

A Community Choice Customer Perspective on the PCIA, The Utility Power Charge Indifference Adjustment

Center for Climate Protection, Updated April 2016

At its December 17, 2015, meeting the California Public Utilities Commission (CPUC) approved the increase of a fee charged to customers of Community Choice agencies by PG&E. On March 8, 2016 a workshop was held to address concerns raised by attendees on December 17. At the time of this writing, the report of that workshop, including information regarding further discussions, has not been released.

The Power Charge Indifference Adjustment, or PCIA, is meant to ensure that electricity ratepayers are not cross-subsidizing departing customers. Those involved with existing and developing Community Choice agencies are evaluating the impact of the increased PCIA "exit fee" on their rate structures and business models. This paper is intended to assist these people in their evaluations.

The Power Charge Indifference Adjustment (PCIA) is an *exit fee* charged by utilities in California on entities that choose to depart from bundled service of the utility and choose another provider of electricity generation service possible through Direct Access and Community Choice. The stated intent of the PCIA is to make remaining bundled utility customers *indifferent* to the fact that some customers have partially departed from the utility. The assumption underlying the exit fee is to keep utilities from losing money. When utilities purchases forward contracts for electricity on behalf of its retail customers, and those customers decide instead to buy their own electricity rather than more expensive utility electricity, state law allows the utility to charge the CCA customers for any loss it might experience from not being able to sell that electricity on the open market.

The Pacific Gas & Electric (PG&E) definition of the fee is that the PCIA “ensures that customers who purchase electricity (generation) from non-PG&E suppliers pay their share of generation costs acquired to serve them *prior to their departure*, [emphasis added] unless otherwise exempt.”¹

To date, the three existing Community Choice agencies, Sonoma Clean Power, Marin Clean Energy, and Lancaster Choice Energy, have evaluated the utilities’ proposed PCIA fee, and have determined that the increased fee will not have an impact on their financial health that requires changing their general business model or operations.

Furthermore, other jurisdictions in California preparing to initiate Community Choice agencies and services, including San Francisco, San Mateo, and Santa Clara Counties, have already considered variables such as higher PCIA and energy costs as part of their technical analyses conducted before launching their Community Choice programs. They concluded that even with the higher-than-expected PCIA, other costs have turned out to be lower, and so on balance, their planned programs, including greater amounts of renewable energy than offered by PG&E, are going forward as planned.

¹ <http://www.pge.com/en/myhome/myaccount/explanationofbill/importantdefinitions/index.page>



The PCIA has been in place for years. Why is it such a big issue now?

The CPUC previously determined that utilities may apply to the Commission to adjust the PCIA every January and possibly at other times. The potential for the PCIA to rise sharply occurs in instances where a utility wants or needs to sell power that it contracted for in the past, for the load that is now departed. If wholesale power prices are lower than what the earlier contract was set for, that difference is a loss to the utility. The PCIA is used to level out that loss. Although the PCIA has been in place for years, it has not been raised significantly. But 2016 is a year where a portion of PG&E's generation contracts just now taking effect will be sold off at a loss, and so the proposed increase in the PCIA for departing PG&E customers is substantial.

Many factors influence the PCIA, primarily the cost of power contracts and the "cost" to the utility of departing Community Choice load. Many uncertainties exist surrounding the PCIA, including fundamentals such as the methodology used by the utilities for determining the PCIA and the degree to which the PCIA can ever be sun-setted. The utilities have asserted that they have a right to continue to make power purchases on behalf of Community Choice customers into the future based on the fact that the utilities continue to serve as the legal "provider of last resort."

The CPUC has agreed to host workshops of the parties in 2016 to address these open questions. We suggest that local governments considering Community Choice programs apply to become a party to the proceeding.

How much are we talking about?

- Marin Clean Energy. In 2014, MCE customers paid \$12.9M in PCIA fees. In 2015, MCE customers are projected to pay \$19.3M, and in 2016 are projected to pay \$30.6M.²
- Sonoma Clean Power. SCP customers paid roughly \$24 million to PCIA for 2015, and will pay almost double that forecast for 2016.³

Top problems with the PCIA

California's three existing Community Choice agencies agree on the following fundamental points regarding problems with the PCIA in its current form.⁴

Transparency. Information provided to parties regarding the calculation of exit fees is heavily redacted. The CPUC should require delivery of un-redacted actual and projected costs included in the calculations. Utilities must also provide an end date for exit fees charged.

Accountability. Utility-imposed exit fees are not currently audited. The CPUC should implement a third-party audit of exit fees calculations.

Proper Valuation. To date the CPUC has not required utilities to mitigate damages – that is, the costs and risks imposed by exit fees. The CPUC should:

- Require utilities to take reasonable steps to reduce costs and risks imposed on departing customers
- Require utilities to make reasonable assumptions about departing load

² http://files.ctctcdn.com/20382ed6201/b97d674c-feac-4376-aab3-a3339b513241.pdf?utm_source=September+2015+CA+News+Bulletin&utm_campaign=Issue+5&utm_medium=email

³ Communication with SCP staff, 12/15/15

⁴ From "Electric Utility Exit Fee Oversight: Improvements through Transparency, Accountability and Proper Valuation," Marin Clean Energy 12/23/15

- Evaluate a fixed exit fee reflecting reasonable energy cost projections and benefits retained by bundled customers
- Revise the methodology to more accurately reflect long-term energy prices

Other problems with the PCIA

Charging CARE customers. Although rules adopted by the California Public Utilities Commission now allow low-income CARE customers to be charged, some contend that it is inappropriate to include CARE customers in the PCIA class that must pay the fee.

Rate Shock. Community Choice customers may be subject to sudden changes in the PCIA, leading to “rate shock.” For example, Sonoma Clean Power estimates that its customers will experience a 94% increase in their PCIA.⁵ To redress this, SCP suggests re-examination of the underlying methodology for calculating the fee. SCP further suggests that at the very least, Community Choice agencies should be given more lead time about large increases in order to adequately plan for them. LEAN Energy US has proposed a limit of any single increase to no more than 15%.⁶

Ambiguities and Uncertainties. Several ambiguities and uncertainties exist relative to the PCIA. The following outlines some of the known unknowns:

1. **Termination of fee.** It may be possible for utilities to continue procurement on behalf of Community Choice customers in, effectively, perpetuity for any given customer. Some of the fees are based on long term contracts as long as 25 years and some purchases “kick in” in future dates. Further, it is not clear whether utilities have the authority to continue to purchase power on behalf of Community Choice customers *after* they have been enrolled in Community Choice service. According to California law and regulation, the utilities remain the “provider of last resort” and there is some indication that utilities may use this as an argument to continue charging Community Choice customers indefinitely.⁷ This runs counter to existing CPUC regulations and even PG&E’s own definition of the PCIA, noted and emphasized above.
2. **Ability of utilities to reap profit via the PCIA.** Several speakers at the December 17, 2015, CPUC Commission hearing on proceeding A-15-06-001, which includes the PCIA, asserted that there is evidence that PG&E reaps a profit as a result of charging the PCIA.⁸ The PCIA, if implemented correctly, should be nothing other than a pass-through to customers of, or neutral on the balance sheet of, PG&E as it is theoretically calculated to “make whole” the bundled utility customers, not PG&E. There should be no allowance for a calculating methodology where the utilities realize a profit from the PCIA.
3. **Ability on the part of Community Choice agencies to decide to receive power purchased on behalf of CCA customers from the utilities.** There may be future instances where a Community Choice agency finds it cost-effective to receive the power that had been purchased by

⁵ <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M154/K510/154510644.PDF>

⁶ LEAN Energy US comment to CPUC at 12/17/15 Commission hearing

⁷ Statement by SCP CEO at 1/7/16 SCPA Board Meeting

⁸ http://www.adminmonitor.com/ca/cpuc/voting_meeting/20151217/



the utility on behalf of customers who are now Community Choice customers. According to conversations with Community Choice agency staff in January 2016, it is not clear what ability Community Choice agencies have to purchase or receive such power on behalf of their customers. Clarity is needed.

The PCIA Remains a Threat. Many reasons exist for cities and counties to establish Community Choice programs that an increased PCIA doesn't change. Rates can be competitive with utilities, and any rate savings are retained in the local economy. Local control and local governance mean that local businesses and residents can have direct access to the Community Choice decision-making and the rate-setting process. The Community Choice agency is able to provide more renewable energy in their energy mix, moving cities and counties closer to climate goals.

Lastly, and perhaps most importantly, Community Choice agencies have statutory authority to engage in a wide variety of local distributed energy resource development efforts including incentivizing, initiating and collaborating on local renewable energy generation projects as well as creating and administering their own energy efficiency projects and programs. Though the PCIA remains a threat, cities and counties need to carefully evaluate all aspects of the energy market and energy regulatory structures that could impact their Community Choice plans. The recent change in the PCIA is not necessarily an insurmountable impediment; rather it is simply one factor among many that a local government should consider when analyzing Community Choice.

For more information:

CA Public Utilities Commission Hearing 12/17/15 (PCIA on agenda)
http://www.adminmonitor.com/ca/cpuc/voting_meeting/20151217/

CA Public Utilities Commission 2015 Proceeding
<http://delaps1.cpuc.ca.gov/CPUCProceedingLookup/?p=401:56:5927172616085::NO>

California Alliance for Community Energy (a case against *any* PCIA)
<http://cacomunityenergy.org/down-with-exit-fees/>

Marin Clean Energy (PCIA Rates)
<http://www.mccleanenergy.org/wp-content/uploads/PCIA%20and%20FF%20Commercial.pdf>

Lean Energy US (PCIA Impact on CCA)
<http://www.leanenergyus.org/wp-content/uploads/2013/10/PCIA-Info-Sheet.pdf>

SF Chronicle article 12/10/15
<http://www.sfchronicle.com/bayarea/article/PG-E-looking-to-raise-fee-on-green-energy-6690280.php>

Sonoma Clean Power (Billing Explanation)
<http://sonomacleanpower.org/billing/>

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We have endeavored to give a fair, accurate, and helpful representation of the PCIA. Please direct suggestions, comments, and questions to Woody Hastings, Renewable Energy Implementation Manager, Center for Climate Protection, woody@climateprotection.org, (707) 525-1665 x117.

