocation and/or Market Offer, and include best practices and lessons learned. These reports should also be served on the service lists of the RPS proceeding and the Integrated Resources Plans proceeding. After the first RPS Voluntary Allocations and Market Offers, the IOUs should host a joint workshop to discuss these reports within 60 days of the date that the last RPS VAMO report was filed. Within 90 days after filing a report on an RPS Voluntary Allocation and/or Market Offer, each IOU should file a Tier 2 advice letter to propose whether and when to hold a future RPS Voluntary Allocation and/or Market Offer.

10. It is reasonable and consistent with existing Commission decisions on renewable energy attributes to preserve the bundled nature of energy and compliance attributes through sales contracts.

11. IOUs should propose standard contracts for conveyance of the following attributes of RPS energy through VAMO processes: RECs; PCL attributes; PCC

status from underlying contracts; and forecasted RPS energy allocations in the IRP process in proportion to the hourly generation from the IOU's vintaged RPS portfolio from which the allocations are sourced.

12. The Commission should incorporate the RPS VAMO into the PCIA ratemaking methodology as follows:

(a) Treat RPS Voluntary Allocations as sales at the applicable year's MPB.

(b) LSE payments for Voluntary Allocations will be recorded in PABA and will offset costs in the PCIA.

(c) IOUs will pay for their Voluntary Allocations as a debit from the ERRA balancing account and a credit to PABA.

(d) Record Market Offer sales revenue in PABA.

13. RPS Voluntary Allocations should be held no more than once an RPS compliance period. After the first RPS VAMO, any LSE may file a Tier 2 advice letter to request an RPS VAMO for an RPS compliance period where no RPS Voluntary Allocation and/or Market Offer has been held in the applicable utility service territory. However, any newly formed LSE may file a Tier 1 advice letter to request a Voluntary Allocation after filing its implementation plan, regardless of whether an RPS VAMO has been held during the applicable RPS compliance period, in the year prior to the first year they serve load.

14. The Commission should review, approve, and monitor the RPS VAMO and RPS RFI activities through the Commission's RPS proceeding and compliance processes.

15. Each IOU should propose 2021 and 2022 RFIs for Contract Assignments and Contract Modifications in the RPS proceeding. Each IOU should confirm Voluntary Allocations and propose Market Offers in their 2022 RPS Plans for deliveries in 2023.

16. Within 90 days of the effective date of this decision, the IOUs should meet and confer with parties to this proceeding and jointly file a Tier 2 advice letter to propose (i) a methodology for calculating potential Voluntary Allocation shares based on vintaged, annual load forecasts, and (ii) a methodology for dividing their RPS portfolios into shares to be allocated. IOUs should host a joint workshop within 14 days of filing the advice letter to discuss the proposed methodologies.

17. It is reasonable to direct each IOU to file a Tier 1 advice letter to establish a memorandum account to track the incremental staffing and systems costs of administering the RPS VAMO so they may seek recovery of these costs through ERRA forecast applications.

18. The Commission should not adopt the WG3 Proposal regarding RA resources.

19. Within 90 days of the effective date of this decision, each IOU should file a Tier 2 advice letter to justify its methodology for determining how much of its PCIA-eligible RA is reserved as part of the IOU's Bundled Portfolio Plan.

20. The Commission should consider in this phase of this proceeding whether GHG-Free resources are under-valued in the PCIA methodology, and if so, the appropriate way to address this problem.

21. The Commission should authorize SCE to continue to apply the approach to GHG-Free resources approved in Resolution E-5095 through December 31, 2023.

22. The Commission should not adopt POC's proposal for shareholder responsibility for portfolio optimization.

23. The motions filed by POC and UCAN requesting evidentiary hearings should be denied.

O R D E R

IT IS ORDERED that:

1. The Power Charge Indifference Adjustment (PCIA) cap and trigger mechanisms are removed as of the effective date of this decision. SDG&E shall leave its 2021 capped PCIA rates and rate adders in effect through 2021 and implement the removal of the PCIA cap in rates effective January 1, 2022. Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall each address its projected 2021 year-end PCIA cap under-collection account balance in its 2022 Energy Resource Recovery Account forecast application.

2. Voluntary Allocations of Renewables Portfolio Standard (RPS) resources shall include the following features:

   (a) Voluntary Allocations shall comprise a "slice" of an IOU's entire PCIA-eligible RPS portfolio. Load serving entities (LSEs) may elect to take a short-term allocation, a long-term allocation, or may choose to decline all or a portion of their allocation.

   (b) LSEs will be offered allocations of the RPS portfolio in proportion to their vintaged, forecasted annual load share. Each election shall be made in l0 percent increments of the LSE's vintaged, forecasted annual load share.

   (c) LSEs electing to accept allocations shall be required to pay the applicable year's market price benchmark (MPB) for attributes received and may be required to meet certain credit or collateral requirements, netting agreements or other commercial arrangements.

   (d) Long-term allocations shall last through the end of the term of the longest contract in the particular Power Charge Indifference Adjustment vintage, with the exclusion of evergreen contracts and utility-owned

generation resources. Once accepted, the LSE may not decline its long-term allocation election in future years.

(e) An LSE's long-term allocation election shall be set at a fixed percentage of its forecasted, vintaged, annual load share. Both the LSE's forecasted vintaged, annual load shares and the RPS energy deliveries will change from year to year based on the updated forecasts of vintaged, annual loads and the actual RPS energy volumes realized in each year of the allocation term.

(f) LSEs shall be able to resell Voluntary Allocation shares of RPS energy, subject to the same RPS compliance requirements which already apply to IOU sales of RPS in their portfolios today. The RPS proceeding shall establish LSE reporting requirements for the resale of Voluntary Allocations shares.

3. Market Offers of Renewables Portfolio Standard (RPS) resources shall include the following features:

(a) The Market Offer shall offer for sale all Power Charge Indifference Adjustment -eligible RPS energy remaining after a Voluntary Allocation.

(b) The Market Offer process shall be based upon existing processes, rules, oversight requirements, and reporting requirements for REC solicitations previously approved in the Commission's RPS proceeding.

(c) The Market Offer process should include rules for utility participation in solicitations they administer.

4. Within 90 days of completing a Renewables Portfolio Standard (RPS) Voluntary Allocation and/or Market Offer, Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SCE) shall each file and serve in this proceeding a report on the effectiveness of its RPS Voluntary Allocation, Market Offer, and/or first RPS Requests For Information, as applicable. Each report shall include the investor-

owned utility's calculation of remaining shares, propose whether and when to hold a future RPS Voluntary Allocation and/or Market Offer, and include best practices and lessons learned. These reports shall also be served on the service lists of the RPS proceeding and the Integrated Resources Plans proceeding. After the first RPS Voluntary Allocations and Market Offers, PG&E, SDG&E and SCE shall host a joint workshop to discuss these reports within 60 days of the date that the last RPS VAMO report was filed. Within 90 days after filing a report on an RPS Voluntary Allocation and/or Market Offer, PG&E, SDG&E and SCE shall each file a Tier 2 advice letter to propose whether and when to hold a future RPS Voluntary Allocation and/or Market Offer.

5. The PCIA ratemaking methodology is modified to incorporate RPS Voluntary Allocation and Market Offer transactions as follows:

(g) Treat Renewables Portfolio Standard Voluntary Allocations as sales at the applicable year's MPB.

(h) LSE payments for Voluntary Allocations will be recorded in the Portfolio Allocation Balancing Account (PABA) and will offset costs in the PCIA.

(i) Investor-owned utilities will pay for their Voluntary Allocations as a debit from the Energy Resource Recovery Account balancing account and a credit to PABA.

(j) Record Market Offer sales revenue in PABA.

6. Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall each propose a Request for Information for Contract Assignments and Contract Modifications in the Renewables Portfolio Standard proceeding in 2021 and 2022, and shall each confirm Voluntary Allocations and propose Market Offers in their 2022 RPS

Plans for deliveries in 2023. The Renewables Portfolio Standard proceeding shall provide guidance on the timing and process for these filings.

7. Within 90 days of the effective date of this decision, Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SCE) shall meet and confer with parties to this proceeding and jointly file a Tier 2 advice letter to propose (i) a methodology for calculating potential Voluntary Allocation shares based on vintaged, annual load forecasts, and (ii) a methodology for dividing their RPS portfolios into shares to be allocated. PG&E, SDG&E and SCE must host a joint workshop within 14 days of filing the advice letter to discuss the proposed methodologies.

8. Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall each file a Tier 1 advice letter to establish a memorandum account to track the incremental staffing and systems costs of administering the RPS Voluntary Allocation and Market Offer and the utilities may seek recovery of these costs in their individual ERRA forecast applications.

9. After the first RPS VAMO, any load serving entity may file a Tier 2 advice letter to request an RPS VAMO for an RPS compliance period where no RPS Voluntary Allocation and/or Market Offer has been held in the applicable utility service territory.

10. Any newly formed load serving entity may file a Tier 1 advice letter to request a Voluntary Allocation after filing its implementation plan, regardless of whether an RPS VAMO has been held during the applicable RPS compliance period, in the year prior to the first year they serve load. The LSE should serve the advice letter to the service lists of this proceeding, the RPS proceeding, and the integrated resource planning proceeding. Within 30 days of service of an

LSE's request, the investor-owned utility shall file a Tier 2 advice letter to propose the calculation of the Voluntary Allocation shares.

11. Within 90 days of the effective date of this decision, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall each file a Tier 2 advice letter to justify its methodology for determining how much of its PCIA-eligible Resource Adequacy is reserved as part of its Bundled Portfolio Plan.

12. Southern California Edison Company is authorized to continue to apply the approach to greenhouse gas-free resources approved in Resolution E-5095 through December 31, 2023.

13. The motions of Protect Our Communities and the Utility Consumers' Action Network requesting evidentiary hearings are denied.

14. Rulemaking 17-06-026 remains open.

This order is effective today.

Dated May 20, 2021, at San Francisco, California.

MARYBEL BATJER
President
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
GENEVIEVE SHIROMA
DARCIE HOUCK
Commissioners