CALCCA
ADVANCING LOCAL ENERGY CHOICE

## ENSURING FAIR AND EQUAL ACCESS TO BENEFITS OF LEGACY ENERGY RESOURCES
***Internal Fact Sheet for Proposed Legislation***

### SUMMARY
Over the last ten years, millions of utility customers have transitioned from investor-owned utility (IOU) electric service to Community Choice Aggregators (CCAs), local government-owned utilities providing electricity over the existing power grid. As part of this transition, CCA customers continue to share with IOU customers cost responsibility for legacy energy resources purchased by IOUs prior to their departure for CCA service.

While all customers bear responsibility for these legacy resources, only IOU customers can meaningfully access the benefits. This bill solves that inequity by ensuring all customers have equal access, through an allocation process, to the benefits of the resources that were purchased on their behalf, such as renewable and greenhouse-gas free (GHG-free) energy and resource adequacy. Additionally, it implements other consensus measures designed to maximize the value and utility of legacy resources held in IOU portfolios.

### EXISTING LAW
Existing law (AB 117, Statutes of 2003 and SB 350, Statutes of 2015) provides that the California Public Utilities Commission (CPUC) must ensure overall cost minimization and prevent cost shifts between IOU and departing-load customers (e.g., CCAs and ESPs). AB 117, SB 790, and related legislation have been implemented by the CPUC in the form of the Power Charge Indifference Adjustment (PCIA), a surcharge on all customers intended to collect above-market costs of the IOUs legacy resources. SB 790 requires that the cost responsibility of CCA customers shall be reduced by the value of any benefits that remain with bundled service customers, unless the CCA customers are allocated a fair and equitable share of those benefits.

### THIS PROPOSAL
This proposal would add new sections to the Public Utilities Code that are designed to ensure fair and equal access to the benefits of legacy resources and ensure resources held in IOU portfolios are managed to maximize value for all customers.

Specifically, this proposal:

1) Provides IOU, CCA, and direct access customers equal right to receive legacy resource products that were procured on their behalf in proportion to their load share if they pay the full cost of those products.

2) Requires the CPUC to recognize the value of GHG-free energy and any new products in assigning cost responsibility for above-market legacy resources, in the same way value is recognized for renewable energy and other products.

3) Requires IOUs to offer any remaining excess legacy resource products not taken by IOU, CCA, or direct access customers to the wholesale market in an annual solicitation.

4) Requires each IOU to transparently solicit interest from legacy resource contract holders in re-negotiating, buying out, or otherwise reducing costs from these contracts.

**BACKGROUND**

***Overview***

Early procurement of renewable energy generation resources by California's IOUs resulted in a rapid transition to renewable energy. As renewable resources have grown to scale, both prices and market value for renewable energy have declined, leaving a significant portion of the IOU legacy resource portfolio underwater. Likewise, utility-owned generation operates at costs that are significantly above market, further increasing the PCIA. These parallel trends have produced billions of dollars of above-market costs needed to be recovered through the PCIA.

While these resources produce high costs, they also produce valuable products such as renewable energy, hydroelectric energy, and resource adequacy, products needed by all energy providers to meet their clean energy goals and remain in compliance with reliability requirements. However, under the current structure, all of these products are retained by the IOU for its own compliance purposes. While CCA and direct access customers continue to pay a significant share of the costs for these resources, their ability to access the benefits depends on the willingness of the IOU – at its sole discretion – to sell.

This inequity has been long recognized by regulators and stakeholders. In 2017, the CPUC opened a proceeding intended to address PCIA-related issues and included addressing portfolio management and portfolio optimization. The CPUC deferred on this in its October 2018 decision, instead directing CalCCA, SCE, and Commercial Energy (co-chairs of the Working Group) to work together on a consensus solution. That solution – reflected in this bill proposal and developed through months of hard work by the co-chairs – was formally provided in February 2020, but has not been given any procedural consideration since.

***What is the PCIA?***

The Power Charge Indifference Adjustment (PCIA) is a mechanism adopted by the Commission as part of a ratemaking methodology to ensure that when electric customers of an investor-owned utility (IOU) depart from IOU service and receive their electricity from a non-IOU provider, such as a CCA, those customers remain responsible for costs previously incurred on their behalf by the IOUs.

***Status of the PCIA***

The concept of allowing a utility to recover above market costs through a nonbypassable charge (NBC) has been around since restructuring of the electric sector in the mid-90s. The PCIA surcharge is a form of NBC that has been updated and revised several times. The PCIA, or 'stranded costs', is the total IOU portfolio costs for the eligible resources minus their portfolio value. In 2017, the CPUC opened a rulemaking to revise the PCIA and identified one of the issues to be addressed was optimization of IOU portfolio management (e.g., contract extensions and contract renegotiation) to minimize stranded costs.

Parties advanced numerous proposals for optimization in Phase 1 (e.g., securitization, buy-out/buy-down, voluntary allocation and auction) but the final decision in October 2018 limited its scope to market price benchmark reform and deferred optimization issues to Phase 2.

The Phase 2 scoping memo issued in February 2019 identified three areas in need of resolution, including identifying the "structures, processes, and rules governing portfolio optimization that the Commission should consider in order to address excess resources in the utility portfolios" and how to improve "management of the utilities' portfolios in response to departing load in the future in order to minimize further accumulation of uneconomic costs."

A Working Group process was established at the CPUC with three co-chairs representing the affected load serving entities (CCAs, IOUs, and direct access providers): California Community Choice Association (CalCCA), Southern California Edison (SCE), and Commercial Energy (CE).

After 10 months of collaborative and extensive resource investment that included four workshops and two progress reports, the co-chairs filed a final consensus report in February 2020. The Commission final decision was expected by June 2020. As of February 1, 2021, the Commission has taken no action towards adoption of the final consensus report.

The delay by the CPUC to issue a decision impacts the procurement plans of the load serving entities (LSEs). The delay creates uncertainty and may lead to duplicative procurement as IOUs, CCAs, and ESPs are forced to guess what resources, if any, their customers may have access to in the future.

***Benefits of Bill Proposal***

- Maximize the value of the portfolio and provide equitable access to all LSEs required to pay above-market costs
- Minimize stranded costs by increasing sales revenues and reducing costs in the PCIA-eligible resource portfolio
- Prevent "double procurement" of Resource Adequacy (RA) and Renewable Portfolio Standard (RPS) compliance resources thereby reducing ratepayer costs
- Provide greater transparency for IOU optimization efforts