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)

REPLY TESTIMONY OF DR. BARBARA R. BARKOVICH ON BEHALF OF THE CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION AND THE CALIFORNIA MANUFACTURERS AND TECHNOLOGY ASSOCIATION

1. Introduction

Q1. Do you have any general comments about the opening testimony filed in this proceeding before addressing specific matters?

A1. Yes, I do. The opening testimony of the various parties indicates a common conclusion that there is a need to make changes to the current calculation of the PCIA and CTC for departing DA and CCA customers to take into account changes in procurement requirements. In particular, although proposed approaches differed, there is general agreement that the renewable procurement requirement as well as the resource adequacy (RA) requirement should be reflected in any market price benchmark (MPB) used in the Indifference Amount calculation that is used to calculate the CTC and to determine the PCIA. There is also general agreement that customers should not pay load-based CAISO charges twice. In addition, there was

support from the utilities for reflecting the diurnal shaping aspects of the generation portfolio in the benchmark calculation. While this proposal differed from the proposal of the DA and CCA parties, who preferred a load adjustment, there is a common understanding that the flat load assumed in the current MPB needs correction. Lastly, the utilities agreed that some change in the switching rules is appropriate.

Q2. You submitted opening testimony in this proceeding on January 31, 2011. What is the focus of your reply testimony?

A2. My reply testimony addresses positions taken by the three utilities and Jan Reid in their respective opening testimony. In particular, I address the proposal of the utilities on the choice of a renewable benchmark, PG&E's proposal to undo the current Commission policy of allowing a negative PCIA to offset a CTC, and various points made by Mr. Reid.

Q3. There seems to be considerable support in the opening testimony for the creation of a separate MPB for renewable generation. You have made a proposal for how to create a factor to reflect the value of the renewable attribute of this generation and so have others. Please describe the proposal of PG&E and your response to it.

A3. PG&E has proposed that an adder to reflect the renewable attribute be based on the market for Renewable Energy Credits (RECs). PG&E says that "it is anticipated that a transparent REC market will be available by the third quarter 2011. The earliest implementation of any revised MPB would be no

sooner than January 1, 2012, so there is adequate time for a market to evolve." (PG&E, p. 1-13)

I believe that PG&E is unduly optimistic that there will be a well-developed, liquid REC market in less than a year, much less a REC index. Furthermore, the Commission decision cited by PG&E as permitting the use of RECs for compliance with renewable portfolio standard requirements limits the use of RECs for such compliance. Thus, most of the renewable compliance will come from renewable generation contracts, not REC contracts. It is much too soon to be able to determine if the price of unbundled RECs in the market will track what utilities are paying for the renewable attribute in their renewable generation purchases.

If there is no REC index available, PG&E proposes that "parties could develop a negotiated value in an individual IOU's ERRA applications". (PG&E, p. 1-13) This is not a viable proposal. ERRA proceedings are almost ministerial at this point. There are no hearings. The schedules are short. The issues are very narrowly defined. The idea that parties could develop a negotiated value in this context is highly questionable. In addition, I note that PG&E objected to the issue of the appropriate benchmark being raised in its previous ERRA case.

Furthermore, based on the reluctance of the utilities to agree on even how to calculate a renewable adder in this proceeding, I have little confidence in their willingness to agree to a figure in the context of an ERRA proceeding.

Q4. Please describe the proposal of SCE and SDG&E for a component of the MPB that represents the value of the renewable adder.

A4. SCE has proposed to use as a proxy for the value of the renewable attribute "the average premium for voluntary renewable energy purchases as reported by the U.S. Department of Energy's (DOE) National Renewable Energy Laboratory (NREL)." (SCE, p. 26) SDG&E has supported this concept. (SDG&E, pp. CF-5 and CF-6)

Q5. What is your response to this proposal?

A5. SCE defends this proposal on the grounds that this figure is publicly available. Unfortunately, it is not a suitable proxy as it captures an entirely different metric. The figure that SCE and SDG&E propose, as SCE admits, "reflects premiums paid by energy consumers in the market", i.e. voluntary payments by retail customers to buy into a portfolio with more renewable energy. This proposed proxy, which SCE estimates at $20/MWh, has nothing to do with a wholesale market premium for renewable generation compared to gas-fired generation. In my opinion, any adder to the MPB for renewable generation should reflect the difference in the price of renewable generation being paid by load-serving entities (LSEs) compared to non-renewable generation. SCE has not even claimed that this proxy in any way represents the premium it pays for renewable generation. Indeed, it has alleged that such information is confidential. We know that the renewable contracts approved by the Commission have been priced *in excess of* the MPR. The 2009 MPR is $88-104/MWh for contracts starting in 2011, depending on

their duration. The value of a forward one-year strip of power used to set the MPB in the most recent SCE ERRA proceedings was $35/MWh. Even acknowledging that there is some capacity value in renewable contracts, the difference between the MPR and the forward strip is far more than the average DOE figure of $20/MWh. The SCE/SDG&E proposal should be rejected.

Q6. In your opening testimony, you proposed that all renewable generation be included in the renewable portfolio to which the renewable adder to the MPB would be applied. What has been the proposal of the utilities?

A6. PG&E proposes to exclude the generation associated with renewable QFs in the portfolio to which this adder would be applied. It would only include post-2003 renewable generation. It would include the pre-2004 renewable generation in the CTC calculation. Its argument is that its proposal would avoid having costs or credits from the CTC interacting with the PCIA.

Q7. Do you agree with this proposal? Please explain your answer.

A7. No, I do not, As I indicated in my opening testimony, CTC should disappear as existing renewable (and cogeneration) QF generation contracts end. If and when renewable generation that qualified as QF power signs new contracts with the utilities, it should become new vintaged renewable contracts. Then this renewable QF power should be taken out of the generation in the CTC portfolio to avoid double-counting.

However, there is a legitimate issue as to whether the above-market cost of renewable QF power under current contracts should be compared to

the renewable MPB, rather than the current gas-based MPB that is used for CTC. Renewable generation is fungible. If it allows for RPS compliance, there is no reason to divide it into different buckets based on when the contracts were signed. If it is used for RPS compliance, taking it out of CTC and including it in the renewable portfolio using a renewable MPB will help facilitate the end of CTC, which is a holdover concept from industry restructuring that should indeed disappear.

It is possible that PG&E is positioning this proposal to support its proposal to make sure that all customers pay the full CTC, with no offset from a negative PCIA. (See my discussion of this matter below, where I refute this latter PG&E proposal.)

2. PG&E Proposal to Limit Negative PCIA

Q8. Are there any other proposals for changes to benchmarks or charges paid by departing or returning DA or CCA load that you would like to address?

A8. Yes. At one of the workshops, PG&E proposed a change to the treatment of the indifference calculation. As I noted earlier, currently the PCIA is set at the indifference amount less the CTC. This means that if the indifference amount is less than the CTC, there can be a negative PCIA. However, under D. 06-07-030, the PCIA can never be lower than the opposite of the CTC, so the indifference amount can never be lower than zero. Instead, if there would be an additional negative PCIA amount, it is carried forward to the following year. I have also pointed out that this creates intertemporal inequities, because the customer who should receive that additional negative PCIA

credit may not be on DA or CCA service the following year, or whenever the carry-forward is compete.

PG&E has proposed to take this one step further and not allow a negative PCIA to offset the CTC at all. Instead, it has proposed that any negative PCIA amount be carried forward so that every customer pays the full CTC. I note that SDG&E supports this proposal.

Q9. What is your response to PG&E's proposal?

A9. I oppose it. It is inconsistent with the Commission's decision D. 06-07-030, which clearly states:

> "The following provisions shall apply to the PCIA:
> • The revenue requirement for the PCIA charge is the difference, positive or negative, between direct access non-exempt customers' share of the indifference amount and their share of the ongoing CTC revenue requirement, plus the franchise fees associated with the revenues collected from direct access customers for the DWR bond and power charges. (D. 06-07-030, p. 27)

PG&E has had several years of negative PCIAs that have been carried forward for customers of earlier vintages. If these were zeroed out in order that each customer paid the full CTC, there would be numerous problems. First of all, it could take years for a customer to get credit for that negative PCIA. In the meantime, it would be paying more than the indifference amount, essentially subsidizing bundled customers and DA or CCA customers served on different vintages. In addition, by the time the customer entitled to the PCIA credit could receive it after the carry-forward period was complete, that customer could be back on bundled service and never receive it.

I understand the reason why the Commission decided not to let a negative PCIA more than offset the CTC, to the point that the departing customer would receive a payment for leaving, even though the indifference concept does allow for the possibility that bundled customers could benefit from departing load.

I am not suggesting that DA and CCA customers be paid for departing. I am suggesting that the PG&E proposal to require all customers to pay the CTC regardless of the level of the indifference amount is unfair and inappropriate. The PG&E proposal would take the concept of avoiding any payment from bundled to non-bundled customers and create significant additional inequities, making it far more unfair for the departing customer. This proposal is not consistent with D. 06-07-030. Making such a change would, at a minimum, require that the Commission modify that decision. This is a change that CLECA and CMTA oppose on the grounds that it is inequitable to all parties and would undermine the indifference concept.

Q10. You have indicated that you are responding to several matters in the testimony of Jan Reid. What matters will you address?

A10. I will address Mr. Reid's erroneous claim that DA customers are subsidized by bundled customers, particularly bundled residential customers. I will also respond to Mr. Reid's support of a position suggested in TURN comments, not testimony, that DA providers would pay for and receive RPS credit for a proportional share of utility RPS purchases. I have already addressed PG&E's proposal that there be no negative PCIA, a proposal that Mr. Reid supports.

Q11. Please describe Mr. Reid's claim that DA customers are subsidized by bundled customers, particularly residential ones, and respond to this claim.

A11. Mr. Reid first states that residential bundled rates are higher than non-residential bundled rates. He completely ignores the fact that there is a cost-of-service basis for these higher rates. He also mentions the percentage of the bundled revenue requirement that is assigned to residential customers. Again, this amount is a function of the revenue allocation process and cost-of-service ratemaking and is irrelevant to the subject matter of this proceeding. He also notes that utility costs may be passed on to utility customers. There is nothing surprising about this. It is what ratemaking is about. Mr. Reid correctly points out that residential customers by law cannot currently take DA service but provides no reason why this is relevant to the issue of charges paid by DA and CCA customers and the maintenance of bundled customer indifference.

He provides no basis for his assertion, which appears to be presented as a conclusion from these various statements, that bundled customers are subsidizing DA customers. There is no logical connection. Furthermore, his claim that the Commission should establish rules in this proceeding that will not increase the rates of residential ratepayers appears to derive from the fact that a higher MPB and the same total generation portfolio costs would reduce the PCIA and thus reduce payments by DA and CCA customers that offset bundled customer revenue requirements and thus raise bundled customer rates. The logical inference is that Mr. Reid wants DA and CCA

customers to subsidize bundled customers by making payments in excess of those required to meet the bundled customer indifference test. The Commission should reject this proposal to continue the present situation, which fails to meet the bundled customer indifference test.

Q12. You stated that Mr. Reid's testimony supports a concept that DA providers would pay for and receive RPS credit for a proportional share of utility RPS purchases. What is this concept and what is your response to it?

A12. During the workshop process, TURN raised the possibility of a proposal to have DA (and presumably CCA) customers pay for a share of utility RPS costs and receive RPS credit for these payments. I note that TURN did not file testimony in support of this proposal and that Mr. Reid's support of this concept is very brief. I believe that this is not a valid proposal. Such a proposal would simply socialize the costs of the utility's RPS portfolios and their renewable procurement decisions and prevent ESPs or CCAs from being able to construct alternative RPS portfolios. Mr. Reid's conclusion that bundled customers would neither gain nor lose appears to be predicated on the concept that all customers should be forced to pay for the utilities' renewable procurement so that DA and CCA customers have no opportunity to be served by a different, and possibly lower-cost, renewable portfolio. To me, this concept undermines the potential benefit of retail competition, which is to give DA and CCA customers the opportunity to receive power from a different portfolio, as long as it meets state and Commission

procurement requirements. The appropriate concept is bundled customer indifference, not sharing the pain.

Q13. Does this complete your reply testimony?

A13. Yes, it does.