Position Paper: Long Past the Time to Sunset the PCIA

The Power Charge Indifference Adjustment (PCIA), an ongoing fee imposed on Community Choice customers, even if well-intended originally, has been turned into a weapon against California’s Community Choice energy programs. Gamed by the state’s three investor-owned utilities (Pacific Gas & Electric, Southern California Edison, and San Diego Gas & Electric)—with the active collusion of the California Public Utilities Commission (CPUC)—the PCIA is now increasingly undermining the viability of Community Choice energy programs and their ability to provide important community benefits. These programs, which now serve over 11 million customers, represent California's best hope for addressing the state's climate crisis.

The time has come for the California legislature to take this weapon out of the CPUC’s hands—to sunset the PCIA as soon as possible. This paper explains why.

Executive Summary

California’s 21 Community Choice energy programs provide important economic and environmental benefits to their communities and are leading the state in meeting its climate goals. These programs currently provide an average of 82% carbon-free electricity as their base products and it is projected that they will be responsible for at least 90% of California’s new renewable energy supply over the next decade.

Yet Community Choice is under attack by the CPUC—as it throws a lifeline to derelict and, in some cases, criminal private utility corporations. These regulators have passed billions of dollars in wildfire damages onto California ratepayers. At the same time, the CPUC has escalated its attacks on the public Community Choice energy service providers that stand as our best alternative to the faltering monopoly utility model.

The CPUC’s biggest weapon is the PCIA, an ongoing fee levied by the CPUC on Community Choice customers. As Community Choice programs have grown in number and increasingly demonstrated their value, the CPUC has increasingly colluded with the state’s investor-owned utilities (IOUs) to weaponize the PCIA against Community Choice.

As a result of an October 2018 CPUC decision—the Peterman Decision—which dramatically increased the PCIA, the IOU’s estimate that $7 billion in their costs would be shifted onto Community Choice customers over the next twenty years. This PCIA fee now poses a major threat to Community Choice programs, the progress they have achieved towards meeting the state’s climate goals, and the community benefits and public governance model that they represent.

In March 2016 the California Alliance for Community Energy called for phasing out the PCIA, citing a number of ways it fundamentally undermines the purpose and viability of Community Choice programs.

More than four years later, due to dramatic increases in the PCIA, the situation has become more dire and more urgent. Efforts to redress the threat of the Peterman PCIA through public protest, requests to the CPUC for rehearing, and an appeal to the California courts have all failed.

There is now, therefore, compelling reason to sunset the PCIA legislatively, and to do it as soon as possible—to defend Community Choice, our best, most promising public alternative to the state’s failing centralized monopoly utility model.
What is the PCIA?

The PCIA is a “departing load” charge: it requires Community Choice customers to compensate the IOUs for the costs of utility-owned generation (like Diablo Canyon nuclear power) and renewable or other power contracts the utilities signed for customers they have lost as retail sales customers to Community Choice programs. The departing load is the energy that the IOUs produce or have bought and no longer need because of these lost retail sales customers.

According to law, the costs of that departing load to the IOUs must be calculated as the difference between the unavoidable costs of procuring this energy minus the current market value of these energy resources. These are referred to as “above-market” costs (or stranded costs) when the IOUs cannot recover their procurement costs by simply selling off the excess energy (or stranded resources).

For Community Choice customers, PCIA charges continue indefinitely. No matter how long ago a customer became enrolled in a Community Choice program, the incumbent IOU will continue to pass on charges for electricity that it claims it generated or procured for that customer—charges for which the customer receives no value. In what other corporation are customers forced to pay for a product or service they are no longer using for an unspecified period of time? Do electric car owners have to pay Chevron for every gallon of gasoline they no longer buy?

Though the PCIA is only charged to Community Choice customers, it has also resulted in higher than necessary electricity rates for the utility’s own customers. Because the IOUs are allowed to pass above-market costs of departing load onto customers they have lost, the IOUs have no incentive to control energy costs; their remaining customers are saddled with over-priced electricity, while Community Choice customers are saddled with ever increasing, often avoidable PCIA charges. Both, for example, are paying for $1.25 billion/year in above-market costs of PG&E’s Diablo Canyon nuclear power.

This helps explain why California’s average residential electricity rate is one of the highest in the U.S., 56% higher than the national average. The PCIA effectively shields the IOUs from having to compete Community Choice programs and creates a perverse incentive for the IOUs to enter into excessively costly, long term electricity contracts. In doing so they subject their remaining customers to higher rates, while they use the resulting high PCIA fees to cover their departing load “losses” and undermine their Community Choice competitors. What a deal!

What was the PCIA meant to do?

The Community Choice law, AB 117, recognized that the loss of customers to Community Choice programs could leave IOUs with energy resources they no longer needed. AB 117 called for customers that depart the IOUs for Community Choice programs to bear the burden of any “unavoidable” costs that their departure might otherwise put on remaining utility customers. This concept is called “ratepayer indifferece.” The “indifference” principle also implies that remaining “bundled” customers would not benefit from shifting of costs to departing Community Choice customers.

The PCIA is the CPUC-designed mechanism that was meant to ensure ratepayer indifference. As such, the PCIA—the above-market costs of departing load—is to be paid by Community Choice customers to the IOU until the corresponding resources—utility-owned generation or energy contracts—are shed or retired by the IOU.

Community Choice programs have been in existence since 2010 and in some IOU territories more than 50% of the monopoly utility customers have departed to Community Choice programs. Given that, one might expect that utilities would have shed or retired above-market energy contracts over time and refrained from procuring high priced energy on behalf of customers they know to be departing. Accordingly, the PCIA charges should decrease over time.

However, this has not been the case.
What has actually happened?

In practice, PCIA charges have increased rather than decreased over time. This is true for both customers who departed for Community Choice years ago as well as for those departing recently. For example, customers who left Pacific Gas & Electric Company (PG&E) for a Community Choice program in 2009 still pay PG&E a PCIA fee of about 2.6 cents/kWh in 2020. Customers leaving in 2020 to join a new Community Choice program would pay a PCIA fee of about 4.2 cents/kWh.7

According to San Jose mayor Sam Liccardo and LA County Supervisor Sheila Kuehl, PCIA fees have risen more than 600% in PG&E’s service territory since 2013. They will increase another 35% in fall 2020.8

The CPUC’s calculation of the PCIA—the unavoidable above-market costs of stranded assets—has been hotly contested. Both the cost of energy procured by the utilities and the current value of that energy are rife with dispute. PCIA fee setting relies on IOU data that is not public. As such, we do not know if IOU generation or procurement costs are unavoidable or incurred fairly, how these were calculated, or how the market value of these “stranded” energy resources is established. There is no transparency: basically, it is a rigged game.

What is clear, however, is that the IOUs benefit from high procurement costs and low valuation of stranded resources, as this increases the PCIA fees and undermines the competitiveness of Community Choice programs.

Continuing increases in the PCIA demonstrate that the IOUs have failed to shed or retire stranded resources. The CPUC has allowed the IOUs to game the PCIA: to burden departing IOU customers with avoidable above-market costs of energy.

One-way “Indifference”

Rather than ensuring indifference, the CPUC has promoted one-way cost shifts: costs are regularly shifted from the IOUs and bundled customers onto Community Choice customers, but are never shifted in the other direction.

The key to actual indifference requires that both bundled customers and Community Choice customers are treated fairly with respect to cost shifts. That is, to protect bundled customers, what charges might be “fair” to impose—and for how long—on customers who leave IOU bundled service for alternative providers of energy, such as Community Choice programs? Similarly, to protect Community Choice customers, what charges should be credited to them for payments they continue to make to their incumbent IOU for utility operations and utility generation that no longer benefit them?

For example, Community Choice customers pay their incumbent IOU for more than just energy delivery services and PCIA charges. They also pay for utility bill line items that do not benefit them at all (such as the competition transition charge, energy cost recovery amount, new system generation charge, and so forth). Altogether, in PG&E territory, these extra costs amount to about 1.2 cents/kWh.9 Community Choice customers pay this 1.2 cents/kWh as essentially a rate subsidy to PG&E, but it is not accounted for by the CPUC in considerations of fairness or indifference.

Moreover, a favorite strategy of the IOUs has been to shift what are arguably generation costs to the energy delivery side of the utility bill.10 Doing so forces Community Choice customers to pay such costs, while at the same time the Community Choice program has to compete with an artificially reduced utility generation rate for bundled customers.

These examples of CPUC-endorsed shifting of IOU generation costs onto Community Choice customer bills violates the concept of indifference. Community Choice customers should not bear the costs of shoring up a utility they have left behind.
The Peterman Decision

Early in 2016 a CPUC decision allowed PG&E to nearly double the PCIA fee on Community Choice customers in its service territory.\(^{11}\) Strong reaction to this increase resulted in a lengthy PUC proceeding (R.17–06–026), an examination of possible PCIA reforms. Multiple parties participated, with many comment rounds, workshops, extensive financial modelling, five days of oral argument, and a voluminous record.

As proceeding R.17–06–026 was coming to conclusion on August 1, 2018, Administrative Law Judge Stephen C. Roscow, one of the most experienced at the PUC, issued a Proposed Decision (“PD”),\(^{12}\) which represented a balance of the contending PCIA calculation methodologies reflected in the proceeding's record.

However, on August 14, 2018, only two weeks following release of the PD and within two weeks of the scheduled CPUC voting meeting, the CPUC issued an Alternate Proposed Decision (“APD”) authored by Commissioner Peterman.\(^ {13}\) The APD rejected the recommendations of the year-long PCIA proceeding and strongly supported the interests of the IOUs. Commissioner Peterman subsequently resigned from the CPUC to join Southern California Edison as a top executive.\(^ {14}\)

On October 11, 2018, despite strong opposition from the California Community Choice Association (CalCCA),\(^ {15}\) the California Alliance for Community Energy,\(^ {16}\) three prominent mayors,\(^ {17}\) 120 local public officials,\(^ {18}\) and at least eight state legislators,\(^ {19}\) CPUC commissioners unanimously approved Peterman’s APD.\(^ {20}\)

The Peterman Decision was published on October 19, 2018. It represents an aggressive attack on Community Choice programs by shifting mismanaged IOU energy procurement costs onto Community Choice customers:

- It increases PCIA charges by allowing the IOUs to include the above-market costs of utility-owned generation as PCIA-eligible costs for the lifetime of the generating assets. This constitutes a reversal of previous CPUC rules that disallow cost recovery for pre-2002 utility-owned generation (like Diablo Canyon Nuclear Power Plant) and limit such cost recovery for post-2002 utility-owned generation to ten years. Cost recovery for utility-owned generation was not intended and not included in the Community Choice law, AB 117.
- It fails to provide an absolute cap on PCIA charges, eliminating the predictability and stability of PCIA charges that is essential for Community Choice planning and viability.
- It increases PCIA charges dramatically by instituting a methodology that incentivizes IOUs to maximize above-market energy costs by procuring at high prices and selling off stranded resources cheaply or not at all, and then passing on the resulting costs to Community Choice customers.

In November, Protect Our Communities Foundation, CalCCA—the trade association of Community Choice agencies—and three Community Choice agencies protested the Peterman Decision and filed applications for rehearing, asserting that the Decision contravened legislative intent and subsequent CPUC guidelines.\(^ {21}\)

More than an entire year later, on January 21, 2020, the CPUC denied the applications for rehearing.

This past July, the California Court of Appeals summarily rejected a writ by the Protect Our Communities Foundation\(^ {22}\) calling on the court to vacate the Peterman Decision, eliminating the possibility that Community Choice customers might be able to get justice through the California courts.
**Impact of the Peterman Decision**

Bottom line: the Peterman Decision dramatically shifts the burden of stranded utility-owned assets and energy contracts from IOUs onto Community Choice energy programs. In the words of CalCCA, the decision deals a “devastating blow” to Community Choice programs, both existing and planned.\(^{23}\)

The Peterman Decision has undermined, and will continue to undermine, the financial viability of many Community Choice agencies and their ability to provide promised programmatic benefits (for example, lower energy costs, renewable energy, local development, jobs, and equity) to their respective communities. Those Community Choice agencies that survive will, according to CalCCA, “do so only by cutting the programs that have been essential to accelerating the state's transition to a zero carbon future and furthering the state's economic justice policy goals.”\(^{24}\)

**Long-term shift of PCIA costs**

As previously noted, the Peterman Decision dramatically increases the PCIA by allowing above-market costs of utility-owned generation to be perpetually included in calculating the PCIA.

Estimates of the financial impact of the Peterman Decision can be found in documents prepared for the PCIA proceeding. The results, compiled in Figure 1, indicate that, based on the IOUs’ own estimates, the Peterman Decision increases PCIA-eligible costs over the proceeding’s proposed decision by almost $7 billion through 2040.\(^{25}\) The portion of these new, formerly excluded costs borne by the customers of each Community Choice program depends on the size of departing load that each Community Choice program represents, the year the program was established (the vintage), and other such factors.

The estimates in the table depend on assumptions made in 2018 by the utilities, including forecasts of future market prices and conditions. Since then, some utilities have reported significant increases in above-market costs, indicating that the 2018 estimates may be significantly understated. For example, PG&E has since projected a rapid increase in above-market costs of energy generated from its Diablo Canyon Nuclear Power Plant: $410 million in 2018, $1.168 billion in 2019, and 1.258 billion in 2020.\(^{26}\)

**Financial squeeze on Community Choice**

To compete with the IOUs, Community Choice programs set electricity rates that, when combined with their customers’ PCIA charges, still offer these customers a discount from the rates paid by the IOUs’ bundled customers.

As public agencies, Community Choice programs do not pay shareholder dividends or taxes, and they seek to optimize energy resources. Their resulting lower operating costs enables Community Choice agencies to provide savings to customers, shown as their “Competitive Advantage” in Figure 2.
Increased PCIA charges put downward pressure on the electricity rates Community Choice agencies can charge their customers—and still remain competitive with the incumbent IOU.

Thus, the dramatic PCIA increases caused by the Peterman Decision have put a financial squeeze on Community Choice budgets and net revenues. In cases documented by the Alliance, these changes have already jeopardized agencies’ financial viability—their ability to provide competitive rates—and to deliver promised program benefits to their respective communities.

These financial impacts fall into several interrelated categories of harm. If a Community Choice agency is forced to reduce electricity rates and margins to stay competitive with the incumbent utility, that results in less net revenue for community-based program benefits and agency reserves. On the other hand, if the agency increases electricity rates to increase net revenue, it risks losing customers to the incumbent utility.

An analysis of these impacts on eight Community Choice programs in 2019 is shown in the following table.27

These programs were selected because (a) they were all established and serving customers at the time of the Peterman Decision, so a “before” and “after” comparison was possible; (b) each represents a multi-jurisdictional Joint Powers Authority (single-city programs were not included, as the financial evaluation is complicated by city-specific variables); and (c) all were competitive with their incumbent IOU prior to the Peterman Decision.

Thus, in the year following the Peterman decision, it was already possible to observe, due to the financial impacts in the above table, the following overall impacts on Community Choice programs:

- Aborted or delayed programs – A new Community Choice program in San Luis Obispo/Morro Bay aborted its launch. Desert Community Energy (San Bernadino) delayed its launch.
- Curtailed local investment – Community Choice programs cut or curtailed distributed energy resource (DER) deployment entirely
- Community Choice programs reduced the renewable energy content of their power mixes

PCIA costs have continued to increase since 2019, with the result that these impacts have become more severe.
**Unpredictability, volatility, and rate shocks**

The Peterman Decision introduced a PCIA “cap and trigger” mechanism that worsens the ability of Community Choice programs to anticipate PCIA charges and plan budgets accordingly. This new mechanism, rather than providing an absolute yearly cap on rising PCIA charges, will result in rate shocks that undermine Community Choice agency planning and drive Community Choice customers back to their incumbent IOUs.

Here’s how the cap and trigger works—or doesn’t.

Each year the IOUs file their expected above-market costs for PCIA-eligible resources and their calculation of the PCIA charges. These *predicted* above-market costs become the basis for the collection of PCIA charges for the coming year.

However, the Peterman Decision established a collection “cap” of .5 cents/kWh over the previous year. This is a cap on what a utility can collect in the coming year, not a cap on the PCIA amount customers of a Community Choice program owe the utility.

Throughout the year, the utility tracks *actual* costs, market revenues and billed customer charges associated with PCIA-eligible resources. At the end of the year, the utility might be owed more (or less) than the PCIA charges it was approved to collect. Due to the cap on PCIA collections, customers of a Community Choice program might owe significantly more than what was collected, especially if above-market energy costs have been escalating—as they have.

The Peterman Decision created a “trigger” mechanism, to enable the utility to correct PCIA collection shortfalls during the course of the year. When the PCIA shortfall reaches a level of 7% of the actual accrued above market costs (the trigger), the Peterman Decision directs the utility “pull the trigger:” to file an “Application for Expedited Cost Recovery.”

In other words, the Peterman cap is not a cap at all.

Because PCIA costs continue to grow faster than forecast, Community Choice customers are rapidly accruing significant PCIA under-collection debt. As a result, most utilities have already filed applications for expedited cost recovery for 2020. For example, an expedited cost recovery application filed by SDG&E would hit Community Choice residential customers with an increase of $187/month for three consecutive months!

Another Peterman Decision dagger in the back of Community Choice!

**What’s at stake for California?**

The evidence shows clearly that the Peterman Decision directly undermines the financial viability of Community Choice programs and their ability to provide programmatic benefits to their communities.

These impacts violate the intent of AB 117 (which created Community Choice) to provide financial benefits to customers through low-cost energy. Significantly, AB 117 also requires the CPUC to provide a fair competitive playing field for Community Choice energy programs. By causing significant harms to Community Choice energy programs, the CPUC undermines the meeting of state energy and climate mandates and jeopardizes the many community benefits these programs can provide, including energy resilience in the wake of utility-caused wildfires and power shutoffs.

In short, the CPUC is weaponizing the PCIA: enabling the IOUs to achieve by regulatory means a weakening and undermining of Community Choice that they have been unable to achieve in the legislative arena. It is attacking more than the existing 21 Community Choice programs serving more than 11 million customers. It is attacking the urgently needed alternative public model within which our communities can build a future energy system that serves us best.
Community Choice programs leading California's move toward more renewable and carbon-free energy. They are far ahead of the IOUs in meeting the State’s aggressive greenhouse gas reduction targets.\textsuperscript{28} The CPUC projects that Community Choice programs will be responsible for at least 90\% of new renewable energy supply over the next decade,\textsuperscript{29} amounting to billions of dollars in investment and thousands of jobs in renewable energy.

The average renewable content of the state’s 21 Community Choice programs in 2019 was 41\%, compared to the 37\% currently mandated in California’s renewable portfolio standard (“RPS”).\textsuperscript{30} Community Choice programs also provide an average of 82\% carbon-free electricity as their base products,\textsuperscript{31} with options for customers to choose 100\% renewable or carbon-free supply.

In addition, Community Choice programs are developing innovative community-based distributed energy resource programs, steps essential to meeting climate goals and securing economic and social benefits for our communities.

As the utility-caused California firestorms of 2017 and 2018 have shown, and the utility power shutoffs of 2019 and 2020 have underscored, the stakes in this issue go well beyond the PCIA to the importance of Community Choice as a community-driven, public alternative to the private, monopoly-controlled, centralized utility model—by which the public bears all the electricity system risks (the losses) while the benefits (the profits) are privatized.

The CPUC’s attack on Community Choice creates a dangerous situation for California. The CPUC is propping up an outmoded, centralized, private monopoly electricity model—and derelict, collapsing, and in some cases even criminal, corporate enterprises—while attacking the innovative, decentralized, public alternative that California needs to achieve a sustainable energy future.

**A Legislative remedy is needed**

The CPUC, in weaponizing the PCIA, has endorsed and promoted the efforts of the state’s three IOUs to eliminate Community Choice as a competitive alternative to their monopolies. In doing so, the CPUC has collaborated with the IOUs, not only in violating AB 117’s intent in creating Community Choice programs, but in turning its back on the needs of California ratepayers.

The Peterman Decision, in particular, is the strongest expression of a long-established CPUC pattern of actions to undermine Community Choice in favor of the IOUs. These actions include the following: allowing IOU marketing against Community Choice, promoting “customer choice” retail markets, efforts to freeze new Community Choice programs, attempting to impose limits on Community Choice procurement prerogatives, designating IOUs as central buyers of resource adequacy, and, of course, mandating a dramatic increase in the PCIA.\textsuperscript{32}

And should there be any doubt about where the CPUC stands, it’s unanimous approval of PG&E’s bankruptcy exit plan this past summer amounted to a desperate, billions of dollars ratepayer bailout of PG&E—a criminally negligent utility that has admitted to murdering 85 people, making tens of thousands homeless, and endangering our most at-risk populations to serve Wall Street interests.

In short, the CPUC cannot be looked to for relief from the anti-Community Choice policies, including the PCIA, that it has promulgated and enforced on behalf of the IOUs. The CPUC has rejected appeals for rehearing the Peterman Decision and the courts have refused to review it as well.

Relief depends on legislative action, hard as that might be.

**Proposed remedy: sunset the PCIA**

We have argued in this position paper that the PCIA, and the Peterman Decision in particular, is a weapon on the part of the IOUs to undermine and eliminate Community Choice in order to maintain the outmoded centralized energy model by which they control California’s energy system. And we have argued the huge stakes involved for California.
The powerful alternative that Community Choice represents—local control and development of energy resources to meet community needs—as a way to address the climate crisis and create an equitable, sustainable, and resilient energy system, will always remain hostage to the PCIA as long as it exists.

The PCIA was originally seen as a limited-time transition for smoothing inequities between ratepayers due to stranded utility energy resources. It has turned into a monster of major proportions.

The solution to this problem is elegant and simple: a state law that places an absolute cap on the PCIA and a requirement that the PCIA sunset in three years. No ifs and buts about it. Let the IOUs and their captive CPUC figure out how to shed and retire stranded generation assets and contracts to make that transition happen—as they should have been doing for the last dozen years.

End Notes

1. The PCIA is also levied on the state’s Direct Access customers
3. IOU Customers who depart an IOU to become electricity retail customers of a Community Choice program continue to receive electricity delivery services from the IOU, now referred to as the incumbent IOU. Hence, they are customers of both the incumbent IOU and the Community Choice program. They receive one electricity bill in which the cost of the electricity—the generation cost—is paid to the Community Choice program and the cost of electricity delivery—the transmission and distribution cost—is paid to the incumbent IOU.
4. See Electricity Rates by State [https://www.choosenergy.com/electricity-rates-by-state/]
5. Customers that continue to get full service from the IOU are called “bundled” customers, meaning they get both energy supply and delivery services from the utility company “bundled” together. This is in contrast to Community Choice customers for whom the energy costs are “unbundled” from delivery costs. This means that energy costs—the "generation charge"—are paid to the Community Choice agency providing the energy, while delivery and related charges are paid to the utility.

Note that the APD was released August 14, one week after an ex parte meeting between Commissioner Peterman’s advisor John Reynolds and representatives of all three investor-owned utilities, to discuss concerns with the Proposed Decision. Ex parte meeting documented here: https://docs.cpuc.ca.gov/SearchRes.aspx?DocFormat=ALL&DocID=222576930 (accessed June 27, 2020).


California Community Choice Association, Statement on CPUC Approval of Controversial ‘Exit Fee’ Reforms, October 11, 2018 [https://cal-cca.org/calcca-statement-on-cpuc-approval-of-controversial-exit-fee-reforms/]

Ibid


California Community Choice Association, 2019 Q2 Update [https://cal-cca.org/q2-2019-update/]

