PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Agenda ID#21227

ENERGY DIVISION **RESOLUTION E-5240**

January 12, 2023

R E S O L U T I O N

Resolution E-5240. Southern California Edison's ("SCE's") Plan to Implement the Modified Cost Allocation Mechanism Established in D.19-11-016 and D. 21-06-035.

PROPOSED OUTCOME:

- Pursuant to Decision (D.) 22-05-015, this resolution approves SCE's plan for recovery of costs associated with Modified Cost Allocation Mechanism (MCAM) procurement.

SAFETY CONSIDERATIONS:

- There are no safety considerations associated with this resolution.

ESTIMATED COST:

- SCE will incur costs between $500,000 and $1 million to update its billing systems to implement the MCAM rate as a non-bypassable charge. No additional costs will be incurred, as this advice letter addresses only the cost recovery mechanism for cost approved in other decisions and advice letter filings.

By Advice Letter 4831-E, filed on July 18, 2022, as supplemented in 4831-E-A, filed on August 16, 2022.

SUMMARY

This resolution approves Southern California Edison ("SCE") cost-recovery proposal to implement the modified cost recovery mechanism ("MCAM"). The MCAM will be used by SCE for procurement conducted on behalf of Load Serving Entities ("LSEs") that opted out of procurement required by Decision (D.) 19-11-016 or that fail to meet

their procurement requirements under D.19-11-016, D.21-06-035, or future Integrated Resource Planning (IRP) procurement orders.

BACKGROUND

To address potential reliability issues, in D.19-11-016 the CPUC determined that LSEs under its jurisdiction would be required to procure 3,300 megawatts (MW) of incremental system resource adequacy (RA) capacity, with the requirement that the capacity come online between 2021 and 2023. D.19-11-016 also required that the Investor Owned Utilities (IOUs) procure additional generation capacity on behalf of other LSEs in their service territories that either elected to opt-out of self-procurement ("opt out procurement") or failed to acquire their share of the required capacity after electing self-procurement ("backstop procurement").

In D.21-06-035, the CPUC required LSEs under its jurisdiction to procure and bring online an additional 11,500 MW of additional Net Qualifying Capacity ("NQC") between 2023 and 2026, with a possible extension from 2026 to 2028 for "long lead-time" resources. Unlike D.19-11-016, D.21-06-035 did not allow LSEs to opt-out of self-procurement. However, D.21-06-035 requires the IOUs to backstop any LSEs that fail to procure and bring-online their required share of reliability resources.

D.22-05-015 ("the MCAM Decision") addresses cost-recovery for the opt-out and backstop procurement associated with D.19-11-016 and D.21-06-035 procurement and sets out precedent for any future backstop procurement authorized within the IRP framework. It also addresses several other cost-recovery situations such as Power Charge Indifference Adjustment (PCIA) treatment for customers who have left IOU service since November 2019, and cost-recovery of procurement on behalf of opt-out LSEs that have since ceased serving load in California through the normal Cost Allocation Mechanism (CAM).[1] The MCAM decision also affirms "that to meet the statutory requirements against cost shifting, a non-bypassable customer charge is required as a billing mechanism for recovering the above market procurement costs incurred by the IOUs on behalf of other LSEs pursuant to D.19-11-016 and D.21-06-035."[2]

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[1] D.06-07-030.
[2] D.22-05-015 at FOF 12 & 13.

In total, eleven LSEs, representing approximately 113 MW of the total 3,300 MW required, opted out of self-procuring their share of the D.19-11-016 requirements. SCE's portion of the opt-out procurement allowed by D.19-11-016 was 56.6 MW – including 0.8 MW belonging to LSEs that no longer serve load and have left the market – which the Commission added to SCE's own procurement obligation of 1,184.7 MW.[3]

To date, no LSE has required backstop procurement. However, the MCAM mechanism adopted in D.22-05-015 sets precedent for any future backstop procurement authorized in the IRP proceeding in the future.

D.22-05-015 authorizes the IOUs to file a Tier 2 advice letter to implement the various aspects of the MCAM in accordance with its directives.

SUMMARY OF ADVICE LETTERS 4831-E AND 4831-E-A

SCE filed AL 4831-E on July 18, 2022. On August 16, 2022, SCE filed an amendment, AL 4831-E-A, which corrects certain errors regarding illustrative rates that SCE had provided in Table III of 4831-E. AL 4831-E proposes the following:

Cost Recovery: AL 4831-E describes how SCE will recover procurement costs from bundled customers, Opt-Out LSE customers, non-operational Opt-Out LSE customers, bundled customers who departed to non-IOU, non-Opt Out LSEs between November 2019 and May 2022, and Backstop/Deficient LSE customers.

1. **Bundled Customers:** SCE states that as of the end of June 2022, it had recorded a total of $20,325,876 in the System Reliability Procurement Memorandum Account (SRPMA) for future recovery, of which bundled customers' share was $19,399,070.[4]
2. **Opt-Out LSE Customers:** SCE is establishing a new MCAM Balancing Account (MCAMBA) to recover Opt-Out LSE customers' net costs resulting from D.19-11-016 procurement. SCE will transfer $913,707 to the MCAMBA as well as 4.50% of any additional net costs recorded in the SRPMA until this resolution is approved. Upon approval of this resolution, SCE will begin recording Opt-Out LSE customers' share of the net costs associated with D.19-11-016 procurement directly in the MCAMBA.[5]

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[3] D.19-11-016, p.41 lists the procurement amounts assigned to each LSE. The Opt-out amounts for which the IOUs were responsible were published in the Administrate Law Judge's Ruling Finalizing Load Forecasts and Greenhouse Gas Benchmarks for Individual 2020 Integrated Resource Plan Filings and Assigning Procurement Obligations Pursuant to Decision 19-11-016 (April 15, 2020), p.11.

[4] AL 4831-E, pp. 3-4

[5] Ibid., p. 4.

3. **Non-Operational Opt-Out LSE Customers:** Pursuant to D.22-05-015, Conclusion of Law (COL) 16,[6] the cost and benefits associated with procurement on behalf of customers of an Opt-Out LSE that has gone bankrupt or otherwise left the California market should be assigned to the CAM. SCE will transfer $13,100 (0.06 percent) of the $20,325,876 recorded in SRPMA through June 2022 to the New System Generation Balancing Account (NSGBA), to be recovered via NSG (New System Generation) rates as part of the implementation of SCE's 2023 ERRA Forecast rate.[7]
4. **2019 Bundled Service Customers who Departed to Non-IOU, Non Opt-Out LSEs between November 2019 and May 2022:** Ordering Paragraph 4 of the MCAM Decision allowed LSEs that had received load from the IOUs after 2019, a one-time option to purchase system resource adequacy capacity from the relevant IOU at the Market Price Benchmark (MPB), with any above-market costs that remain being assigned to the 2019 vintage PCIA for recovery.[8] SCE states that it intends to proactively engage LSEs that are eligible for this option via email to offer the LSE the option to negotiate and enter into an agreement with SCE to purchase an amount of system RA capacity equal to the departed bundled load at the system RA MPB issued annually in accordance with D.19-10-001. SCE will submit any such agreements to the Commission via Tier 1 AL by October 1, 2022.[9]
5. **Backstop/Deficient LSE Customers:** SCE has not yet conducted any backstop procurement. However, SCE is including backstop procurement provisions in its new MCAMBA.

MCAM Rate Design

SCE designed a single set of customer class-differentiated MCAM rates that will apply to all customers of Opt-Out LSEs. These are different from the MCAM rates that would apply to customers of each Deficient LSE because those MCAM rates would be based on a different amount of underlying net costs.

Conclusion of Law 8 in the MCAM Decision requires that "[t]he revenue allocation used to design MCAM rates should be based on a 12-month coincident peak, which is the same mechanism used for CAM."[10] A 12-month coincident peak ("12-CP") revenue allocation is designed to allocate costs based on customers' contributions to each of the

[6] D.22-05-015, COL 16.
[7] AL 4831-E, p. 4-5
[8] D.22-05-015, OP 5.
[9] SCE filed AL 4872-E on October 6, 2022, and Supplemental AL 4872-E-A on October 13, 2022 addressing RA Agreements pursuant to D.22-05-015.
[10] D. 22-05-015, COL 8.

12 monthly coincident peaks in a year. When designing the MCAM rates, SCE realized that the customer make-up of the Opt-Out LSEs, namely the limited number of Domestic rate (residential) customers, would result in a disproportionate allocation of applicable costs to the impacted residential customers if SCE were to use its systemwide 12-CP demand basis for revenue allocation. To avoid this unintended and unfair outcome, SCE instead created a 12-CP revenue allocation that is specific to the customers of the Opt-Out LSEs. This results in a more equitable distribution between customer rate classes as the non-residential customers represent over 99 percent of the coincident peak demand for those Opt-Out LSEs.

SCE provides an illustrative example of the MCAM rates under the proposed 12-CP revenue allocation mechanism.[11] Based on this example, a residential customer with an estimated monthly usage of 500 kWh could expect an $0.18 increase to their monthly bill, or $2.16 annually. Similarly, a TOU-GS-1 non-residential customer with an estimated monthly usage of 850 kWh could expect a $0.19 increase to their monthly bill, or $2.28 annually.

Timing and Costs for Billing System Implementation of the MCAM Non-Bypassable Charge:

Assuming it is feasible to include the MCAM project in its 2023 workflow, SCE proposes a January 1, 2024, customer billing start date. SCE is limited in its ability to provide a detailed budget breakdown. SCE has instead included a high-level estimate for the expected implementation costs, anticipated to range between $500,000 to $1 million. These costs may be subject to additional changes depending on the actual contract with the third-party vendor and any additional requirements or complexity that may be included with the ultimate approval of this Resolution.

Customer Bill Presentation

SCE will implement the MCAM non-bypassable charge as a separate line item within the delivery charges section of an applicable customer's bill, where it will be shown separately from generation, CAM, and PCIA charges.

Establishment of the MCAMBA and Recovery of Historical Cost and Costs Incurred for Billing System Implementation

In accordance with OPs 5 and 6 of the MCAM Decision, SCE is establishing a new balancing account, the MCAMBA, with multiple subaccounts for the recovery of the net costs, both procurement-related and administrative costs, from the customers of

[11] AL 4831-E, Table II: 12-CP Revenue Allocation, p. 7.

Opt-Out LSEs and Deficient LSEs. The MCAMBA includes provisions for additional subaccounts to record any net costs associated with any Deficient LSE that requires SCE to conduct backstop procurement associated with D.19-11-016, D.21-06-035, or any future IRP procurement requirements.

SCE will recover all historical costs recorded in the SRPMA/MCAMBA over a 36-month amortization period concurrent with the implementation of the MCAM charge in SCE's billing system (currently estimated to be January 1, 2024). In addition, SCE plans to amortize billing system implementation costs over that same 36-month period, also beginning concurrently with the inclusion of the MCAM charge on applicable customers' bills.

Other Implementation Details – Excess Procurement

SCE has procured approximately 26 MW in excess of its total D.19-11-016 procurement requirement of 1,241.3 MW. SCE intends to use any excess D.19-11-016 procurement toward its mid-term reliability procurement requirements pursuant to D.21-06-035. Accordingly, SCE will limit the procurement costs associated with a maximum of 55.8 MW allocated to Opt-Out LSEs and the MCAMBA and 0.8 MW allocated to Non-Operational Opt-Out LSEs and the NSGBA and will not apply the five percent buffer that would otherwise have allowed SCE to recover these costs from these customers.

NOTICE

Notice of AL 4831-E and 4832-E-A was made by publication in the Commission's Daily Calendar. SCE states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS AND REPLIES

On August 8, 2022, the Alliance for Retail Energy Markets (AReM) and Keyes and Fox, on behalf of SoCal CCA's, filed separate timely protests to Advice Letter AL 4831-E. AReM's protest also addressed advice letters filed in compliance with D.22-05-015 by the Pacific Gas and Electric Company (PG&E ALs 6654-E and 6654-E-A) and by the San Diego Gas and Electric Company (SDG&E AL 4085-E).

Keyes & Fox LLP filed its protest to AL 4831-E on behalf of the Clean Power Alliance of Southern California, California Choice Energy Authority, and Central Coast Community Energy (collectively, "the SoCal CCAs").

SCE timely filed a reply to protests on August 15, 2022.

Energy Division has reviewed Advice Letters AL 4831-E and 4831-E-A as well as the associated protests and reply to protests. Here we describe the issues in the protests that pertain to AL 4831-E, as well as SCE's response to those protests.

Issue 1: D.22-05-015 Requires LSE-Specific MCAM Charges

AReM's Protest

AReM requests that the Commission reject the MCAM AL filings of SCE and San Diego Gas & Electric ("SDG&E") and order all three IOUs to create LSE-specific MCAM charges for Opt-Out LSEs. AReM states that SCE and SDG&E's proposal, "clearly violates the plain language in the D.22-05-015 and will result in the very harm to customers of the Opt Out entities that D.22-05-015 intends to avoid."[12]

As evidence that the Commission requires LSE-specific MCAM charges, AReM cites the MCAM Decision, which discusses a proposal made by SCE and Pacific Gas & Electric ("PG&E") in comments on the proposed MCAM decision ("PD") : "SCE and PG&E expressed concern that the PD 'could be interpreted as requiring [load serving entity ("LSE")]-specific rates' for LSEs that opted to have the IOUs procure power on their behalf to meet the procurement requirements specified in D.19-11-016 ("Opt-Out LSEs")."[13] AReM contends that SCE and PG&E were seeking clarification that it was the Commission's intention to "pool all Opt-Out LSE cost and benefits for revenue allocation purposes rather than developing LSE-specific rates."[14] AReM notes that the Commission rejected PG&E and SCE's proposal and D.22-05-015, which states, "we will not adopt this suggestion of PG&E and SCE… [T]his means that there will be LSE-specific rates for MCAM,"[15] as proof that it was the Commission's intention that IOUs recover costs through LSE-specific rates.

In addition, AReM argues that it is appropriate that the Commission reject a single rate for all MCAM customers because only LSE-specific rates can "ensure that load migration by the customers of one LSE does not impact customers of another LSE."[16] AReM contends that because individual customers will not be tracked for MCAM purposes, with a single MCAM rate, load migration at one Opt-Out LSE will impact the rates paid by all other Opt-Out LSEs. AReM explains that if customers of an Opt-Out LSE depart for bundled service or for service by an LSE that did not opt-out, the total

[12] AReM Protest, p. 2.
[13] D.22-05-015, p. 58, citing PG&E and SCE's Opening Comments on Proposed Decision on Modified Cost Allocation Mechanism for Opt-Out and Backstop Procurement Obligations, April 18, 2022, pp. 11-12.
[14] IBID, p. 12, cited on page 2 of AReM's August 8, 2022, Protest
[15] D.22-05-015, p. 58
[16] AReM's protest, p.2

procurement dollars to be recovered from the Opt-Out pool will be divided by a smaller customer base, leading to higher rates. AReM argues that such an occurrence would, "[conflict] with cost causation principles that mandate customer rates should not vary due to load migration by other customers."[17] AReM concludes that, "the IOUs should be required to calculate LSE-specific MCAM charges which recover costs of the capacity procured for that specific Opt-Out LSE and that LSE's current customer base."[18]

SCE's Response to Protest

In response, SCE argues that AReM's recommendation directly contradicts OP 5 of the Decision which orders that, "[f]or customers of load serving entities (LSEs) that opted out of self- providing capacity required by Decision 19-11-016, the opt-out costs and offsetting benefits shall be aggregated by each investor-owned utility into a single bucket for procurement and a single bucket for administrative costs."[19] SCE also quotes Finding of Fact (FOF) 20, which states (emphasis added by SCE) that: "[t]he applicable costs and offsetting benefits of opt-out and backstop procurement conducted under the MCAM should be allocated based on the load share *for all Opt-Out or Deficient LSEs, as applicable,* as specified in Ordering Paragraph 3 of D.19-11-016 or Ordering Paragraph 5 of D.21-06-035, as applicable."[20]

SCE also claims that AReM has misinterpreted the Commission's decision and that taken in the context, the decision language cited by AReM ends with a qualifier, which adds: "depending on whether the LSE opted out or was deficient, and when."[21] SCE interprets this language in the body of D.22-05-015 to require LSE-specific rates for MCAM should a deficient LSE require SCE to backstop its procurement. SCE argues that the specific language in OP 5 reinforces this interpretation.

Issue 2: MCAM Rate Transparency

AReM's Protest

In its protest, AReM requests that "[i]f the IOUs use the ERRA proceedings to implement MCAM charges, AReM recommends the Commission order the IOUs to provide a publicly available forecast of the MCAM charges as part of their ERRA Applications to enhance market transparency."[22]

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[17] Ibid., p. 3.
[18]Ibid, p. 3
[19] D.22-05-015, OP 5, quoted in SCE Reply to Protests, p. 3. (Emphasis added by SCE).
[20] D.22-05-015, Finding of Fact (FOF) 20, quoted in SCE Reply to Protests, p. 3. (Emphasis added by SCE).
[21] D.22-05-015, p.58 cited in SCE Reply Comments, p. 3.
[22] AReM protest of MCAM Advice Letters, p. 5.

SCE's Response:

SCE agrees with AReM's request that the transparency of any future MCAM rates should be put on par with other rates adopted in the ERRA Forecast proceeding. SCE explains that it included illustrative rates in AL 4831-E because the actual MCAM rates likely will not be implemented until 2024 to account for the time necessary to modify SCE's billing system.

Issue 3: SCE's Proposed MCAM Tariff Does Not Address Accounting Treatment for Retained RA

SoCal CCA's Protest

Keyes & Fox, LLP, on behalf of SoCal CCA's, argues that SCE's Advice Letter only explicitly addresses the cost side of transferring bundled customers' share of MCAM procurement to PABA and overlooks the accounting of the RA value. They point out that PG&E proposes to categorize the portion of the MCAM contract costs associated with PG&E's bundled procurement obligation (93.7%) as PCIA-eligible resource costs and record it to the 2019 and the 2019 vintage in PABA. However, PG&E goes on to state it will record a proportional share of the value of RA attributes retained for bundled customer compliance as a credit entry to the 2019 vintage subaccount, as it would for any other 2019 PCIA-eligible resource. The net above market costs for the allocated portion of the MCAM contracts would then be included in vintage PCIA rates for customers departing 2019 or after.

Keyes & Fox argue that, in line with PG&E's proposal, SCE should also record a proportional share of the value of RA and RPS attributes retained for bundled customer compliance as a credit entry to the 2019 and 2021 vintage subaccounts, as it would for any other 2019 and 2021 PCIA-eligible resource.

SCE's Response to Protest

SCE responds that it intends to follow the framework associated with Actual Retained RA and Actual Retained Renewables Portfolio Standard (RPS) and crediting as adopted in Rulemaking (R.) 17-06-026, which is the proceeding to review, revise, and consider alternatives to the PCIA. SCE states that its Preliminary Statement Part ZZ, ERRA, already contains specific language defining Actual Retained RA as "[c]osts paid for by bundled service customers for the actual retained RA from the PABA portfolio of generation resources (Actual Retained RA Value). The Actual Retained RA Value will be a debit entry in ERRA and will correspond directly with a credit entry in PABA for the same amount."[23] SCE's Preliminary Statement Part WW, Portfolio Allocation Balancing Account (PABA), contains similar language.

SCE states that since the clarification requested by the SoCal CCAs is already included in SCE's applicable preliminary statements, it believes that no further modifications are necessary to Advice 4831-E and that the debiting and crediting requested by SoCal CCAs will be effectuated via SCE's existing ERRA Forecast Application and accounting mechanisms.

DISCUSSION

We discuss and resolve each protest issue in turn below, as it pertains to AL 4831-E and 4831-E-A.

Issue 1: D.22-05-015 Requires LSE-Specific Charges

OP 5 establishes the ratemaking treatment for LSEs that opted out of procurement:

> "For customers of load serving entities (LSEs) that opted out of self-providing capacity required by Decision 19-11-016, the opt-out costs and offsetting benefits shall be aggregated by each investor-owned utility into a single bucket for procurement and a single bucket for administrative costs. All of the procurement-related costs, including incremental administrative costs, shall be recorded as debit entries in a balancing account or sub-account specific to the Modified Cost Allocation Mechanism. These costs shall be offset by a credit entry equal to any net energy or other revenues received from the contracts. The remaining net capacity costs shall be recovered from the customers of the LSEs that opted out via a non-bypassable charge."

OP 5 is clear that a single bucket for procurement costs shall be established for opt-out costs and makes no provision for these costs to be disaggregated by LSE. In contrast, the decision specifically establishes a separate pool of costs for backstop procurement in OP 6.

The discussion that AReM refers to in the MCAM Decision was responding to a proposal by PG&E and SCE to pool the opt-out with backstop procurement costs together so that LSE-specific rates are never required to flow through the rate classes in the IOU's billing systems. The Commission rejects the proposal because it "creates equal complexity, but may be less fair to the underlying customers, since their costs will be averaged and dependent on other Deficient LSE compliance amounts and costs."[24] In

[23] SCE Response to Protest, p. 2
[24] D.22-05-015, p. 58 (top)

this context, the statement that AReM refers to that "there will be LSE-specific rates for MCAM, *depending on whether the LSE opted out or was deficient, and when* [emphasis added]," is not establishing an LSE-specific requirement, but is acknowledging that requiring a separate bucket for backstop procurement will lead to LSE-specific rates for those subsequent procurements.

Issue 2: MCAM Rate Transparency

We will not require SCE to provide further details regarding ratemaking treatment at this time and will leave these implementation details to the ERRA proceedings.

Issue 3: SCE's Proposed MCAM Tariff Does Not Address

Accounting Treatment for Retained RA

SCE is correct that the debiting and crediting of retained RA should be effectuated via SCE's ERRA Forecast Application process, as soon as is practicable, and according to existing PCIA counting rules. As SCE's Preliminary Statements already incorporate existing PCIA counting rules this has already occurred, no further action need be taken by SCE regarding this issue pursuant to this resolution.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review. Please note that comments are due 20 days from the mailing date of this resolution. Section 311(g)(2) provides that this 30-day review period and 20-day comment period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day review and 20-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. D.22-05-012, Ordering Paragraph 5 provides that a single bucket for procurement costs shall be established for opt-out costs and makes no provision for these costs to be disaggregated by load serving entity.
2. D.22-05-012, Ordering Paragraph 6 specifically establishes a separate pool of costs for backstop procurement.

3. The IOUs' ERRA Forecast Applications are an appropriate venue to introduce additional details regarding MCAM cost-recovery.
4. SCE has already included details regarding its treatment of resource adequacy capacity resulting from its MCAM procurement on behalf of bundled customers in its 2023 ERRA Forecast Application.

THEREFORE, IT IS ORDERED THAT:

1. SCE is permitted to recover Opt-Out procurement and administrative costs through a single MCAM rate for all customers of Opt-Out load serving entities.
2. SCE must provide publicly available MCAM rates in its 2024 ERRA Forecast Application, or whenever it begins to amortize MCAM Opt-Out procurement costs.
3. All other provisions in AL 4831-E and 4831-E-A are hereby approved.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on January 12, 2023; the following Commissioners voting favorably thereon:

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Rachel Peterson
Executive Director