BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Rulemaking Regarding Whether, or Subject to What Conditions, the Suspension of Direct Access May Be Lifted Consistent with Assembly Bill 1X and Decision 01-09-060.)))))	Rulemaking 07-05-025 (Filed May 24, 2007)

POST-WORKSHOP COMMENTS OF THE UTILITY REFORM NETWORK

THE UTILITY REFORM NETWORK
115 Sansome Street, Suite 900
San Francisco, CA 94104
Phone: (415) 929-8876
Fax: (415) 929-1132
E-mail: Matthew@turn.org

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Robert Finkelstein
Legal Director

Matthew Freedman
Staff Attorney

POST-WORKSHOP COMMENTS OF TURN

Pursuant to the January 7, 2011, ruling of Administrative Law Judge (ALJ) Pulsifer amending the procedural schedule, The Utility Reform Network (TURN) submits these comments following the four days of technical workshops in this proceeding to implement the provisions of Senate Bill (SB) 695 related to the limited reopening of Direct Access (DA).

In TURN's view the workshops provided valuable information and insight into the issues at stake in this phase of the proceeding, and to some extent helped to bring the parties' positions closer together. They did not, however, produce consensus on many of the most important issues, and submission of prepared testimony now appears likely. TURN provides below substantive commentary on one key issue for consideration by the Commission and the parties as this proceeding moves forward.

I. PCIA Calculation Issues

A. Reflection of Renewables in the PCIA Calculation

As TURN has pointed out (unsuccessfully) in past proceedings regarding "exit fee" determinations, there is a problem with the current "bundled ratepayer indifference" formulation when it comes to the cost of procuring renewable generation to meet the State's Renewables Portfolio Standard (RPS) requirements. Specifically, the renewables procured by the IOUs to meet their RPS obligations are included in the costs of the "total portfolio" that, in order to calculate the PCIA, is compared to a Market Price Benchmark (MPB) that reflects only the cost of "brown" power. This can have the effect of requiring Direct Access (DA) and CCA customers to "pay twice" for renewables – once through their own purchases to meet the RPS, and again via the inclusion of the costs of IOU renewables purchases in the calculation of the PCIA "exit fee."

Unfortunately, while the problem is relatively straightforward to identify, it is complex and difficult to solve, and no method is going to be perfect. The workshops revealed three basic approaches that could employed to eliminate the inequity that currently exists:

1) Exclude IOU renewable purchases from the "total portfolio"

2) Include a value for green power in the MPB

3) Provide RPS "credit" to ESPs and CCAs whose customers pay a portion of the IOUs' renewables costs via the PCIA

Each of these approaches has its own problems. Exclusion of renewables from the IOUs "total portfolio" – the approach that TURN initially favored in past proceedings – fails to recognize the reality that the market price of green power varies over time, just like the price of brown power, depending upon market conditions. If renewables were excluded from the total portfolio used to calculate the PCIA and the price of green power declined in the future (due to reduced solar PV costs, for example), bundled ratepayers would no longer be indifferent to the departure of load to DA or CCA, because the IOUs could not re-sell any excess renewable power in their portfolios at the price they paid for it, given the decline in the market value of the green attribute. Thus, the failure of the PCIA calculation to recognize changes in the price of renewable energy over time would destroy the ability of that calculation to assure bundled ratepayer indifference over time.

The inclusion of a renewable premium value in the MPB was the approach that received the most attention in the workshops. However, that alternative also has its flaws. First of all, there is at present no available market benchmark for the premium value of renewable power, and the parties in the workshop offered widely varying approaches for determining that value. The IOUs proposed to use published DOE data that reflects the average *retail* rate premium charged under various utility programs around the country, but that approach does not provide a clear indication of the *wholesale* cost of renewable generation. Likewise, several DA and CCA parties proposed to use the cost of the IOUs' most recent deliveries of *new* renewable power as the benchmark.

Unfortunately, this approach would tend to double count the Resource Adequacy (RA) value of renewable purchases, as the MPB *already includes* a component for the market value of RA. Yet the IOUs' renewable contracts typically provide not only energy and green attributes, but also a certain amount of NQC to count toward their RA requirements. Further, it is not clear that the cost of renewable purchases entering an IOU's portfolio for the first time in a given year actually reflects the *current market* for green power, since such projects often require years to develop, and by the time the project comes online and begins delivering power, the *current market* price of new renewable procurement may very well have changed.

In addition, most proposals to add a green attribute price to the MPB include a weighting factor for renewables equal to the IOU's current year percentage of RPS compliance (*e.g.*, 20%). Use of the IOU's percentage of renewable procurement as the benchmark creates a perverse economic incentive for other retail suppliers to include LESS renewable power in their own portfolios, as their rates could be more competitive with the IOUs if they procured fewer renewables. One would think that this Commission would want to offer non-IOU retailers the *opposite* incentive – to procure *more* renewables than the IOUs – rather than discouraging such action via the mechanics of the PCIA calculation.

The third alternative approach is the one that TURN currently favors. Under this proposal, utility renewable procurement costs would be included in the total portfolio, but the MPB would NOT be revised to include a renewable component. Thus, the PCIA would incorporate the entire green attribute premium inherent in the IOUs' costs of procurement to meet the RPS, but ***non-utility retail suppliers would be given RPS credit*** for their proportionate share of the IOU's RPS purchases (for those renewable contracts entered into after the original enactment of the RPS legislation). Thus, if a given utilities' portfolio in a particular year contained 10,000 GWh of RPS purchases and a given retail supplier served 3% of the load in that service territory, the retailer would receive 300 GWh of RPS credit from the utility in exchange for its customers' payment of the PCIA. Such credit could come in the form of actual TRECs, or perhaps a simple administrative compliance adjustment could be performed, but in any case the retail supplier would receive RPS compliance credit in exchange for its customers paying a PCIA that included the cost of the renewable premiums embedded in the IOU portfolio cost. The retail provider could then use this credit to meet its own RPS compliance requirements or, if the supplier already had enough green power to meet its RPS obligation, sell an equivalent amount of bundled green power or TRECs into the market to obtain additional revenue.

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TURN urges this Commission and the parties to consider this alternative approach for correcting the problem that currently exists in the PCIA calculation as this proceeding moves forward.

Respectfully submitted,

THE UTILITY REFORM NETWORK

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By: _______*/S/*___________

Robert Finkelstein
Legal Director

Matthew Freedman
Staff Attorney