California Alliance for Community Energy
www.cacommunityenergy.org

March 2, 2016

To: California Public Utilities Commission

President Michael Picker
Commissioner Mike Florio
Commissioner Carla Peterman
Commissioner Catherine J.K. Sandoval
Commissioner Liane M. Randolph

505 Van Ness Avenue
San Francisco, CA 94102

From: California Alliance for Community Energy

Re: Power Charge Indifference Adjustment (PCIA)

I'm writing on behalf of the California Alliance for Community Energy, a coalition of organizations, initiatives, and individuals that supports and defends Community Choice energy programs in California.

The Alliance takes note of the negative impact of the CPUC's recent decision to allow PG&E to nearly double the Power Charge Indifference Adjustment (PCIA) imposed on Community Choice customers. For the reasons set forth below, we call for the phasing out of the PCIA, which undermines the viability of Community Choice programs and their ability to deliver environmental and economic benefits to the communities they serve.

1. The electricity market has undergone significant changes that render the PCIA counterproductive.

The statute that authorizes the PCIA (Public Utilities Code 366.2(f)(2)) was enacted in 2002 pursuant to the passage of AB 117 which authorized the formation of Community Choice Aggregation programs.

The law assumed that, even with the formation of Community Choice programs, the monopoly utilities would continue to be the providers of last resort and responsible for system reliability.

On this basis, the monopoly utilities were to be afforded cost recovery for long-term energy contracts, including long-term renewable energy contracts, as demanded by the State RPS laws

Since the passage of AB 117, however, a number of developments render this logic obsolete:

- The need of our communities to address the impacts of climate change with more resilient infrastructure and economic stability requires the state to transition to a decentralized renewable energy model. The centralized utility procurement model, and the monopoly utilities themselves, have become the main obstacle to the development of this new energy model in California. They have sought to promote natural gas peaker plants, undercut net energy metering and virtual net metering, constrain state feed-in tariff programs, and, most notably, undermine Community Choice energy programs.

The financial interests of the monopoly utilities, based on an outmoded centralized energy model, conflict with the public's interest to address the growing impacts of climate change; under such conditions, the monopoly utilities cannot continue to be looked to as providers of last resort nor guarantors of reliable system service.

- Community Choice is increasingly seen as a preferred electricity procurement model by communities across the state. Today, four Community Choice programs are in operation, and dozens more are in the pipeline. By our estimate, two-thirds of California's population will be served by Community Choice programs within the next 4-5 years.

  Hence, regulatory policy needs to recognize this new model, making sure that public interests are being served, especially when in conflict with the interests of monopoly utility shareholders. Policies like the PCIA, which undermine the establishment and viability of Community Choice programs, need to be sunseted and replaced by alternative approaches to maintaining system reliability, especially under conditions of diversified procurement, such as represented by the proliferation of Community Choice programs.

- Under the conditions of departing load represented by the projected expansion of Community Choice programs and the continued decline in the cost of renewable energy contracts, the PCIA charge will escalate substantially, serving mainly to protect the monopoly utilities' financial interests.

  Meanwhile the shrinking portion of customer load provided by the monopoly utilities and their shrinking procurement will make the role of provider of last resort and guarantor of system reliability one which will be difficult to fulfill. Unstable, unpredictable, and rising PCIA charges will likewise create a burden on Community Choice programs, making it difficult for them to provide the system reliability needed for their customers.

Hence, the PCIA approach to cost recovery for the monopoly utilities serves to undermine the system reliability that PCIA was originally meant to promote. Instead, the PCIA has simply become a lifeline for the outmoded centralized monopoly utility model.

2. The recovery costs of stranded contracts, as represented by PCIA, have been increasing rather than decreasing.

The cost-shifting approach of the PCIA (which was intended to protect monopoly utility ratepayers from bearing the cost of stranded contracts) implies that PCIA fees would decrease over time and eventually disappear as monopoly utility procurement contracts expire, but the opposite has occurred.

Public Utilities Code Sec. 366.2(f)(2) authorizes the California Public Utilities Commission (CPUC) to determine the amount that former monopoly utility ratepayers must pay to reimburse the monopoly utilities for "estimated net *unavoidable* electricity purchase contract costs *attributable to the customer*, as determined by the commission, for the period commencing with the customer's purchases of electricity from the community choice aggregator, through the expiration of all then existing electricity purchase contracts entered into by the electrical corporation [emphasis added]."

To date, the CPUC has deemed *all* contracts entered into by the monopoly utilities both "unavoidable" and "attributable" to departing Community Choice customers, and the amount of the PCIA has risen steadily since the launch of Marin Clean Energy (MCE) and dramatically spiked this year.

PG&E recently disclosed to MCE its intent to continue levying the PCIA on current MCE customers until 2043. It is unlikely that the California legislature, in providing for monopoly utility cost recovery due to Community Choice departing load, intended to allow the monopoly utilities to continue procuring for departing customers for twenty-eight years.

3. PCIA cost-shifting creates a perverse incentive for monopoly utilities to game the system to undercut competition from Community Choice.

The PCIA creates a perverse incentive for monopoly utilities to enter excessive, costly, long term electricity contracts rather than forecast more accurately so as to minimize potential losses. In this way, PCIA cost-shifting creates an inherent interest for monopoly utilities to undermine Community Choice competition through over-procurement, much in the way "too big to fail" banks engage in high-risk transactions with assurance of taxpayer bailouts when the value of their toxic assets collapses.

PCIA cost-shifting contravenes Public Utilities Code Sec. 330, which mandates open competition and bars actions that would grant unfair market power to any competitor. Sec. 330 entrusts the CPUC to "ensure that no participant in these new market institutions has the ability to exercise significant market power so that operation of the new market institutions would be distorted."

PCIA charges are clearly distorting operation of Community Choice programs. In order to compete with the monopoly utilities, Community Choice programs have little choice but to offset the PCIA charge on their customers' bills. This cost-shifting, undermines the financial viability of Community Choice programs and deprives them of significant revenue that could otherwise be used to provide customers with demand reduction and renewable energy products and services.

In addition, the specter of a prolonged and unpredictable PCIA with no end in sight creates a high degree of uncertainty that undermines the Community Choice program's ability to engage in long term planning.

Conclusion:

Ongoing imposition of the PCIA will obstruct California's migration to a more decentralized and reliable renewable energy model. Ongoing PCIA cost-shifting fundamentally undermines the purpose and viability of Community Choice programs in ways that were not foreseen when AB 117 was passed. A new approach to cost recovery for stranded contracts is needed, one which recognizes the value of Community Choice programs, engages them in addressing system reliability, and helps prepare them to be (collectively or individually) providers of last resort.

Accordingly, during this transition, the state's monopoly utilities should be put on notice that the PCIA will sunset within three years of the launch of a Community Choice program. This time horizon affords monopoly utilities ample opportunity to recover costs of contracts procured for departing customers while protecting Community Choice customers and programs from an ongoing financial burden. It should also serve to curtail the impact of monopoly utility procurement practices that directly undermine competition from Community Choice programs.

In the meantime, it is incumbent on the CPUC to ensure that PCIA determinations are made with the utmost degree of transparency. It is the responsibility of the state regulatory agency to make all of the documents relevant to monopoly utilities' stranded cost claims publicly available and to rigorously question and challenge the monopoly utilities' procurement practices and accounting methodologies.

Sincerely,

Al Weinrub

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