

Concerns With The Current Indifference Methodology

CleanPowerSF
San Francisco Public Utilities Commission
And on behalf of the Joint Parties

December 7, 2010
CPUC Workshop Regarding Revisions to the PCIA Methodology
R 07-05-025

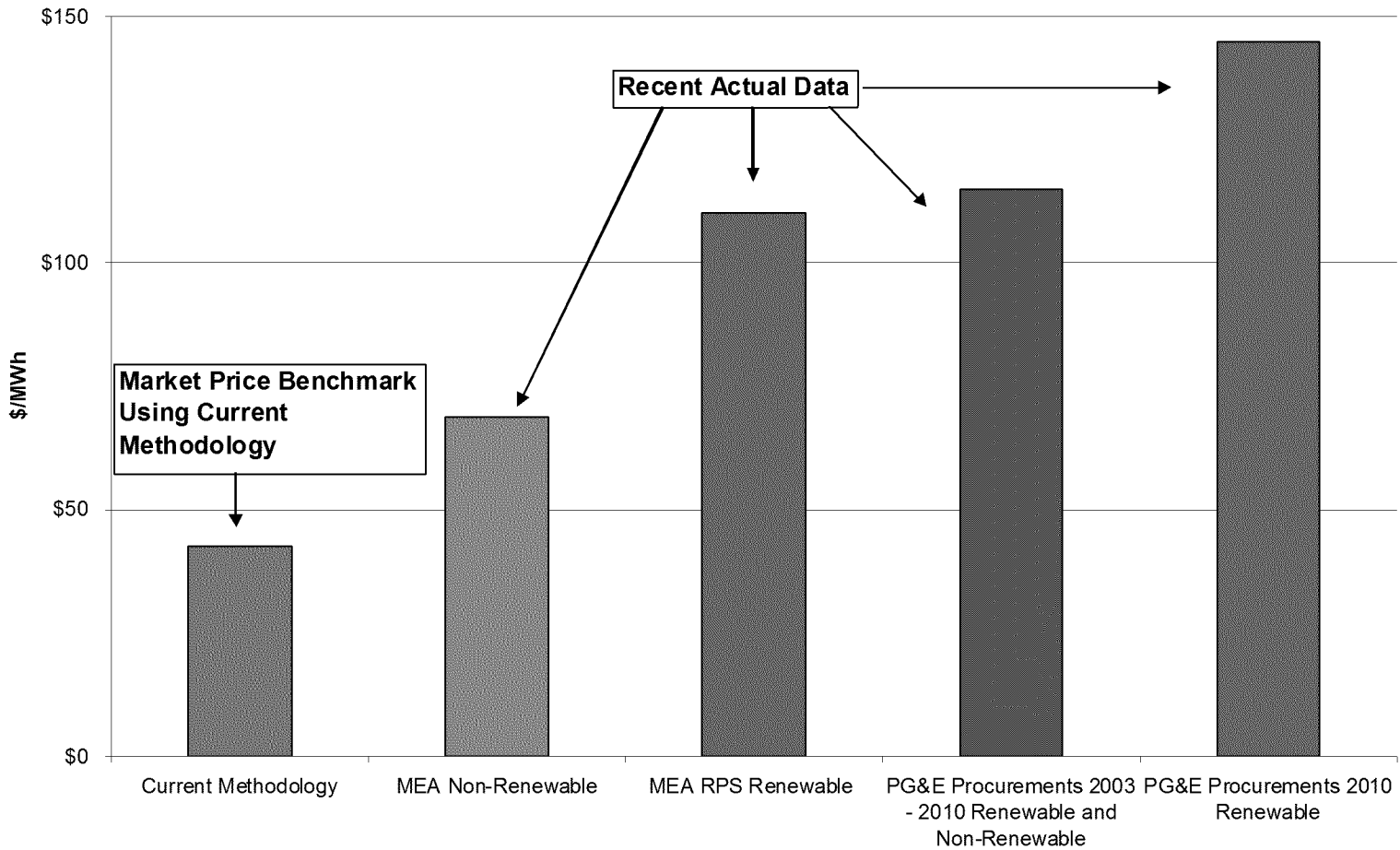
What we learned from PG&E's 2011 ERRA Forecast Proceeding

- Market prices based on recent transactions are significantly higher than market prices that fall out of the current Market Price Benchmark (MPB) formula
- Several attributes (and IOU costs) are included in the IOU resource portfolios assigned to departing load, but neither the value of these attributes nor the IOU costs are reflected in the Market Price Benchmark
- Result: Market value is understated
 Above market costs are overstated
Bundled customer indifference is not achieved

Current Market Price Benchmark compared to recent market data

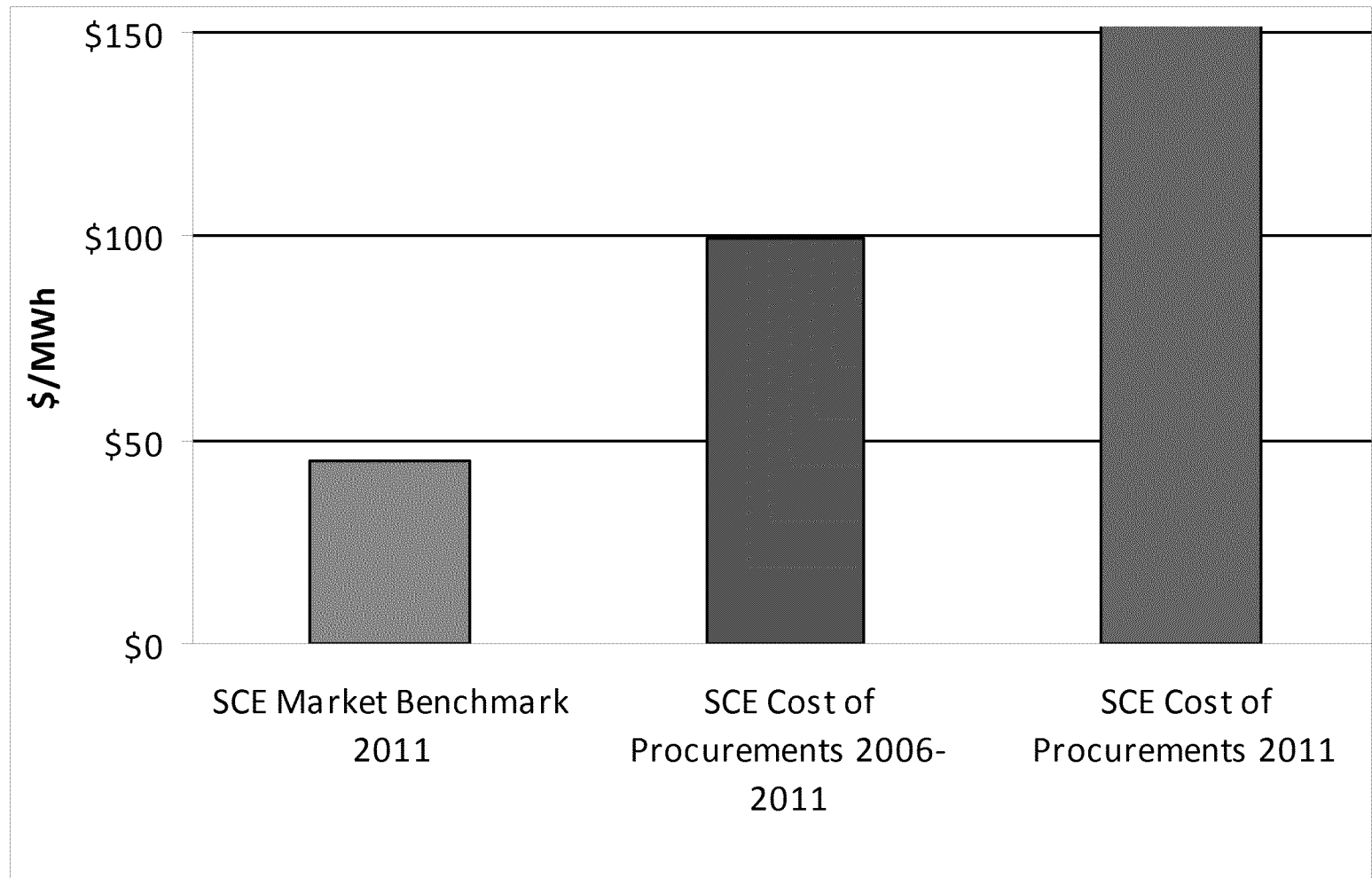
(PG&E ERRR 2011, based on November 5, 2010 update)

Cost of Resources



SCE ERRA 2011 Results are Similar

(SCE ERRA 2011, based on SCE's November 10, 2010 update)



Current Indifference Methodology

Compare:	IOU cost of procurement commitments made on behalf of bundled and departing load: Total Portfolio Cost
To:	Market cost of those commitments based on a Market Price Benchmark
Where:	Current Market Price Benchmark (PG&E) = NP15 (24x7) + Capacity Adder (\$4/MWh) x 1.06 for distribution losses

Current MPB excludes key attributes included in Total Portfolio

Total Portfolio:

- Includes non-RPS and RPS resources
- Is shaped to system load profile
- Includes RA/Capacity
- Is delivered to the customer meter, including
 - CAISO costs
 - Distribution losses

Market Price Benchmark:

- Includes non-RPS only (NP15/SP15), no RPS
- Flat load profile, not shaped
- Includes RA adder
- Includes losses from delivery point to meter
- Excludes all other delivery costs, e.g., CAISO costs

Bundled Customers Retain All RPS Attributes and Compliance Benefits

Example: 100 MWh/yr bundled load

- Current Portfolio includes 15 MWh RPS (15%)
- 10 MWh (10%) of load departs
 - Bundled load is reduced to 90 MWh
 - RPS procurement remains at 15 MWh
 - RPS compliance increases from 15% to 17%
 - RPS increment can be banked or used currently by remaining bundled load

Under current Indifference Methodology:

- RPS attributes remain with and benefit remaining bundled customers
- Departing load pays twice: once to IOU, once to meet its own RPS requirement

Current Methodology Does Not Result in Bundled Customer Indifference

PCIA Using Alternative market Benchmark (based on Nov. 5 Update)

