



SB 612: A Ratepayer Equity Bill
Frequently Asked Questions

What is an IOU portfolio?

An IOU electricity supply portfolio includes all the energy resources an IOU has procured to provide power to customers. These include long-term contracts with renewable energy resources and utility-owned generating facilities.

What are “legacy” energy resources?

Legacy energy resources are power supply commitments that the IOUs made in the past. These include capital-intensive utility-owned generation facilities (e.g. nuclear, natural gas, hydroelectric plants) and expensive long-term renewable energy contracts with third parties. Legacy resources account for billions of dollars in above-market costs in IOU energy portfolios, and IOUs rely on California ratepayers to pay the costs. CCA customers continue to pay for legacy resources through the Power Charge Indifference Adjustment (PCIA) fee.



What do you mean by the benefits of a legacy resource?

Legacy resources are a burden because the electricity they generate is very expensive compared to today’s market prices, resulting in billions of dollars in above-market costs that accrue to all ratepayers. However, there are also valuable products associated with the electricity produced by legacy resources – such as resource adequacy, RPS attributes, and GHG-free attributes – that can be used by energy providers to meet their clean energy goals and reliability requirements. But under the current structure, these products are retained by IOUs. So, while CCA customers must pay their fair share for legacy resources, CCA customers do not have fair access to all of the beneficial products they are paying for. There is no good policy rationale for this inequitable treatment of CCA customers versus their IOU counterparts.

Items of Value in IOUs’ PCIA Portfolios

	Old Renewables PPAs	Utility-Owned Nuclear	Utility-Owned Hydro	Utility-Owned Fossil
Resource Adequacy	X	X	X	X
RPS Attributes	X			
GHG-Free Attributes		X	X	

What is meant by “fair and equal access?”

CCA customers pay their fair share for legacy resources but CCA customers are unable to access the beneficial products/ attributes of the resources they are paying for. SB 612 ensures “fair and equal access” because all customers – bundled (IOU) and departing load (CCA) – equally share the costs and benefits of legacy contracts.

How are legacy resources managed today? What are the problems?

IOUs have full control over legacy energy resources (PCIA portfolios) and get first dibs on the valuable products to meet their own compliance requirements or to ‘green’ their power content labels. In addition to getting first dibs on valuable products in the PCIA portfolios, the IOUs are also in full control of what to do with the remainders, or excess resources. In short, IOUs make CCAs pay for the resources but then IOUs get to keep whatever they want, and get rid of what they don’t, in a manner that reduces the value of the resources and drives up the PCIA. Further, IOUs manage the portfolio so they have zero compliance risk with RPS (SB 350) or RA obligations, and leave CCAs at risk for their compliance obligations.

- **Problem #1: Timing of sales of excess resources**

IOUs have full control over when to sell the valuable items that remain in the portfolio after they get to pick and choose what they want. Then they release excess products into the market at a time of *their* choosing. The timing of the release can have deep impacts on CCAs if the IOUs have held the products past the compliance dates for RPS and RA, which in practice they do, so CCAs can’t use them to comply with their requirements. It also reduces the value of the products because there are no longer interested buyers, which in turn drives up the PCIA. Timing is especially critical now given the scarcity market for system RA, with potential delays of new projects coming online. Given the scarce market, it’s crucial that CCAs be given fair and timely access to legacy assets they are paying for.

- **Problem #2: Packaging of excess resources**

IOUs get to choose how to ‘package’ excess legacy resources. Take a 20-year RA contract, for example. The IOU can choose to sell portions of the RA in short-term slices such as one-year periods. So, they may give up 2 MW of RA for one year, keeping the rest in the bank in case they need it later. This is a vastly different product than long-term RA and the value of the product is not optimized because short-term products have less value (and garner less revenue) than long-term products. This has the net result of driving up the PCIA (lower value = higher PCIA).

- **Problem #3: CCAs’ open positions are (artificially) larger due to lack of access to legacy resources**

Because IOUs have full command over the PCIA portfolios, and can pick and choose what they want to keep and sell, their open positions are kept small. This can create serious ripple effects for the CCAs as the CPUC directs LSEs to procure based on their open positions, rather than load share, as they’ve done in the Diablo Canyon procurement order. Because the IOUs open positions are smaller, they’re going to get smaller allocations than the CCAs.

What types of benefits do CCAs have fair and equal access to under SB 612? What is the value for CCAs? SB 612:

- Gives CCAs equitable access to PCIA resources to meet a part of their RPS compliance requirements.
- Gives CCAs equitable access to RA to meet RA compliance requirements;
- Gives CCAs equitable access to GHG-free resources to reduce the carbon intensity of their own portfolios;
- Increases the value of the RPS products in the portfolio by enabling long-term allocations to CCAs (rather than just short-term sales, which don’t meet the 10-year requirement)
- Reduces the likelihood of “unsold” RA or RPS products, which are given zero value in the PCIA calculation (and therefore increase the PCIA).

How does SB 612 provide fair and equal access?

SB 612 ensures all LSE (IOU, CCA, ESP) customers have equal access to the benefits of the resources they are paying for, and that the costs to all ratepayers are minimized. The bill does this by:

- Providing IOU, CCA, and direct access customers equal right to receive, on a voluntary basis, legacy resource products that were procured on their behalf in proportion to their load share if they pay the full cost of those products
- Requiring 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
- Requiring 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
- Requiring each IOU to transparently solicit interest from legacy resource contract holders in re-negotiating, buying out, or otherwise reducing costs from these contracts

How does proportional access work?

Attributes will be allocated proportionally on a vintaged basis, using the same vintage assignment system that's used to determine the PCIA. Under that system, each generation resource and departing customer is assigned a vintage. A distinct portfolio of generation resources is identified for each vintage year based on when a commitment to procure each resource was made. CCA and direct access customers are assigned to vintage years according to the date they depart bundled IOU service. Customers continuing to receive bundled service from the IOU are included in the latest vintage (e.g. vintage 2021).

Will SB 612 benefit only CCA customers?

It will benefit all customers: CCA, IOU, and ESP. If you're improving the value of any product in the PCIA portfolio – by enabling long-term allocations to CCAs, rather than just short-term, for example – you're going to increase the value for all customers. The reason the IOUs are not doing that now is because they're going to collect the legacy costs regardless (lower value = higher PCIA), so they're not incentivized to improve the value. Renegotiation of contracts, which would be voluntary, could also reduce the costs for all customers.

Isn't the CPUC already directing the IOUs to maximize the value of legacy resources?

There is some oversight of the IOUs' management of legacy resource portfolios, but not nearly enough. It's a 'needle in a haystack' in the ERRA compliance proceeding. The commission recognized in its 2018 Phase 1 PCIA decision that utilities need incentives to manage their PCIA portfolios more aggressively and initiated a Working Group 3 (WG3) phase of the proceeding to focus on portfolio optimization and cost reduction so that only *unavoidable* costs are recovered through the PCIA. The WG3 phase "offers the promise of meaningful progress toward reducing the levels of above-market costs going forward," the CPUC said.

What does it mean to "recognize the value of GHG-free energy"?

Currently, through the Power Charge Indifference Adjustment (PCIA), CCA customers are required to pay a portion of the costs to operate IOU generation assets, such as large hydropower and nuclear facilities (utility-owned generation resources).

PCIA charges are only supposed to cover the difference in cost between the price at which IOUs bought the resources and the price at which IOUs can now sell the resources. IOUs sell the electricity from these resources in the market administered by the California Independent System Operation (CAISO). Therefore, the total cost CCA customers pay for these GHG-free resources in the PCIA is reduced by the revenue IOUs receive in the CAISO market for the energy generated from these assets. However, the CAISO revenue does not reflect any value for the GHG-free attributes of this energy.