Community Choice Aggregation Expansion in California and its Relation to Investor-Owned Utility Procurement

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for the Center for Climate Protection

www.climateprotection.org

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Information for this report came from a variety of sources. We endeavored to use the most current and accurate information and make our analysis as transparent as possible. We welcome input to improve this report. Contact Woody Hastings, Renewable Energy Manager, Center for Climate Protection, woody@climateprotection.org, 707-525-1665 x117.

The Center for Climate Protection’s mission is to inspire, align, and mobilize action in response to the climate crisis. We work with business, government, youth, and the broader community to advance practical, science-based solutions for significant greenhouse gas emission reductions.

Acknowledgments

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Please note that May 2, 2017, was the date at which we stopped including new Community Choice Energy program updates to this report.
Executive Summary

The purpose of this report is to help create a level playing field for California’s Community Choice Aggregations (CCAs) by examining the potential growth of CCAs and the relationship to Investor-Owned Utility (IOU) procurement of electricity in California, identifying challenges and possible impacts, and making recommendations to address those challenges.¹

In 2005 the Center for Climate Protection identified CCA as the most significant, cost-effective measure under local control to reduce greenhouse gas emissions. CCAs help support California’s climate and clean energy goals.

By the end of 2016, all five operational CCAs in California had at least 5 percent more eligible renewables in their power mix while offering electricity generation rates that are lower than, or competitive with, their IOU counterparts.² Inspired by these achievements, more than 300 California communities are currently in the process of operating or exploring CCA programs.

Consequently, in California over the next few years, a significant amount of electric load is projected to shift from IOUs to CCAs, referred to as CCA departing load (DL). As the chart on the following page shows, by the year 2020, CCAs are projected to provide 116,229 GigaWatt-hours (GWh) of electricity generation sales, and IOUs 84,967 GWh, to their respective customers.

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¹ Community Choice Aggregation and its abbreviation CCA are also known as Community Choice Energy, CCE, and Community Choice. This report uses these terms and abbreviations interchangeably.
LCE: 35% http://www.lancasterchoiceenergy.com/your-options/clear-choice/
PCE: 50% http://www.peninsulacleanenergy.com/energy-options/
CPSF: 40% http://sfwater.org/index.aspx?page=960
The departure of this large amount of electric load has implications for the amount and schedule of IOU electricity procurement. Up to present, state load forecasts and the corresponding procurement decisions have underestimated CCA departing load resulting in over-procurement by the IOUs.

Ensuring that California has enough capacity to reliably meet demand while also protecting electricity customers from unnecessary costs from over-procurement is the responsibility of California regulators. They walk a tightrope as they balance reliability and costs.

This report focuses on one aspect of over-procurement – its impact on CCAs through the Power Charge Indifference Adjustment (PCIA), an exit fee paid by CCA customers. The stated intent of the PCIA is to protect the remaining bundled IOU ratepayers from being impacted by the costs of any excess capacity that the IOU had procured on behalf of customers who have departed to CCAs.

The methodology by which the PCIA is presently calculated does not accurately nor fairly accomplish its intent. The result has been volatile increases in PCIA costs that undercut CCAs. The PCIA’s volatility, complexity, and lack of transparency put CCA customers at risk of unexpected, confusing, and potentially unfair cost increases.

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3 Chart of “Projected GWh for CCAs and IOUs from 2014 to 2020” is based on calculations shown in Appendix – Spreadsheet of CCA and IOU Load Data.
CCA customers’ PCIA is tied to IOU procurement commitments made in the past that extend far into the future. Therefore, apart from the need for IOU’s future procurement planning to incorporate adequate projections of new CCA departing load, additional measures are needed to protect CCAs from PCIA impacts tied to IOUs’ past procurement commitments. To the detriment of ratepayers, IOUs do not currently have an incentive to reduce the generation costs of these legacy contracts that they manage because these costs are recovered through the PCIA.

The California Public Utilities Commission (CPUC) directed Southern California Edison (SCE) and Sonoma Clean Power (SCP) to lead a PCIA Working Group that between October 2016 and February 2017 convened a series of workshops with stakeholders to address issues related to the PCIA. Discussions in the PCIA workshops explored options for PCIA sunset, lump-sum payments, a Portfolio Allocation Methodology, contract assignment, and processes similar to those used for Municipal Departing Load to find solutions to facilitate the large-scale load transition to CCAs. Although the parties agreed that the PCIA is flawed, there was no consensus on any proposed alternative to the PCIA methodology. The Final Report of the PCIA Working Group documented the issues discussed and proposals by participants.

On April 25, 2017, Pacific Gas and Electric (PG&E), SCE, and San Diego Gas and Electric (SDG&E) filed a proposal with the CPUC to replace the PCIA with a Portfolio Allocation Methodology (PAM). SCP’s preliminary evaluation of the proposed PAM indicates that the PAM would put even greater costs on SCP’s customers than the PCIA, and would increase financial risk since CCAs would have no ability to manage the PAM energy contracts.

MCE Clean Energy (MCE) recommends that the CPUC hold IOUs accountable to pursue all avenues for avoiding stranded costs including cost reductions, volume reductions, and terminations of contracts, or disallow PCIA recovery of those avoidable costs. Currently the IOUs do not have a competitive incentive to reduce the generation costs of the legacy contracts that the IOUs manage that are inputs to the PCIA. MCE and SCP have voiced their concerns that avoidable procurement is inappropriately included in the PCIA when IOUs change existing contracts to extended timeframes or expanded contract volumes.

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4 PCIA Working Group, Phase 2 of A.14-05-024, described in CPUC Decision (D.)16-09-044 on page 20 http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M167/K673/167673743.pdf
D.16-09-044 directed Southern California Edison and Sonoma Clean Power to lead a six-month PCIA Working Group that held 5 all-day meetings between October 2016 and February 2017.


6 Joint Application of SCE, PG&E, and SDG&E for Approval of the Portfolio Allocation Method (PAM)
http://pgera.azurewebsites.net/Regulation/ValidateDocAccess?docID=408985
In 2011, through SB 790, the California legislature directed the CPUC to develop rules and procedures that “facilitate the development of community choice aggregation programs, … foster fair competition, and … protect against cross-subsidization paid by ratepayers”. PCIA impacts due to IOU over-procurement interfere with CCA operations and do not “facilitate the development of CCA programs.”

**Recommendations**

1. To address the fundamental problems of the PCIA, further exploration and development of a fair alternative is needed. We recommend an alternative approach to the current PCIA methodology that will provide certainty to CCA customers and put an ultimate time limit on the PCIA. We further recommend that this discussion take place in a transparent proceeding at the CPUC dedicated to reforming the structure and nature of exit fees.

2. To address the problem of over-procurement by IOUs caused by underestimates of CCA departing load, we recommend an adjustment to regulators’ load forecast procedures to ensure that IOU procurement plans for years ahead fairly and correctly include CCA growth projections and other load reductions in their forecasts. Toward this aim, we further recommend that CCA proponents participate in the CPUC’s process for the Integrated Resources Plan and Long Term Procurement Plan (IRP-LTPP).

3. To increase transparency and reduce uncertainty associated with the PCIA, we recommend support for the proposal for “Enhancing confidential data access for reviewing representatives of CCAs and ESPs” described in the Final Report of the PCIA Working Group. This would permit certain CCA staff to review confidential protected energy data subject to a Non-Disclosure Agreement, enabling CCAs to verify PCIA IOU calculations and better predict the possible impacts on their customers from changes in the energy markets.

4. To rectify the current situation where IOUs are not motivated to minimize approved procurement contract costs because they simply pass such costs on to retail customers, we recommend measures be established that incentivize IOUs to reduce costs for current and future procurement contracts to minimize avoidable costs to CCA customers.

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7 SB 790 [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201120120SB790](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201120120SB790)
# Glossary of Acronyms and Terms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNI</td>
<td>Binding Notice of Intent – A notice to the CPUC that a CCA intends to serve specified customer classes on a specific date. (Discussed on page 17 of this report).</td>
</tr>
<tr>
<td>CCA</td>
<td>Community Choice Aggregation (same as Community Choice Energy)</td>
</tr>
<tr>
<td>CCE</td>
<td>Community Choice Energy (same as Community Choice Aggregation) <a href="http://cleanpowerexchange.org/resources/cca-101/">http://cleanpowerexchange.org/resources/cca-101/</a></td>
</tr>
<tr>
<td>CEC</td>
<td>California Energy Commission <a href="http://www.energy.ca.gov">http://www.energy.ca.gov</a></td>
</tr>
<tr>
<td>DA</td>
<td>Direct Access – refers to customers contracting directly with an Energy Service Provider while the utility delivers the energy.</td>
</tr>
<tr>
<td>DG</td>
<td>Distributed Generation – utilization of small-scale technologies to generate power close to the end user of the power. <a href="http://www.dg.history.vt.edu/ch1/introduction.html">http://www.dg.history.vt.edu/ch1/introduction.html</a></td>
</tr>
<tr>
<td>DL</td>
<td>Departing Load</td>
</tr>
<tr>
<td>EE</td>
<td>Energy Efficiency</td>
</tr>
<tr>
<td>GHG</td>
<td>Greenhouse Gas</td>
</tr>
<tr>
<td>GWh</td>
<td>GigaWatt-hour (a Billion Watt-hours) An amount of power used over time. In this case 1,000,000,000 watt-hours. Imagine a million 100-watt bulbs switched on for 10 hours.</td>
</tr>
<tr>
<td>IOU</td>
<td>Investor-Owned Utility (e.g., PG&amp;E, SCE, SDG&amp;E)</td>
</tr>
</tbody>
</table>
Integrated Resource Plan - a component of the CPUC Long Term Procurement Plan proceeding to implement SB 350
http://www.cpuc.ca.gov/general.aspx?id=12400

Local Energy Aggregation Network - LEAN Energy US
http://www.leanenergyus.org/

Lancer Choice Energy http://www.lancasterchoiceenergy.com

Long Term Procurement Plan http://www.cpuc.ca.gov/ltpp/

Marin Clean Energy – MCE Clean Energy
https://www.mcecleanenergy.org

Power Charge Indifference Adjustment (Defined on page 9 of this report).

Peninsula Clean Energy http://www.peninsulacleanenergy.com

Pacific Gas & Electric https://pge.com

Renewable Portfolio Standard http://www.energy.ca.gov/portfolio

Senate Bill 790 (Charles McGlashan Community Choice Aggregation Act, 2011, Leno)
https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201120120SB790

Southern California Edison https://www.sce.com

Sonoma Clean Power Authority http://sonomacleanpower.org

San Diego Gas & Electric http://www.sdge.com

Silicon Valley Clean Energy http://www.svcleanenergy.org

TeraWatt-hour (a Trillion Watt-hours)

The date when procurement responsibility for a group of ratepayers is considered to have transferred from an IOU to a CCA. The vintage date is one of the factors on which the PCIA is calculated for CCA customers for generation costs incurred on their behalf before departure to CCA. Any new electricity contracts procured by the IOU after the CCA customer’s vintage date will not be factored in to the PCIA for those CCA customers.
Introduction

The purpose of this report is to help create a level playing field for California’s Community Choice Aggregation (CCA) electricity providers by examining the potential growth of CCAs and the relationship to Investor-Owned Utility (IOU) procurement in California, identifying challenges and possible impacts, and making recommendations to address those challenges.¹⁰

With eight operational CCAs providing viable business models and startup experiences, and a growing number of expedited models available, the time needed for CCAs to go from conception to implementation is decreasing. At least two operating CCAs in California went from concept to launch of service within 24 months.¹¹ Many communities are currently pursuing and planning to launch CCAs within a short timeframe, representing a significant amount of electric load that needs to be quantified and incorporated into IOU planning for departing load.

This report estimates the amount of load that will be departing from IOUs due to CCA development. It also examines the IOUs’ projections of CCA departing load (DL) and compares the IOUs’ projections to the report’s own calculations of expected CCA DL. This report studies the IOUs’ method of planning for CCA DL related to IOU procurement, considers the implications for CCAs from the Power Charge Indifference Adjustment (PCIA), and provides references to the regulatory forums where these issues are under consideration and could be addressed.

The PCIA is an “exit fee” charged by IOUs in California to entities that depart from the IOU’s bundled service to choose another provider of electricity generation service, possible through Direct Access and CCA. The stated intent of the PCIA is to make remaining bundled utility ratepayers indifferent to the fact that some ratepayers have departed from the IOU electricity procurement process. The ratepayer indifference element comes from an AB 117 requirement. The rationale underlying the exit fee is to prevent unfair cost shifting to the remaining bundled service customers. When an IOU purchases contracts for electricity for future years on behalf of its ratepayers, and some of those ratepayers’ load departs to a CCA, state law allows the IOU to charge those CCA customers for the loss from not being able to recoup the full cost from selling excess electricity on the open market.¹² It should be noted that the PCIA could

¹⁰ Community Choice Aggregation and its abbreviation CCA are also known as Community Choice Energy, CCE, and Community Choice. This report uses these terms and abbreviations interchangeably.
¹² This definition of the PCIA is from the Center for Climate Protection’s A Community Choice Customer Perspective on the PCIA, The Utility Power Charge Indifference Adjustment
conceivably be negative (i.e. a credit to departed customers) if IOU procurement costs were lower than the market value of the assets.

If IOUs do not adjust their procurement to reasonable estimates of CCA DL or do not manage their existing contracts to minimize losses, the result could be their over-procurement of electricity, which under the current PCIA mechanism could result in increased costs to CCAs. PCIA rate increases create uncompetitive market conditions for CCAs and discourage the creation of future CCA agencies.

In 2016, the California Public Utilities Commission (CPUC) directed Sonoma Clean Power and Southern California Edison to convene a Working Group to address problems with the PCIA.13 As part of this effort, a series of five all-day workshops were held with stakeholders to address market valuation, volatility, and lack of transparency related to the PCIA.

The Center for Climate Protection in 2005 determined that CCA was the most powerful, cost-effective measure under local control to reduce greenhouse gas emissions. California’s operational CCAs have demonstrated this. By the end of 2016, all operational CCAs had at least 5 percent more eligible renewables in their power mix while offering electricity generation rates that are lower than, or competitive with, their IOU counterparts.14 Sonoma Clean Power has reported GHG intensity, validated by a third party, that is 48 percent lower than PG&E’s.15 Ensuring CCAs’ viability supports their ability to play a significant role in achieving California’s climate and clean energy goals as envisioned by the legislature.
Methodology and Data Sources

To determine the relationship between CCA expansion and IOU procurement in California, we studied Pacific Gas and Electric's (PG&E) projections for the size and schedule for CCA departing load in its service territory. We compared PG&E’s estimates with ours using independent data as available, and projected the size and schedule of the CCAs’ departing load to 2020. We identified the factors that may contribute to the discrepancies between our estimates and PG&E’s.

Projections for the size and schedule of CCA departing load

The CPUC requires IOUs to submit a forecast every year as part of the utility’s Energy Resource Recovery Account (ERRA) proceeding. This forecast represents the utility’s best estimate of anticipated load for its service territory. Departing load due to Direct Access (DA) and CCA is accounted for in these reports. ERRA reports are initially filed between April and June, and updated ERRA reports are filed in November.

We drew heavily on PG&E’s 2017 ERRA forecast data. Our report focuses primarily on PG&E’s service territory for two reasons. CCA development currently is mainly in PG&E’s territory. Second, when we examined the 2017 ERRAs of SCE and SDG&E, much of the quantitative information needed was redacted.

PG&E’s 2017 ERRA forecast of CCA departing load is based on the operational CCAs in its service territory as of its filing in November 2016: MCE Clean Energy, Sonoma Clean Power (SCP), CleanPowerSF, and Peninsula Clean Energy (PCE).16 PG&E uses the CPUC-approved method of using the existing CCAs’ most recently recorded departing load sales as a proxy for 2017. PG&E’s 2017 ERRA filed in November 2016 shows PG&E is planning for 6,433 GWh of CCA departing load for 2017.17

We studied the plans of California communities that are in the process of establishing CCA programs to determine what additional CCA loads are likely to depart from the IOUs. Our primary data source for this was the Clean Power Exchange interactive map which displays CCA development in every California county and city and is updated regularly.18 At the time of this report, there are operational CCAs and/or local governments in varying stages of exploration of CCA in over 300 cities in 27 of the 58

16 In November 2016, California had five operational CCAs, the fifth CCA being Lancaster Energy Choice located in SCE service territory.
18 Clean Power Exchange CCA Interactive Map http://cleanpowerexchange.org/california-community-choice/
counties in California, CCA launch forecasts were obtained from staff and consultants for emerging CCAs.  

To make an independent estimate of the departing load for 2017 for the operational CCAs in PG&E’s service area, we used PG&E’s 2017 ERRA load forecast for MCE Clean Energy, Sonoma Clean Power, and CleanPowerSF. To forecast the load for the recently-launched Peninsula Clean Energy and Silicon Valley Clean Energy, and the soon-to-launch Redwood Coast Energy Authority, we used their Implementation Plans.  

To estimate the departing load for the new CCA territories of Mendocino and Placer Counties for 2017, we used the following methodology and data sources.

- Energy data was gathered from the California Energy Commission (CEC) online database using 2015 figures for Electricity Consumption by County.  
- The 2015 figures were extrapolated to the year 2017 using the CEC California Energy Demand 2014-2024 Preliminary Forecast electric consumption mid-range average growth rate of .86 percent for the PG&E Planning Area for 2012-2020.  
- For the new CCAs, their load amount for their first year was reduced by 50 percent to account for partial year service and phased roll-in of customers.

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19 Source: Woody Hastings, Renewable Energy Manager, Center for Climate Protection
20 PG&E’s 2017 ERRA used the CPUC-approved method of using the existing CCAs’ most recently recorded departing load sales as proxy for 2017; MCE Energy, Sonoma Clean Power, and CleanPowerSF did not object to those load forecasts.
22 California Energy Commission online database, Electricity Consumption by County for 2015 [http://www.ecdms.energy.ca.gov/elecbycounty.aspx](http://www.ecdms.energy.ca.gov/elecbycounty.aspx)
• The figures for the new CCAs’ departing load were then reduced by 25 percent to conservatively account for the following: 10 percent for opt-out rates, 10 percent for Direct Access customers, and 5 percent other.\textsuperscript{24}

To calculate the departing load for all of California’s CCAs statewide to 2017 and for the additional CCAs expected to come online in California by 2020, the previous methodology was used (with energy data from the CEC online database using 2015 data for electricity consumption by county) along with the CEC California Energy Demand 2014-2024 Preliminary Forecast Report’s electric consumption mid-range average growth rate for 2012-2020 of 0.84 percent for the SCE Planning Area and 1.3 percent for the SDG&E Planning Area. The load for Lancaster Energy Choice was calculated based on its percentage of the population of Los Angeles County. The load for Apple Valley Choice Energy is based on its Implementation Plan\textsuperscript{25}.

We compared our projections for the year 2020 to the estimates from PG&E’s Joint Proposal for the Orderly Replacement of Diablo Canyon Power Plant with Energy Efficiency and Renewables (Joint Proposal)\textsuperscript{26} and PG&E’s Prepared Testimony of August 11, 2016, on “Retirement of Diablo Canyon Power Plant, Implementation of the Joint Proposal, and Recovery of Associated Costs Through Proposed Ratemaking Mechanisms.”\textsuperscript{27}

Findings and Discussion

Significant CCA growth is anticipated in the next few years. By our forecast, 2018 will see the largest increase of CCA development with potentially more than six new CCAs involving eleven counties. From 2017 to 2020 an average of five new CCA entities per year will begin providing electrical service.

\textsuperscript{24} We followed assumptions used by LEAN Energy in their forecasts of departing load. LEAN Energy presentation to the Power Association of Northern California’s Spring Meeting on May 17, 2016, PowerPoint on Community Choice Energy in the State of CA, slide #5
Below are the California communities expected to begin CCA service over the next few years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Community – Name of CCA entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>City of Apple Valley (in San Bernardino County) – Apple Valley Choice Energy</td>
</tr>
<tr>
<td></td>
<td>Humboldt County – Redwood Coast Energy Authority</td>
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<tr>
<td></td>
<td>Mendocino County – incorporated into Sonoma Clean Power</td>
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<tr>
<td></td>
<td>Placer County</td>
</tr>
<tr>
<td></td>
<td>Santa Clara County – Silicon Valley Clean Energy</td>
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<tr>
<td>2018</td>
<td>Alameda County</td>
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<tr>
<td></td>
<td>Contra Costa County</td>
</tr>
<tr>
<td></td>
<td>Los Angeles County (includes both Los Angeles Community Choice Energy and South Bay Clean Power)</td>
</tr>
<tr>
<td></td>
<td>Monterey County – Monterey Bay Community Power</td>
</tr>
<tr>
<td></td>
<td>San Benito County – Monterey Bay Community Power</td>
</tr>
<tr>
<td></td>
<td>San Jose (City)</td>
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<tr>
<td></td>
<td>San Luis Obispo County – Central Coast Power</td>
</tr>
<tr>
<td></td>
<td>Santa Barbara County – Central Coast Power</td>
</tr>
<tr>
<td></td>
<td>Santa Cruz County – Monterey Bay Community Power</td>
</tr>
<tr>
<td></td>
<td>Ventura County – Central Coast Power</td>
</tr>
<tr>
<td></td>
<td>Yolo County including City of Davis – Valley Clean Energy Alliance</td>
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<tr>
<td>2019</td>
<td>Butte County – PowerButte</td>
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<tr>
<td></td>
<td>Lake County</td>
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<tr>
<td></td>
<td>Riverside County</td>
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<tr>
<td></td>
<td>San Bernardino County</td>
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<tr>
<td></td>
<td>San Diego (City)</td>
</tr>
<tr>
<td>2020</td>
<td>Solano County</td>
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</table>
We calculated the total CCA departing load (DL) in PG&E’s service territory for 2017 to be 11,302 GWh. A comparison of PG&E’s ERRA forecast of CCA DL of 6,433 GWh and our calculation of 11,302 GWh is shown in Figure 1 below.

![Projected CCA load compared to PG&E's ERRA forecast of CCA Departing Load](image)

**[Figure 1]**

Because PG&E’s 2017 ERRA did not include CCAs such as Silicon Valley Clean Energy (SVCE) that began customer participation in 2017, Peninsula Clean Energy whose load will double, and new CCA services in Mendocino, Placer, and Humboldt Counties, there is a difference of 4,868 GWh for CCA customer departure from IOU bundled service.

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29 Figure 1 is based on calculations in Spreadsheet of CCA and IOU Load Data in Appendix.
The projected share of load between the three major IOUs and CCA DL from 2014 to 2020 is shown in Figure 2 and exhibits that significantly less electricity needs to be procured by the IOUs.

If CCAs continue to spread at the current rate, CCA energy providers will be the dominant procurers of electricity generation in the CCA-eligible IOU service territories by 2020. This rate of CCA expansion may take less time if the process for CCA establishment continues to become more efficient.

Our conservative projections show that by the year 2020, CCAs will be providing 116,229 GWh of electricity, and IOUs will be providing 84,967 GWh of electricity.³¹

³⁰Ibid. at 3. Figure 2 is based on calculations in Spreadsheet of CCA and IOU Load Data in Appendix.
³¹Ibid. at 3. Based on calculations in Spreadsheet of CCA and IOU Load Data in Appendix.
LEAN Energy also estimates that CCAs will provide a similar quantity of 117,744 GWh by 2021, as shown in Figure 3.  

[Figure 3]

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Assumptions:
- Estimates based on CEC 2014 electrical consumption data by County (www.ecms.energy.ca.gov)
- Electricity demand remains within 1% overall growth
- Total load estimates were reduced by 25% (10% Direct Access, 10% opt out; 5% other)

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32 LEAN Energy presentation to the Power Association of Northern California’s Spring Meeting on May 17, 2016, PowerPoint on Community Choice Energy in California, slide #5
**PG&E’s procurement plans and projections to 2020**

PG&E’s Joint Proposal for the Orderly Replacement of Diablo Canyon Power Plant with Energy Efficiency and Renewables (Joint Proposal) projects that the combined departing load for Direct Access (DA) and CCA customers will be about 13 TWh for 2017. The chart (Figure 4 below) shows the CCA/DA departing load growing to about 23 TWh by 2020, and to almost 35 TWh by 2030.

![High CCA Penetration Chart](chart.png)

PG&E’s prepared testimony of August 11, 2016, on “Retirement of Diablo Canyon Power Plant, Implementation of the Joint Proposal, and Recovery of Associated Costs Through Proposed Ratemaking Mechanisms” included Table 2-2 that shows CCA/DA load to be 14,437 GWh for 2017, potentially surpassing 50 percent of its service territory load by 2025, and to be as high as 41,019 GWh in 2030.

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NOTE: The TWh figures gleaned from the chart are approximate estimates by looking at the dark blue area of the chart. The chart does not have precise enough gradation to be able to visually determine the exact number of TWh. For 2017 it appears to be 13 TWh or less going by visual measurement of the chart. For 2020 it appears to be approximately 23 TWh and approximately 35 TWh for 2030.


While PG&E's prepared testimony on retirement of DCPP estimates CCA/DA departing load at 14,437 GWh for 2017, PG&E’s 2017 ERRA estimates the departing load will be 16,275 GWh, including 9,842 GWh for Direct Access and 6,433 GWh for CCAs. PG&E’s estimates contrast with our 2017 estimates for this report: 21,144 GWh DA/CCA departing load consisting of 9,842 GWh DA plus 11,302 GWh CCA.

PG&E’s Joint Proposal chart’s prediction for 2020 CCA/DA departing load is about 23,000 GWh for “High” CCA Market Penetration, and Table 2-2 in its prepared testimony on retirement of DCPP shows an estimate of CCA/DA load as high as 38,112 GWh for 2025. Our estimate for CCA departing load for 2020 is 44,899 GWh for PG&E’s service territory.

While PG&E’s estimates for CCA DL are not as large as our projections, either forecast anticipates CCA DL that would need to be incorporated into IOU procurement planning to avoid over-procurement.

**Procurement planning for CCA Departing Load in a time of rapid change and uncertainty**

California’s electric procurement is regulated by the Public Utilities Commission’s Integrated Resource Plan and Long Term Procurement Plan (IRP-LTPP) Proceeding to ensure a reliable power supply while not over-burdening California electricity customers with costs. The LTPP is based on the load forecast developed by the California Energy Commission’s Integrated Energy Policy Report (IEPR). Up to the present time, the IEPR load forecast and the resulting procurement decisions by the IOUs have underestimated CCA departing load and systematically overestimated utility resource needs.

CPUC regulations currently require IOUs to continue to procure energy on behalf of anticipated CCA customers until legal authority is transferred to a CCA for those CCA customers, at which time the “vintage date” for those CCA customers is set. The ERRA

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NOTE: We are referencing PG&E’s Joint Proposal and Prepared Testimony only as a source for PG&E’s CCA DL projections and do not adhere to PG&E’s arguments that CCA is a contributing cause to the closure of the Diablo Canyon Power Plant nor to the method of cost allocation to CCA customers.


38 Integrated Resource Plan and Long Term Procurement Plan (IRP-LTPP) R.16-02-007 [http://www.cpuc.ca.gov/ltpp/](http://www.cpuc.ca.gov/ltpp/) The IRP portion is the CPUC’s venue for implementation of Senate Bill (SB) 350 requirements related to Integrated Resource Planning (IRP) (Public Utilities Code Sections 454.51 and 454.52) that allow the electricity sector to contribute to California’s economy-wide greenhouse gas emissions reductions goals.
reflects that IOU procurement is not curtailed for anticipated CCA DL prior to a CCA’s vintage date. IOUs do not have discretion to adjust their ERRA for anticipated new CCA departing load until a CCA has 1) started enrolling customers as of the date of the forecast, 2) provided a load forecast to the CPUC or CEC for the purpose of taking on resource adequacy load requirements, or 3) submitted a Binding Notice of Intent (BNI).\textsuperscript{39}

No clear solution exists to address the critique that the transfer of legal responsibility for procurement doesn’t happen soon enough under the current CPUC rules. Many policymakers who are considering CCA are reassured knowing that the IOU is the provider of last resort, and that off-ramps remain while they explore the potential of a CCA program.

The uncertainty of the future makes it difficult to predict the correct amount and timing of additional CCA departing load. Between the time of PG&E’s Joint Proposal publication and PG&E’s 2017 ERRA, there were variations in PG&E’s projections for CCA departing load, as there were variations between PG&E’s 2017 ERRA filed in June and its update in November. During the time this report was being written, several assumptions changed for our calculations of the expected expansion of CCA departing load, with some CCAs moving their start dates earlier and others later.

The difficulty in predicting future CCA DL makes it challenging to prescribe the correct adjustments for IOUs to make to their procurement plans for years ahead. It is extremely challenging to forecast the accurate amount of power to procure, not only because of the rapid expansion of interest in CCA, but for other reasons as well. Load is influenced by many factors, such as energy efficiency programs, the economy, behind-the-meter generation, weather, and market conditions. IOU procurement is also dictated by CPUC requirements for renewable portfolio standard (RPS), resource adequacy, and reliability.

Over-estimating CCA DL could result in a reduction of the IOUs’ procurement of renewable energy or higher costs for bundled ratepayers because of energy contracts not purchased due to anticipated CCA expansion that does not materialize on schedule. Other issues related to IOU procurement arise, such as the best length of terms for contracts considering procurement of renewable energy may require a long-term

\textsuperscript{39} New CCAs that file a BNI or begin service to customers prior to July 1, 2017, will receive a 2016 vintage date as if their departing load had been included in the 2017 ERRA. After July 1, 2017, new CCAs that begin service to customers or file a BNI during the second half of that year will receive a 2017 vintage date. By filing a BNI, a CCA can lock in one vintage date for all its customers even if it plans to enroll the customers in phases. BNI pursuant to Electric Rule 23.2 § A.1. (Rule 23.2 for PG&E and SCE, and Rule 27.2 for SDG&E)
PCIA Vintaging date in CPUC Decision A.14-05-024 on Page 3 at:  
http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M167/K673/167673743.pdf and CPUC D.08-09-012
contract and a better rate can be obtained for a longer term, etc. These issues are debated in the CPUC IRP-LTPP proceedings.

To avoid purchasing too much electricity, the CPUC’s regulatory processes should direct IOUs to accurately size their procurement to the amount of their remaining load with some provision for CCAs that do not fulfill their plans.

The goal of incorporating CCA DL in the deliberations of the CPUC IRP-LTPP proceedings will be to avoid over-procurement, but another goal is to avoid under-procurement. Given the importance of resource adequacy for the IOU to have reliability to meet variable load, we can expect there will likely be some excess power that has been purchased on behalf of customers who are departing to a CCA, and this needs to be addressed fairly.

“Over-procurement” and possible impacts

If an IOU over-procures electricity on behalf of its customers and is unable to sell the excess power at an adequate price to recoup the full expense, the IOU will recover the funds by increasing charges on its customers. Because over-procurement of energy generally causes increased costs for all California energy customers, consumer advocates have long fought over-procurement in the CPUC’s IRP-LTPP Proceedings.

Nevertheless, the results of these discussions show a result heavily biased towards over-procurement. As shown in the recent LTPP scenario tool forecast, the net system supply is 40 percent higher than what is predicted to meet the demand for the single most stressed hour in the entire calendar year 2017. More importantly, this situation persists for decades. 2036 is predicted to have 41 percent more capacity than needed for that same, hypothetical one hour in the year with maximum amount of demand predicted under conditions of extreme system stress, as reflected in the table that follows.

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41 CPUC Long Term Procurement Plan (LTPP) August 2016, Scenario Tool, available online at: http://cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=12332
### Community Choice Aggregation Expansion in California and Its Relation to Investor-Owned Utility Procurement, May 2017

#### Table: Demand (GW) vs. Supply (GW)

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The growing numbers of CCAs in California add to the challenge of preventing over-procurement. The PCIA is the current mechanism to address IOUs’ excess capacity due to purchases of energy contracts extending into future years on behalf of customers who are departing to CCA.

The stated intent of the PCIA is to protect the remaining bundled IOU ratepayers from being impacted by the costs of any excess electricity that the IOU had procured on behalf of customers who have departed to CCAs. However, the method by which the PCIA is calculated does not accurately or fairly accomplish that intent.

The PCIA is calculated based on the difference of the IOU’s total energy portfolio costs minus the portfolio’s market value. The portfolio’s market value is based on a calculated Market Price Benchmark (MPB). The IOUs and CCAs both make arguments that the MPB is not a proper valuation, and they have differing objections to utilizing the MPB forecast.

If any of the forecasted amounts used in the PCIA are grossly different from what occurs, that difference can greatly shift costs. This could result in CCA customers paying significantly less or more in relation to what was intended to be the CCAs’ correct share for that year. However, no reconciliation is included in the following year’s PCIA. The PCIA is reset each year, based on forecasted figures, and is not trued-up.

The greater the amount of excess power the IOU has procured at costs above the MPB, the more it would raise the PCIA. However, the total portfolio is comprised of various contracts with different relationships to market values. Depending on the CCA’s vintage dates, certain contracts are included in figuring their customers’ PCIA. The IOU’s most recent over-procurement could dilute expensive contracts of the past. Thus, customers whose load first departed SCE years ago in 2010 may have a PCIA that is larger than for customers of a CCA launched in 2016.42

IOU over-procurement impacts CCAs’ competitiveness through the PCIA by amplifying market instability and driving insecurity about future rates. The PCIA is complex and opaque because the costs of the IOUs’ energy contracts are confidential, making the PCIA calculations impossible to verify and future PCIA rates unpredictable. The PCIA’s volatility, questionable fairness, complexity, and lack of transparency demonstrate significant issues with the PCIA that create problems that can stunt CCA growth.

Therefore, apart from the need for IOU’s future procurement planning to incorporate adequate projections of new CCA DL, additional measures are needed to protect CCAs from volatile PCIA impacts tied to IOUs’ past procurement commitments that continue to affect CCAs for many years via the PCIA.

42 Desiree Wong, SCE presentation to the PCIA workshop on November 17th, 2016, at PG&E’s office in San Francisco, PowerPoint on November Update and PCIA Rate Calculation.
The current PCIA was not designed to facilitate rapid large-scale expansion of CCAs, as Russell Archer, an attorney for SCE, observed during a PCIA workshop in San Francisco in 2016. Mr. Archer stated that the CPUC needs to reconsider the PCIA because it was designed for a much lower percentage of departing load than the estimated 50 to 70 percent DL range currently being contemplated.

Discussions in the PCIA workshops have suggested exploring options for PCIA sunset, lump-sum payments, a Portfolio Allocation Methodology (PAM), contract assignment, and processes like those used for Municipal Departing Load to find solutions for facilitating the large-scale load transition to CCAs. The Final Report of the PCIA Working Group documented the issues discussed and proposals by participants. Although all parties agreed that the PCIA is flawed, there was no consensus on any proposed modification to the PCIA methodology.

On April 25, 2017 PG&E, SCE, and SDG&E filed a proposal with the CPUC to replace the PCIA with a Portfolio Allocation Methodology (PAM). SCP’s preliminary evaluation of the proposed PAM indicates that the PAM would put even greater costs on SCP’s customers than the PCIA, and would increase financial risk since CCAs would have no ability to manage the PAM energy contracts.

MCE recommends that the CPUC hold IOUs accountable to pursue all avenues for avoiding stranded costs including cost reductions, volume reductions, and terminations of contracts, or disallow PCIA recovery of those avoidable costs. Currently the IOUs do not have a competitive incentive to reduce the generation costs of the legacy contracts that the IOUs manage that are inputs to the PCIA. MCE and SCP have voiced their concerns that avoidable procurement is inappropriately included in the PCIA when IOUs change existing contracts to extended timeframes or expanded contract volumes.

On behalf of the utility ratepayers, the CPUC is obligated to ensure that the utility’s existing bundled ratepayers are not harmed by the existence of the CCA. Likewise the CPUC must not overly burden the efforts of communities who vote to assert local control over power procurement as a CCA.

In 2011, through SB 790, the California legislature directed the CPUC to develop rules and procedures that “facilitate the development of community choice aggregation programs, … foster fair competition, and … protect against cross-subsidization paid by ratepayers.” PCIA impacts due to IOU over-procurement interfere with CCA operations and do not “facilitate the development of CCA programs.”

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44 Ibid. at 6. Joint Application of SCE, PG&E, and SDG&E for Approval of the Portfolio Allocation Method (PAM)
45 Ibid. at 7. SB 790
Recommendations

1. To address the fundamental problems of the PCIA, further exploration and development of a fair alternative is needed. We recommend an alternative approach to the current PCIA methodology that will provide certainty to CCA customers and put an ultimate time limit on the PCIA. We further recommend that this discussion take place in a transparent proceeding at the CPUC dedicated to reforming the structure and nature of exit fees.

2. To address the problem of over-procurement by IOUs caused by underestimates of CCA departing load, we recommend an adjustment to regulators’ load forecast procedures to ensure that IOU procurement plans for years ahead fairly and correctly include CCA growth projections and other load reductions in their forecasts. Toward this aim, we further recommend that CCA proponents participate in the CPUC’s process for the Integrated Resources Plan and Long Term Procurement Plan (IRP-LTPP).46

3. To increase transparency and reduce uncertainty associated with the PCIA, we recommend support for the proposal for “Enhancing confidential data access for reviewing representatives of CCAs and ESPs” described in the Final Report of the PCIA Working Group.47 This would permit certain CCA staff to review confidential protected energy data subject to a Non-Disclosure Agreement, enabling CCAs to verify PCIA IOU calculations and better predict the possible impacts on their customers from changes in the energy markets.

4. To rectify the current situation where IOUs are not motivated to minimize approved procurement contract costs because they simply pass such costs on to retail customers, we recommend measures be established that incentivize IOUs to reduce costs for current and future procurement contracts to minimize avoidable costs to CCA customers.

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46 Ibid. at 8. Integrated Resource Plan and Long Term Procurement Plan (IRP-LTPP) R.16-02-007
http://www.cpuc.ca.gov/ltpp/

References


California Energy Commission online database, Electricity Consumption by County for 2015 http://www.ecdms.energy.ca.gov/elecbycounty.aspx


*Clean Power Exchange CCA Interactive Map* http://cleanpowerexchange.org/california-community-choice/

CPUC CCA webpage http://www.cpuc.ca.gov/general.aspx?id=2567

CPUC Decision A.14-05-024 PCIA Vintaging on Page 3 at: http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M167/K673/167673743.pdf

CPUC D.08-09-012

Electric Rule 23.2 § A.1. (BNI -- Rule 23.2 for PG&E and SCE;) Electric Rule 27.2 (BNI -- Rule 27.2 for SDG&E)


Lancaster Clean Energy http://www.lancasterchoiceenergy.com
Community Choice Aggregation Expansion in California and its Relation to Investor-Owned Utility Procurement, May 2017

Lancaster Clean Energy Implementation Plan

LEAN Energy presentation to the Power Association of Northern California’s Spring Meeting on May 17, 2016, PowerPoint on Community Choice Energy in the State of CA, slide #5

Marin Clean Energy, Addendum No. 2 to the Revised Community Choice Aggregation Implementation Plan and Statement of Intent, November 21, 2014


https://pgera.azurewebsites.net/Regulation/search/Docket 15-02-020

http://pgera.azurewebsites.net/Regulation/ValidateDocAccess?docID=370763

PG&E 2017 Energy Resource Recovery Account, Docket Number: A. 16-06-003. (especially page 12, Table 2-2)
http://pgera.azurewebsites.net/Regulation/ValidateDocAccess?docID=392644


Power Charge Indifference Adjustment (PCIA) Workshop, described in CPUC Decision A.14-05-024 on page 20 at http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M167/K673/167673743.pdf

