

PCIA Phase 2 – Working Group Three

Portfolio Optimization and Cost Reduction, and
Allocation and Auction

Working Session #1

Co-Leads: SCE, Commercial Energy, CalCCA

April 29, 2019

Agenda

- Welcome, Safety, and Introductions
- Focus for Today's Discussion and Guiding Principles
- Discussions on a Sales Strawman Approach for RA and RPS
 - Other attributes/approaches raised
- Proposed Discussions (Commercial Energy) for an Allocation Approach
- Next Steps
 - Seek comments from participants

Working Group Three – Issues to be Discussed

Scoping Memo R.17-06-26



1

What are the structures, processes, and rules governing portfolio optimization that the Commission should consider to address excess resources in utility portfolios? How should these processes/rules be structured to be compatible with the IRP and RA program modifications proceedings?

2

What standards should the Commission adopt for more active management of the utilities' portfolios in response to departing load in the future to minimize further accumulation of uneconomic costs?

3

If the Commission were to adopt standards for more active management of the utility portfolios, how should the transition to new standards occur (e.g., timeframe, process, etc.)?

4

Should the Commission consider new or modified shareholder responsibility or future portfolio mismanagement, if any, so that neither bundled nor departing customers bear full cost responsibility if utilities do not meet established portfolio management standards? Are ERRA or GRC proceedings the appropriate forums to address prudent management of portfolios?

Guiding Principles

- Work collaboratively in good faith toward practical and commercially viable solutions for the benefit of all customers.
- Be consistent with California statutes, CPUC decisions, energy policy goals and mandates. [from Phase 1 Scoping Memo, 1.e]
- Respect the terms of existing PPAs between power suppliers and IOUs. [from Phase 1 Scoping Memo, 1.k]
- Allow alternative providers to be responsible for power procurement activities on behalf of their customers, except as expressly required by law. [from Phase 1 Scoping Memo, 1.f]

Portfolio Optimization and Cost Reduction

Definition - Portfolio Optimization

- Prudent management of all products and attributes in the IOU's energy resource portfolio, including actions to lower contract and procurement costs, and reduce risk, while maintaining grid reliability for all bundled service and departing load customers.

Definition - Sales

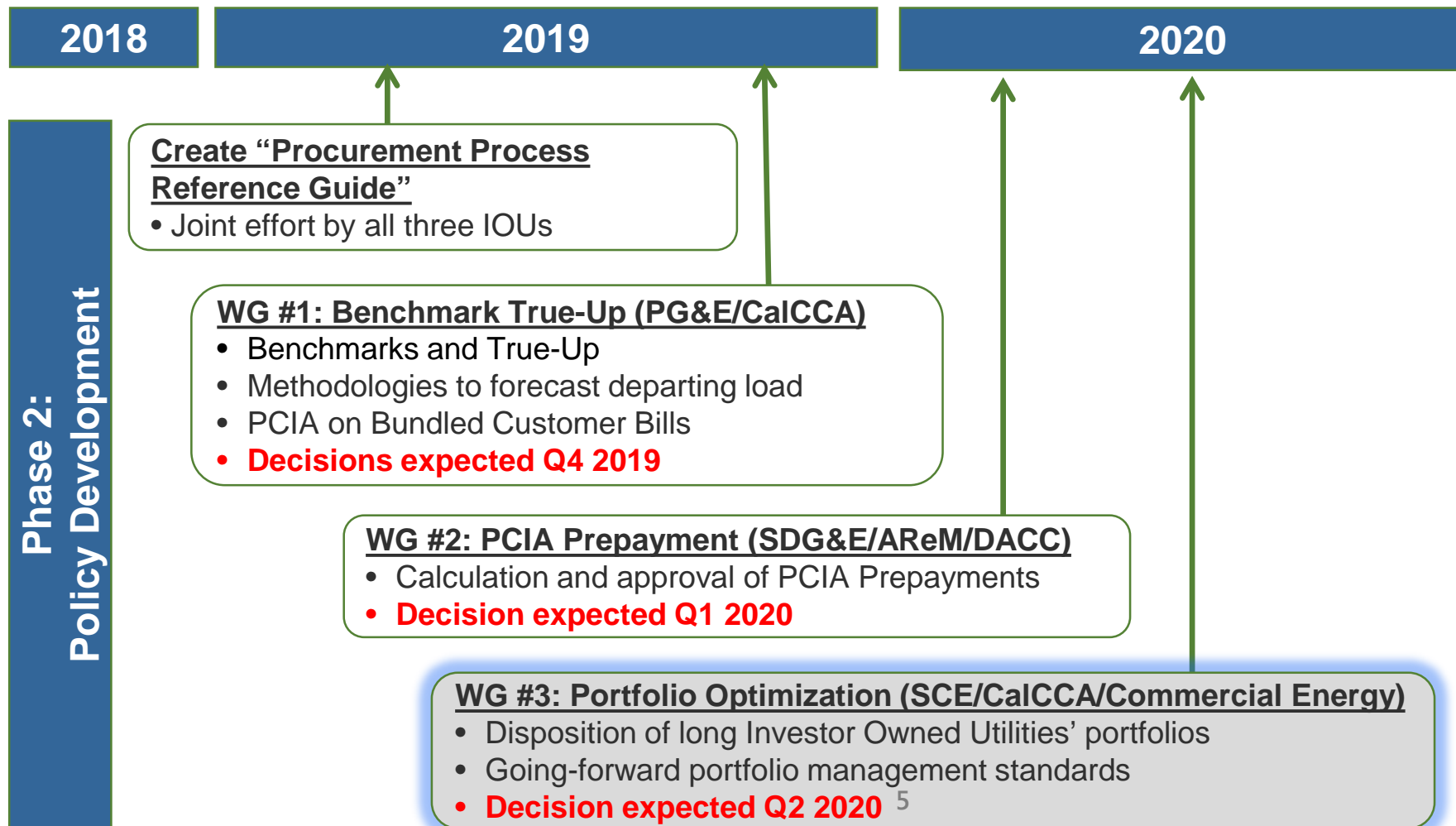
- Sale of attributes to market participants. Buyer pays IOU; sales revenues offset PCIA costs.

Definition - Allocation

- A distribution of benefits (i.e., attributes) on a pro-rata basis to participating LSEs over a specific period and for a specific term. Costs are recovered from the LSE's customers through a net cost rate component (full costs minus market revenues).

PCIA Phase 2 – Working Group Roadmap/Timeline

Three Concurrent Working Groups; Co-led by a Utility and CCA/DA Representative



Strawman Proposal: Residual Sales Approach:

Resource Adequacy (RA) and Renewable
Portfolio Standard (RPS)

Strawman Proposal: Residual Sales Approach for Resource Adequacy (RA) & Renewable Portfolio Standards (RPS)

Description of Overall Approach:

- IOUs shall offer to sell attributes that are in excess of what is required for the IOU to serve or meet its forecasted¹ compliance obligations and/or customer needs. The excess amount depends on the attribute type

Agreed Upon Attributes	Future Discussion: Other Attributes/Approaches Raised	Other Approaches Raised
Resource Adequacy (Local, System, Flex)	<u>GHG Free Energy</u> – CalCCA proposes a sales approach. IOUs support allocation. <i>To be discussed further and shared at a future workshop.</i>	<u>Total Portfolio Sales</u> – IOUs put all assets up for sale <ul style="list-style-type: none"> IOUs have concerns about buying back resources they’ve already procured. Focusing sales on specific attributes allows products to be tailored to specific needs of the buyer and seller.
Bundled RPS (energy + REC)	<u>Brown Energy</u> – Commercial Energy proposes to further explore <i>To be discussed further and shared at a future workshop.</i>	
	<u>Allocations</u> – Voluntary offering to LSEs. <i>To be discussed further and shared at a future workshop</i>	

Today's Focus

¹) Definition of forecast to be discussed

Strawman Proposal: Residual Sales Approach (RA & RPS)

Eligible Participants:

- Any market participant that reaches mutually acceptable terms and conditions for a sale/purchase of attributes

Process:

- Sales will principally offered through competitive solicitations¹solicitations (mechanisms to be defined)
 - Transactions may also be done through brokers, bilateral negotiations, and participation in other solicitations RFOs as permitted by IOU procurement plans
- IOU uses pro-forma contracts
- IOU prepares bid materials and administers process using an Independent Evaluator (“IE”) and in consultation with PRG
 - Potential controls to ensure a fair process (i.e., use of a Reservation Price, minimum participation level, minimum limits on the percentage of any one bidder, etc.) to be advised upon by IE and consulted with PRG ahead of solicitation

Resource Adequacy (RA)

Excess Sales Approach

Resource Adequacy (RA)

Defining RA Excess Amount¹

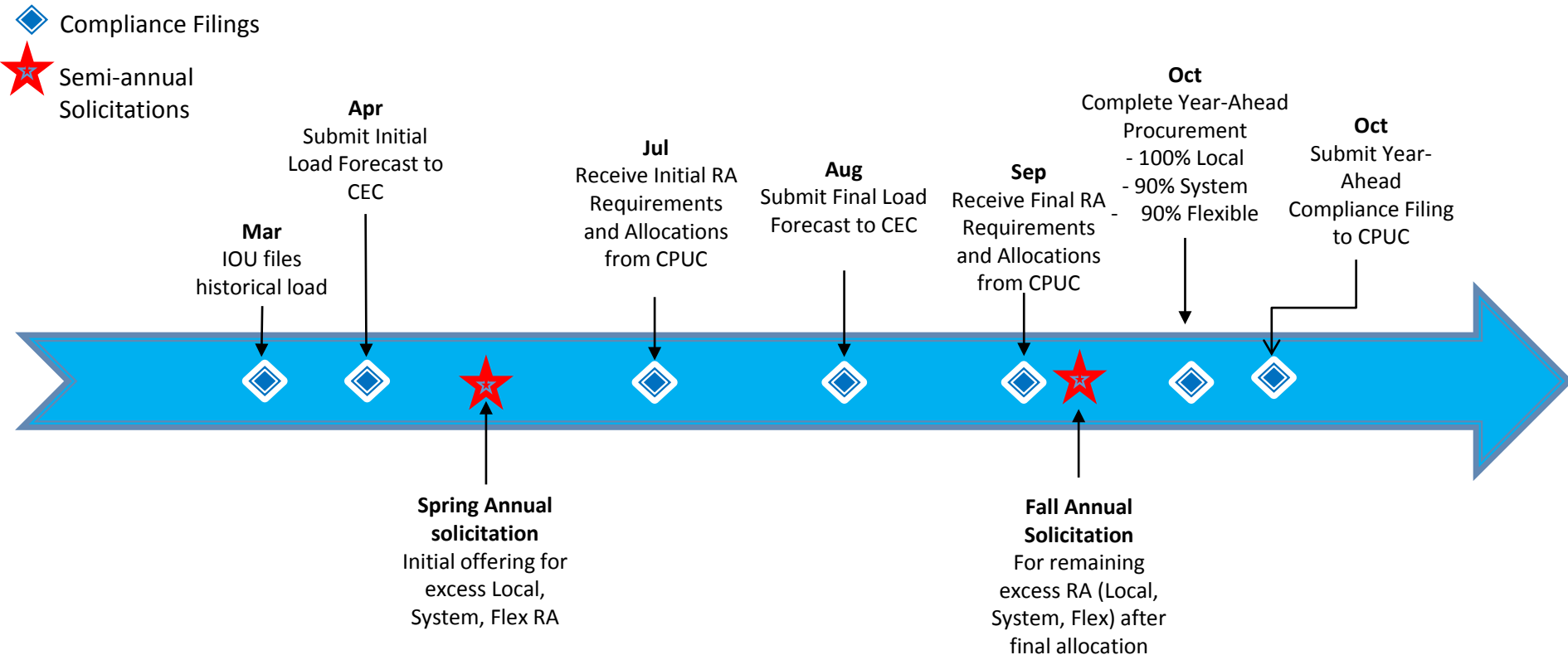
- Amounts above the IOU's bundled service load compliance obligation, plus a buffer, determined annually for Local, and monthly for System and Flex RA
- May include offers for swaps (e.g., IOUs may sell local only if offered system to purchase)

Timing

- Offered with sufficient time for LSEs to meet their annual and monthly obligations (e.g. three year forward obligation for local RA, and year ahead and monthly obligations for system and flex RA)
- IOU Sales Frequency:
 - Semi-annually to address local needs and year ahead system and flex
 - Quarterly to address monthly needs for system and flex

¹ Excess based upon final RA obligations adopted by the CPUC for each period plus a buffer

Illustrative Compliance Timeline and Annual Solicitation Schedules



Period between final RA allocations are received and year-ahead submissions must be submitted is relatively short.

RA Issues Identified

Determination of Buffer

- How is it calculated?
- When is it claimed?
- Who oversees?

Timing of Solicitation

- Should IOU conduct Spring solicitation (April)?
- What quantities and products to be included in the Spring solicitation?
 - How to determine IOU's forecasted excess for a Spring solicitation, prior to final allocation?
- How to address the timing of getting a final allocation and putting the excess to market in the Fall (Sept./Oct.)?
 - Pursue a rule change to move final allocation to earlier in the year (CEC, CPUC, CAISO)
- Should IOUs be required to sell Local RA when faced with System or Flex shortage?

Renewable Portfolio Standard (RPS)

Excess Sales Approach

RPS Sales Approach

Defining RPS Excess Amount

- Excess RPS attributes include amounts that exceed what is needed for each IOU to meet its compliance obligations, plus a buffer,¹ on a forecasted² basis

Frequency

- Semi-annual solicitations

Attribute and Term Offered

- Sales should be bundled transactions (energy + REC) that preserve PCC1 status
 - Is there an interest/demand for REC only (PCC3)?
- May make available terms that are required to meet long-term RPS requirements (i.e. 10+ years), though shorter terms may also be offered (1 to 5 years)

1) To be further defined.

2) Definition to be consistent with WG1

RPS Sales Approach: Potential Options

Pricing

- Index + (attribute)
- Fixed price

Transaction Types

- Fixed quantity
- Asset specific¹
- A generation profile of assets grouped by technology
- A generation profile mirroring the IOU's RPS portfolio's profile
- Consider pooling of resources where buyer takes a % of the pool or portfolio
- Direct assignment of contracts

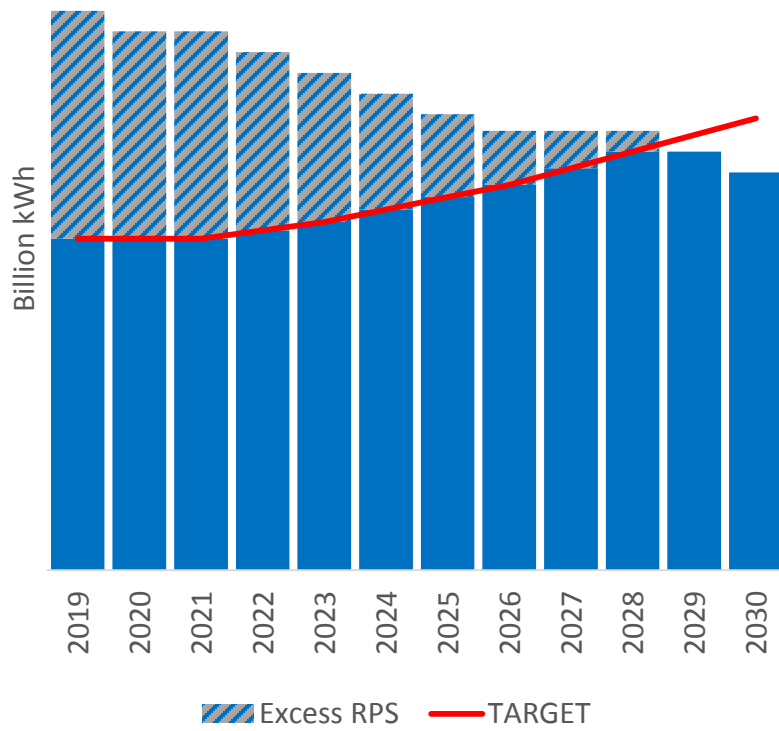
1) Might require tie back to specific vintage to preserve fair allocation. Not IOU preference.

How Should "Excess RPS" Be Defined? Illustrative Examples

SCE View

Excess RPS is amounts forecasted to be above annual compliance requirement (plus a buffer), in given year.

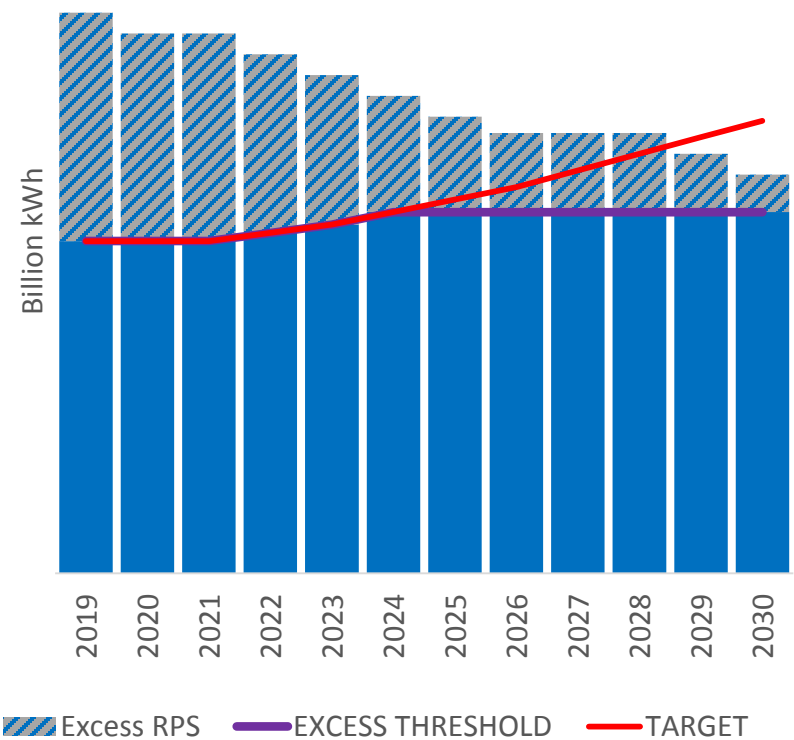
Forecasted RPS Generation



CALCCA View

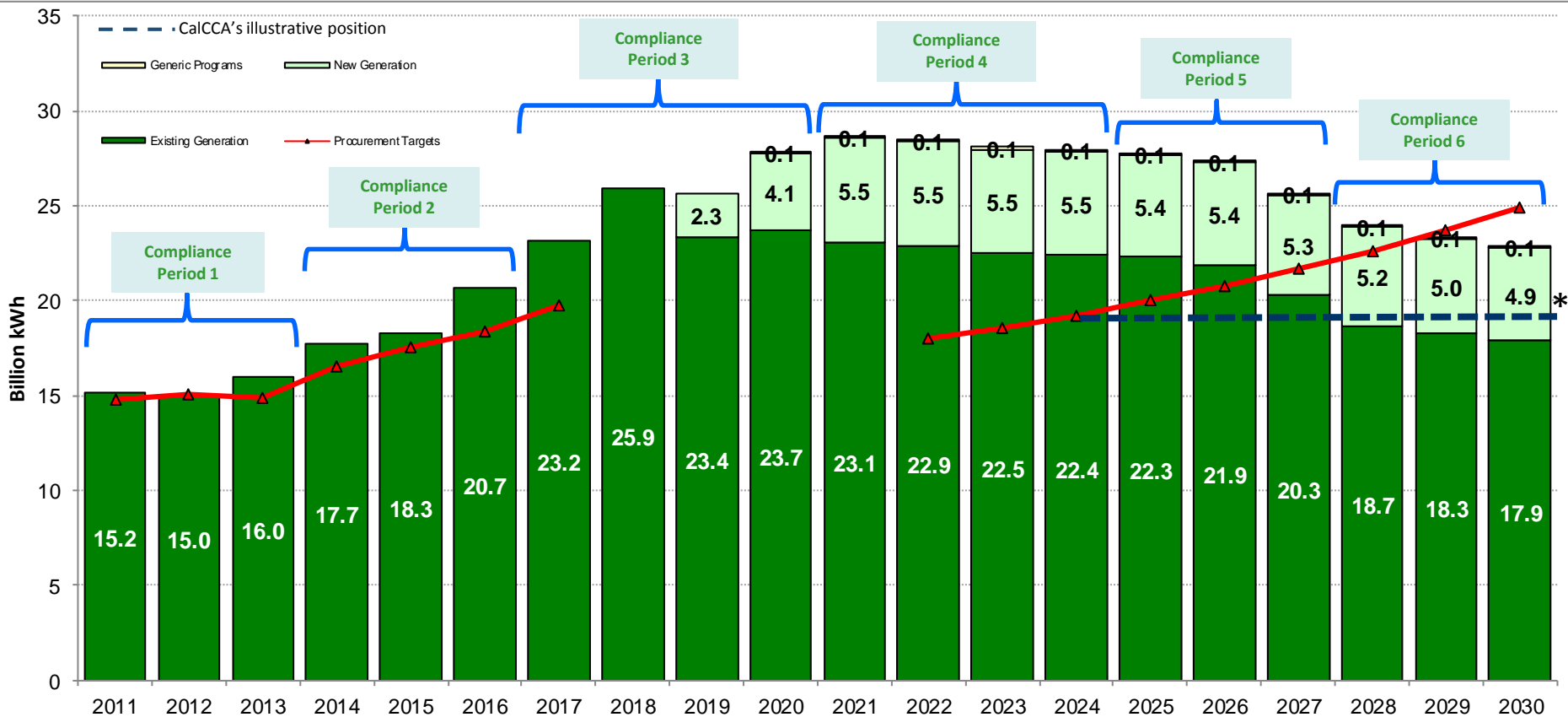
Excess RPS defined as generation above requirement as of a certain date.

Forecasted RPS Generation



SCE RPS Compliance Position

100% Success Rate for PPAs in Development



RPS%	21%	20%	21%	23%	24%	28%	32%				58%	58%	58%	58%	57%	53%	50%	48%	46%
------	-----	-----	-----	-----	-----	-----	-----	--	--	--	-----	-----	-----	-----	-----	-----	-----	-----	-----

Compliance Periods	2011-2013	2014-2016	2017-2020	2021-2024	2025-2027	2028-2030
Bank Balance / (Deficit)	1.4	5.7			90.2	89.5

Source: Data from SCE's August 2018 RPS Compliance Report

RPS Identified Issues

- Should IOUs be required to sell forward RPS even if they forecast a need in the future?
 - Sell above current compliance requirement
 - Sell above a certain amount for future compliance requirement
 - Sell a proportional share equal to departing load
- If IOUs have their own clean energy goals that are above RPS requirements, how would they retain their RPS to meet those goals?
- Possibility of rule changes to preserve status of PCC1/long-term status
- Should the solicitations be staggered among the IOUs or offered simultaneously?
 - What happens if no buyers for RPS? What is the process?
- Treatment of IOUs' banked RPS
 - Should there be an allocation to all LSEs based on load share and/or vintage?

Allocation Discussion Points (Commercial Energy)

- Structure for a Voluntary Allocation of Excess IOU Resources
 - Voluntary Allocation could be offered to all LSEs
 - Should the Allocation(s) be based on specific contracts or designated pools of resources?
- Processes for Voluntary Allocation(s) of Excess IOU Resources
 - Schedule of Allocation(s)
 - What can be disclosed to LSEs in advance of Allocation decision?
 - Accounting treatment for resources accepted in Allocation(s)
 - Treatment of attributes (energy, RA, RPS, other) for resources accepted in Allocation(s)

Next Steps

- Submit comments/feedback by May 6
- Finalize strawman for sale of excess RA and RPS attributes
- Future discussions:
 - Allocations – Commercial Energy discussion points
 - Explore sales of other attributes (GHG-free and brown energy)
 - Discussions in Scoping Memo issues 2-4
- Plan date for second working group session
- Submit progress report to the CPUC June 24

Final Questions/Thoughts?

Thank you for attending!