BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Review, Revise, and Consider Alternatives to the Power Charge Indifference Adjustment.	Rulemaking R.17-06-026 (Filed June 29, 2017)

OPENING BRIEF OF THE CITY OF SAN DIEGO

ON

TRACK 2 ISSUES

MARA W. ELLIOTT, City Attorney
FREDERICK M. ORTLIEB
Deputy City Attorney
1200 Third Avenue, Suite 1100
San Diego, CA. 92101
(619) 533-5800 (Telephone)
(619) 533-5856 (Fax)
fortlieb@sandiego.gov (e-mail)

Attorneys for
CITY OF SAN DIEGO

Dated: June 1, 2018

R.17-06-026
Opening Brief for City of San Diego

I. EXECUTIVE SUMMARY

The City of San Diego (CSD) is continuing to evaluate the feasibility of commencing a Community Choice Aggregation (CCA) program as one possible pathway toward realizing its Climate Action Plan goal of having 100% of the electric supply within the City fueled with renewable energy by 2035. [1] The Power Charge Indifference Adjustment (PCIA) charge, present and future, will be a prominent factor informing its impending decision. Most parties in this proceeding including CSD believe that the methodology for determining the PCIA is in need of reform, although parties' views vary as to the reasons why and as to how the methodology should be changed. For the near-term purposes of this proceeding, CSD agrees with parties who advocate for modification of the Market Price Benchmark by including valuable attributes in the Green Adder, reforming other Green Adder components related to Department of Energy data, recognizing the long-term value of contracts in the benchmark and not just spot market values, and for inclusion of greater value for capacity and RA in the benchmark.

CSD does not support the replacement of the benchmark paradigm with the Green Allocation Mechanism/ Portfolio Monetization Mechanism (GAM/PMM) proposal of the Joint Utilities. The Joint Utilities have not met their burden in establishing that their GAM/PMM proposal will result in just and reasonable rates for departing load customers. The only evidence in the record shows that the alleged "above market"[2] costs for SDG&E as estimated by the

[1] City of San Diego Climate Action Plan Strategy 2, goal for Clean and Renewable Energy, page 35 available at https://www.sandiego.gov/sustainability/climate-action-plan.
[2] The term "above market" here has same meaning given in the Scoping Memo dated September 25, 2017 (p.12), "costs that fall within the PCIA methodology."

GAM/PMM appear to be significantly out of line with estimates for the other IOUs. Adopting the unsupported GAM/PMM proposal for SDG&E would have the effect of limiting customer choice by burdening would-be CCAs and departing load customers with inordinate costs that were not unavoidably incurred on their behalf.[3] CSD does not believe the evidence reflects that involuntary short term RPS allocations and spot market sales for liquidation of IOU portfolios will achieve the market value for which all customers deserve benefit. There should not be mass liquidation in short term markets with corresponding write-off of value and absorption of above market costs being disproportionately placed on departing load customers.

Other proposals such as CalCCA's Staggered Portfolio Auction (SPA)[4] or Commercial Energy's Voluntary Allocation and Auction Mechanism (VAAC)[5] show promise as just and probative approaches to attaining the highest value for excess IOU portfolio resources, however CSD does not believe the Commission should take action on those proposals in this phase of the proceeding. Implementation of main elements of those possible solutions (e.g., securitization, spreading out of auctions) will take time not available in this phase of the current proceeding.[6] Finally, going forward CSD supports measures that would make the IOU procurement processes and Power Purchase Agreement (PPA) approvals more transparent to the public, so that the entire portfolio structure that consists of the many PPA building blocks can be appreciated as a whole, not just on a single PPA basis, for better public understanding of what the PCIA ramifications are.

---

[3] See CalCCA Rebuttal Testimony (A. Hoekstra) p.2A-10.
[4] CalCCA Opening Testimony Volume 3, Chapter 4 (A. Hoekstra and T. Merrinan).
[5] Commercial Energy Opening Testimony (Ron Perry) pp. 19-33.
[6] Joint Utilities Rebuttal Testimony, p. 1-3 lines 1-15.

II. INTRODUCTION

A. City Of San Diego's Interests

CSD is mindful of the Overall Goal and Final Guiding Principles contained in the Scoping Memo dated September 25, 2017.[7] The overall goal of developing measures that comply with Public Utilities Code Sections 365.2 and 366.3 is important to CSD since implicit in the balancing of cost allocation is preservation of the fundamental concept of fairness to all customers, and the principle that cost responsibility should follow only unavoidable incurrence of those costs on behalf of customers. CSD is also concerned for an assurance that SDG&E will manage its portfolio in the best possible fiduciary manner for the benefit of all ratepayers including those who might depart for CCA service. The law is clear that neither bundled service or alternative service customers should have to bear costs that were unavoidably incurred for customers of the other class. Achieving a more fair methodology to all customers that obtains maximum value for portfolio resources is particularly in CSD's interest because it desires to preserve all options with respect to possible approaches to attaining its Climate Action Plan goal of meeting 100% of electric demand in City with renewable generation by 2035. The prerogative to form a CCA is one possible avenue to meet CSD's objectives and should not be undercut by a PCIA methodology that fails to attain highest value for IOU portfolio resources (thereby saddling departing load customers with unreasonably high PCIA charges), or which unreasonably deprives CCAs the ability to determine their own portfolio content. As CSD this year deliberates a possible CCA pathway to its renewable energy goals it is thus focused on both near-term and long-term issues related to ensuring that customers, both bundled service

---

[7] Scoping Memo at pages 12-14.

and departing load, are assigned the appropriate cost responsibility and also that the utilities take all actions to minimize the level of stranded costs related to their past and future procurement activities. Other parties have similar goals, and CSD shares the concern about "costs being appropriately assigned to protect the interests of both those ratepayers who would be departing for any newly formed Community Choice Aggregation entity (CCA), as well as those ratepayers who would be remaining with SDG&E should a CCA be formed." [8]

B. City's Participation in Proceeding

CSD filed Opening Comments on July 31, 2017 stating the general purpose of ensuring that inputs and methods used to determine the PCIA are fairly and transparently regulated as San Diego continues its evaluation of commencing a CCA service. CSD did not submit opening or rebuttal testimony in this proceeding, desiring instead to not take a position at the outset but to be informed by the testimony of market participants (or market interest groups) with their varying perspectives, and by governmental and non-governmental organizations who are familiar with utility portfolio resource procurement and management practices. CSD served data requests on IOUs and had limited, discrete, and qualified representatives review confidential information subject to the Modified Non-Disclosure Agreement in order to gain a better understanding of the portfolios. However, the positions taken in this brief are based entirely on the open, non-confidential public record. CSD has reviewed opening and rebuttal testimony submitted by parties and reviewed the hearing transcript. Based on its review of the record, CSD provides recommendations regarding steps that the Commission should pursue in the short- and long-term regarding the PCIA.

[8] UCAN Opening Testimony (Dr. Eric Woychick), p. 3.

III. COST SHIFTS UNDER THE CURRENT METHODOLOGY

One point that became very clear is that different service groups take almost opposite views on the direction of cost shifts that are occurring under the present PCIA structure. Parties differ regarding the magnitude and sign of cost shifts, with IOUs claiming that there are significant cost shifts onto bundled ratepayers under the current PCIA approach as more load departs for commodity service from alternative Load Serving Entities (LSEs), and other parties claiming that there are already significant cost shifts onto departing load customers.[9] CalCCA's rebuttal testimony summarized that "[t]he Joint Utilities and CalCCA agree that the current PCIA results in a cost shift, but differ materially on the direction of that shift. The Joint Utilities contend that the 'PCIA is no longer able to ensure that bundled service customers are financially indifferent to departing load….' They believe that the amount of the cost shift can be calculated with precision using an algebraic proof. CalCCA reaches the opposite conclusion, that bundled customers currently are imposing a significant cost shift on departing load customers."[10] In its opening testimony CalCCA offered evidence that the current PCIA methodology shifts costs from bundled to CCA customers when compared with an analysis relying on Commission adopted resource values.[11]

Despite the divergent perspectives, the evidence is clear that the current methodology is ripe for revisions.[12] However, given the potential that the modified PCIA could affect the viability of current and future CCAs, the City believes that there are revisions that should occur

[9] Joint Utilities Rebuttal Testimony, p. 1-7. See also CalCCA Direct (A. Hoekstra), p. 2A-9.
[10] CalCCA Rebuttal Testimony (A. Hoekstra) at p. 2A-1.
[11] CalCCA Opening Testimony (A. Hoekstra) pp. 2A-12 to 2A-15.
[12] Joint Utilities Rebuttal Testimony, p. 2-1, fn 2.

quickly but that other revisions will need more time to fully vet to ensure that there are no unintended consequences resulting from those changes. The Joint Utilities appear to agree that a phased approach makes sense.[13]

IV. SCOPE OF PCIA-ELIGIBLE RESOURCES AND COSTS

For this section of the common briefing outline CSD acknowledges the position of CalCCA that the value of "GHG-free" attributes of nuclear and hydroelectric Utility Owned Generation (UOG) should be added to the PCIA market benchmark.[14] CSD takes no position on this issue as SONGS is decommissioned and hydroelectric is not a significant part of SDG&E's portfolio.

V. PORTFOLIO VALUATION METHODOLOGIES

A. Joint Utilities Have Not Met Burden With Respect To GAM/PMM Proposal And It Should Not Be Adopted.

The Joint Utilities have proposed a novel methodology that claims to meet the indifference requirements for bundled service customers and customers who take commodity service from non-IOU LSEs. They refer to this as the Green Allocation Mechanism/Portfolio Monetization Mechanism (GAM/PMM).[15] For RPS eligible resources the GAM methodology would involuntarily assign pro-rata shares of certain products (i.e., RECs and Resource Adequacy associated with renewable resources) to departing load customers along with the costs of those products.[16] For non-RPS eligible resources the PMM would only collect the pro rata share of the above-market costs of the PMM resources from departing load customers. However, unlike the Current (PCIA) Methodology, which relies on administratively-set

[13] Joint Utilities Rebuttal Testimony, p. 1-3.
[14] CalCCA Rebuttal Testimony (A. Hoekstra) p. 2B-12 lines 4-11.
[15] Joint Utilities Direct Testimony pp. 1-21 through 1-25.
[16] Joint Utilities Opening Testimony, Chapter 4.

benchmarks to estimate the above-market costs of the portfolio, PMM uses certain market transactions to calculate the cost responsibility of departing load customers. Under PMM, the cost recovered from departing load customers will equal their pro rata share of the above-market costs of the PMM portfolio (*i.e*., actual incurred costs, less the actual energy and A/S revenues received from the markets for those resources and the actual value of the RA capacity as determined in annual RA sales.[17])

Such a novel concept requires significant evidence and stakeholder engagement and support. Unfortunately, the Joint Utilities provide no record evidence regarding the expected level of exit fees that would result from the adoption of their proposed new methodology.[18] As a result, the Joint Utilities do not meet their burden of proof regarding their proposed GAM/PMM since there is no basis to conclude that "market" based sales of utility resources at essentially short-term market values will result in a PCIA that is just and reasonable for customers served by non-IOU LSEs. The "actual market" relied on for the PMM may not reflect long term values of the products sold. CalCCA points out that near term allocations of RPS resources or the sales of non-RPS resources which monetize short term value do not realize full long-term value. "What the Joint Utilities have recommended through their GAM/PMM proposal is a short-term allocation of attributes or spot market attribute liquidation value for long-term products."[19] CSD agrees with CalCCA that the GAM/PMM proposal does not appear to provide for optimization of portfolio value. The GAM/PMM proposal does not satisfy Final Guiding Principles 1.d, 1.f, and 1.j because there is no proof that the values *imposed* by this process on departing load

[17] Joint Utilities Opening Testimony p. 1-22 lines 18-27.
[18] AReM/DACC Rebuttal Testimony (Mark Fulmer), p. 22.
[19] CalCCA Rebuttal Testimony (A. Hoekstra) p. 4-13 lines 3-5.

customers preserve long term resource values. There has been no showing that the GAM/PMM would not create unreasonable obstacles for customers of non-IOU energy providers and should be rejected.

B. Evidence Indicates That The GAM/PMM Proposal Of The Joint Utilities Would Be Significantly More Impactful On Customer Choice In The SDG&E Area

Analysis conducted by AReM and DACC regarding the magnitude of charges under the GAM/PMM proposal show that they would result in significantly greater increases in exit fees for departing load customers in the SDG&E service territory than would exist for either PG&E or SCE departed load customers.[20] However, since the Joint Utilities provide no detailed analytical support for their proposal, it was not possible for parties to probe the reasons for these disparate results.

C. If The Commission Justifiably Rejects The Joint Utilities Proposal, The Commission Should Consider The Incremental Changes To The PCIA Calculations As Recommended By AREM/DACC Or Others.

Making incremental changes to the existing PCIA methodology is a "low risk" approach in that it does not adopt untested methodologies that, with our preliminary calculations, give counter-intuitive results and may be fatally flawed.

If the Commission were to adopt the Joint Utilities' untested and unsupported GAM/PMM proposal, analysis conducted by AReM and DACC[21] demonstrates that the exit fees resulting from the GAM/PMM methodology could block retail choice options in the SDG&E service territory.

CSD also notes testimony arguing that the GAM would constitute an imputed allocation of RECs, not reimbursement, and that it would unlawfully usurp a CCA's statutory

---

[20] Compare Figures 2 and 4 to Figure 3 AReM/DACC Rebuttal Testimony (Mark Fulmer), pp. 23-24.
[21] AReM/DACC Opening Testimony (Mark Fulmer), Chapter III.

right to select the portfolio that best suits its customers' needs.[22] CSD agrees with CalCCA that Section 366.2(a)(5) provides that CCAs shall be solely responsible for their procurement activities except as may be provided otherwise by statute, and there is no statute authorizing the GAM.

Given the proposal is an untested methodology, the large increase in projected[23] exit fees for SDG&E resulting from the Joint Utilities' proposed GAM/PMM methodology, and its restraining effect on CCA statutory prerogatives, the Commission should reject the GAM/PMM proposal.

Making incremental changes to the existing PCIA methodology is a "low risk" approach in that it does not adopt untested methodologies that give counter-intuitive results and may be fatally flawed. This is discussed later in this brief.

VI. PROPOSED ALLOCATION METHODOLOGIES

Relatively simple changes to the PCIA would start the process of PCIA reform. AReM/DACC and others[24] identified such changes. They include:

- Revision to the Green Adder to incorporate long term renewable values and reforming Department of Energy Green Adder reference point;[25]
- Correction of the value of capacity and RA;
- Transparency enhancements

[22] Cal CCA Rebuttal Testimony (A. Hoekstra and T. Marrinan) p. 4-3 lines 3-5.
[23] Projected, that is, by the limited information that was made available to AReM-DACC.
[24] EUF Opening Testimony. (Carolyn Kehrein) p. 3 lines 10-14.
[25] AReM/DACC Opening Testimony, pp. 12-18; CalCCA Opening Testimony, pp. 2B-12 to 2B-15.

CSD understands and agrees with multiple parties in that efforts to enhance the PCIA calculations to fully reflect other attributes, that are not currently reflected in the PCIA calculation, such as adding in the value of ancillary services and to incorporate the value of non-RPS, GHG-Free Resources.[26] However, CSD believes that such revisions to the PCIA require a more careful vetting, especially since other parties disagree with this type of expansion.[27] Thus, CSD believes that such an expansion of the PCIA should be considered at a later time, as a separate phase of this proceeding.

CSD does not support implementation of the more sweeping proposals for development of portfolio valuation at this time.[28] As with CSD's recommendations regarding rejection of the GAM/PMM proposal by the Joint Utilities, these proposals could go drastically wrong after implementation since they have not been fully vetted. The Commission should not adopt proposals at this time that could result in the undermining of the PCIA or the intent of customer indifference.

VII. PROPOSED PORTFOLIO OPTIMIZATION AND COST REDUCTION

A. Longer-Term Solutions Should Be Pursued In Next Phase Of This Proceeding

CSD appreciates that parties support consideration of several longer-term solutions to reduce the costs of their portfolios over the long-term.[29] CSD agrees with the Joint Utilities to establish a "formal working group of stakeholders" to flesh out the details of these important aspects of a fully-revised PCIA.[30]

[26] CalCCA Opening Testimony, pp. 2B-9 to 2B-11.
[27] Joint Utilities Rebuttal Testimony *passim*.
[28] These include adoption of auction mechanisms to establish market value for existing elements of the utilities' portfolios.
[29] Joint Utilities Rebuttal Testimony, p. 1-2.
[30] Joint Utilities Rebuttal Testimony, pp. 1-3 to 1-4.

CSD is concerned that these possibly valuable longer-term solutions may be lost in the shuffle if the Commission does not pursue them in current proceedings, meaning that the Commission should institute new phases of the current proceeding to further define and develop these solutions. Deferring them to future yet-defined rulemakings or applications risk a loss of momentum.

B. Securitization

The CalCCA testimony related to securitization did not address this proposal as it relates to SDG&E.[31] As a result, the Commission does not have meaningful record evidence to support a conclusion to order securitization by SDG&E. However, the evidence does show that parties including the Joint Utilities are at least open to consideration of securitization as a means for moderating the impact of out-of-market PPAs and UOG assets on exit fees for CCAs,[32] especially new CCAs. For that reason, CSD supports the Joint Utilities' recommendation to examine securitization in the future.

C. Proper Determination Of Market Value

CSD agrees with various non-IOU parties regarding the need for valuation of all attributes of the various elements of a utility's portfolio in order to properly determine the net costs associated with customer departure.[33] To establish a robust market-based process to establish the value of those attributes, the Commission needs to ensure that the process cannot

---

[31] CalCCA Opening Testimony, pp. 3-1 to 3-7.

[32] See Joint Utilities Rebuttal Testimony, pp. 3-36 to 3-38. See also Testimony of Colin Cushnie (SCE) on Panel of Joint Utilities, Transcript Vol. 5 pp. 710-715, citing possibility of securitization as a tool but also a number of issues and qualifying considerations from perspective of Joint Utilities.

[33] For example, see UCAN Rebuttal Testimony, p. 12 (need to capture long-run attributes of bilateral contracts); CalCCA Opening EUF Opening Testimony, p.3 lines 15-17, p. 4 lines 1-16 (reflect hedging value); CalCCA Opening Testimony, p. 1-3 (need to reflect long-term value), and pp. 2A-3, 2A-4 (capacity value, and long-term value need to be included).

be manipulated by market participants (as noted by CalCCA, Joint Utilities, and others). This will require more time than is available in this phase of this proceeding.

VIII. OTHER ISSUES

As noted above, CSD is concerned that there has been little opportunity for careful assessment of the various proposals regarding the sweeping changes to the PCIA calculation proposed by some parties. In addition, CSD believes that the Joint Utilities have not met their burden of proof to support their GAM/PMM proposals. For these reasons, CSD believes that the Commission should establish new phases to this proceeding to allow for a more in-depth assessment of the different elements proposed by parties. At the same time, CSD is mindful that there is a need to continue with the determination of an updated PCIA methodology. Therefore, CSD recommends parallel phases to this proceeding to examine the following:

- Long-term measures to reduce PCIA (e.g., securitization, contract buydowns);
- Valuation of assets remaining in the Joint Utilities' portfolios (e.g., auction mechanisms such as that proposed by Commercial Energy and CalCCA including timing, content, degree, and market integrity protection measures of such auctions);

Rather than establishing panels to address these issues, all stakeholders should have an opportunity to participate in these activities. CSD recommends that these activities be overseen and pushed forward by an Assigned ALJ (preferably) or by the Energy Division. Without some form of accountability, CSD is concerned that the discussions will fail to work toward development of solutions.

IX. CONCLUSION

The Commission should reject the Joint Utilities' GAM/PMM proposal and instead reform the Market Price Benchmark by making necessary adjustments to the Green Adder component and the Capacity and RA components for the near term. The Commission should establish other phases of this proceeding to more thoroughly vet proposals relating to other proffered mechanisms to address above market costs, including auction mechanisms and securitization.

Dated: June 1, 2018.

Respectfully submitted,

Mara W. Elliott, City Attorney

By */s/ Frederick M. Ortlieb*

Frederick M. Ortlieb
Deputy City Attorney
1200 Third Avenue, Suite 1100
San Diego, CA. 92101
(619) 533-5800 (Telephone)
(619) 533-5856 (Fax)
fortlieb@sandiego.gov (email)