FROM: Los Angeles Community Choice Energy (LACCE)

TO: Suzanne Casazza, California Public Utilities Commission

SUBJECT: COMMENTS ON CUSTOMER AND RETAIL CHOICE EN BANC

Attached please find the responses and comments of LACCE on the questions posed to various panels at the May 19, 2017 En Banc on Customer and Retail Choice.

Our comments/responses to the questions posed to the En Banc panelists represent the concerns and interests of our CCA client base who are served by all three California electric Investor Owned Utilities (IOU) and comprise a significant number of IOU customers in PG&E and SCE territories.

In summary, our comments emphasize that CCAs, IOUs and market participants will be working together to provide customers with supplier choice, access to new technologies, and an electric supply grid that accommodates these customer options. It is imperative that the CEC and the CPUC ensure that all market stakeholders can work together under this new paradigm without conflict and with very clear regulatory rules that define all participant roles and market requirements. As a first step, the CPUC should focus on developing a fair, transparent and open process that accommodates all stakeholders in resolving the issue of departing load stranded costs involved with customers accessing choice to other energy commodity providers.

We appreciate the opportunity to provide these comments and add that, as the En Banc emphasized, the energy industry’s drastic and rapid changes are indeed a “disruptive force” in the current regulatory structure. We encourage the Commission to view these new opportunities in customer choice as an acceleration towards an industry where the IOUs serve only as distribution grid operators; and we ask the Commission to use the current domestic and foreign models with this structure to guide their future regulatory actions.

If you have any questions, please contact Gary Saleba at saleba@eesconsulting.com.

**I. Panel Discussion: What Customers Want**

Q. In this ‘future’ retail electric system, how do you see the role for the regulated utility evolving and what role do consumers’ choices play in achieving broad public policy goals?

As was articulated at various points throughout the En Banc, the current regulatory structure and process is not set up to appropriately regulate the fast-moving market changes in technology (DERs – both before and after the meter) and customer choice (CCA, Direct Access).

CCA and Direct Access (if authorized) will significantly reduce the IOUs’ role as energy providers. At best, in the short-term, IOUs may likely somewhat equally share the percentages of customers served with CCAs and Direct Access providers. In the long-term, the IOUs will most likely be reduced to serving a very small percentage of customers.

The Commission should acknowledge this coming reality and accommodate its inevitability. Key in doing this is to ensure and expedite a fair and transparent resolution to the stranded cost issue associated with departing IOU-bundled customer load (e.g., Power Charge Indifferent Adjustment and/or Portfolio Allocation Mechanism). A fair resolution to this will allow non-IOU LSEs to develop secure, longer-term business plans which incorporate municipal and market-based financing which will stabilize and lower rates for all customers – including residential and low-income.

The IOUs’ focus should be on designing, operating and maintaining the distribution “grid of the future” that will accommodate growing markets that allow customer choice whether that be from alternative LSEs or from new technology providers (EV, storage, distributed generation, demand response, and load-shifting measures). There are models in the U.S. and in Europe which operate with IOUs only as transmission and distribution grid operators with wholesale power, retail ratemaking and customer programs managed by others. As customers become more engaged because of choice and new technologies, local governments are best positioned, and appropriately motivated to be in charge of these efforts.

This panel’s customer representatives made it clear that customers do not support creating regulations to “wind-back” the market and restrict customer choices to create a level playing for utilities to compete with the market. LACCE supports this position.

Q. Should residential customers have access to alternative retail suppliers other than CCAs? If so, describe the types of choices you want to have?

Residential customers should not be restricted regarding access to retail suppliers. In the past, Direct Access providers have aggregated residential customers for service – that should not be restricted. Residential customers will have choice between CCAs, IOUs and Direct Access providers. They should also have choice for self-service under: independent distributed generation, community solar, storage, EV charging and storage, demand response, time-of-use behavioral use, and time-of-use load shifting programs. As it may seem that residential (and low-income) customers will not migrate in large percentages to Direct Access, it will be incumbent on CCAs and/or IOUs to ensure residential customers have access to these programs. Having options is the basic premise behind “customer choice” and local governments are best positioned to deliver these choices.

Q. One concern about expanding consumer choice is safeguarding consumer from bad actors. What consumer protections need to be in place going forward? Are there any specific conditions, beyond essential consumer protections, that should be imposed on non-Utility load serving entities that want to serve the residential market? Should consumer protections be limited to for-profit entities and not CCAs? Should the regulated utilities always be available as a provider of last resort?

It is not the responsibility of regulatory agencies to control free-market participants beyond what is already contained in existing regulations. The responsibilities of alternative LSEs have been laid out and enhanced under SB350 – no additional safeguards should be considered. Market products and services are available to customers (including residential) and are being utilized without regulated utility incentives/rebates or promotion.

As has been stated repeatedly, if regulatory rules are made clear - especially through clear and reliable rate designs - then the market participants can plan and invest accordingly which will benefit customers and the grid. As was stated several times, the regulatory process to design rates in response to market trends is too slow. Additionally, the regulatory process to design rates to incentivize market adoption is also too slow.

CCAs present a unique opportunity to provide “non-regulated” consumer protections against “bad actors.” Since CCAs represent their communities – and are typically governed by community electeds/leaders – they have an underlying responsibility to their constituents. Under these relationships, CCAs can create arrangements, programs, and/or partnerships with market participants with specific requirements for consumer protections.

As noted earlier, the CCAs will likely be providing electrical power supply service to the vast majority of California customer within 2-3 years. As such, the CCAs should be responsible for the provider of last resort function.

**II. Panel Discussion: State of Customer Choice in California**

Q. Having heard from the customer panel, what value or services does your company/organization offer customers that is distinct from the distribution utility?  Are there specific innovations in tariffs or services that you are better equipped to provide than the traditional utilities?

It should be clear that CCAs, because of their regulatory flexibility, are distinct from an IOU distribution utility. Notably, CCAs can develop wholesale procurement portfolios and retail rates that are approved locally by locally elected Board members. This represents an opportunity for CCAs to expedite the integration of DERs (at the transmission, distribution and behind-the-meter level) and customer behavior into the grid-of-the future to meet State energy policy requirements and goals.

In particular, the pilot programs described by Sonoma Clean Power (especially around load shifting and clean electricity load growth), created in partnership with PG&E, are an early example of the powerful impacts CCAs and IOUs (as distribution grid managers) can achieve while working together. And it should be noted these pilot programs are conducted without CPUC Energy Efficiency program funds to Sonoma Clean Power. Again, we emphasize that it is local governments that are best suited to understand community and state needs, and develop and implement these programs in their communities.

Q. As retail choice grows, whether through the growth in CCA programs, customer adoption of DERs, or reinstatement of full direct access, what do you see as the role for the regulated utility and where do you see your company/organization competing and cooperating with the utility?

CCAs will compete with Direct Access providers and the IOUs in the provision of energy to retail customers. Direct Access panelists have stated that their rates are 10% lower than the IOUs for the customers they serve (primarily large commercial) and CCAs across the state are maintaining lower rates than IOUs – all under the current PCIA methodology. Both Direct Access providers and CCAs can make more sound business decisions and access lower financing if the stranded cost methodology can be resolved fairly and with complete transparency.

CCAs will not compete with DERs providers; CCAs will embrace the customer adoption of DERs and can expedite the adoption of DERs through their regulatory flexibility in wholesale portfolio development, retail rate design, and community programs development. Ultimately, CCAs should be encouraging and directing the utilization of DERs in partnership with grid managers such that grid needs can be resolved or deferred through their implementation.

Q. Does the utility business model need to change fundamentally to accommodate greater choice? If so, in what ways?  For example, should the utilities eventually become pure distribution providers with no retail function?

If the stranded costs issues related to customer choice can be fairly and transparently resolved, then a scenario where IOUs’ bundled customers significantly diminish is inevitable. The CPUC’s own White Paper on Consumer and Retail Choice anticipates that 85% of IOUs’ current retail load will be served by a non-IOU source or provider by the middle of the 2020s. LACCE observes that this change from IOU to CCA service could actually happen much sooner.

If this decreasing IOU-bundled customer base is indeed inevitable, and it will happen incrementally (as CCA proliferates, as DERs’ implementation grows, and as/if Direct Access initiates) then perhaps pilot programs in certain IOU territories where bundled customer retention is extremely low should be implemented to test the IOUs’ role as solely a distribution provider. If this does occur, then these pilots can accelerate the CPUC’s progress towards developing a regulated infrastructure where IOUs serve only as distribution grid operators.

We suggest that if IOUs are serving little or no bundled customer percentages, that CCAs should be receive most or all of the charges collected for energy efficiency and other customer programs commensurate with the percentage of customers served by the CCA. In addition, under the scenarios described above, the CPUC should also consider allowing CCAs to bill customers directly.

Q. What role do you see yourselves as competitive suppliers playing in the provision of service to low-income and hard to serve customers? How do we ensure that these customers receive the same level and cost of service as higher income and easier to reach customers?

Servicing low-income and hard-to-serve customers is a strong suit of CCAs as local governments. As CCAs are regional and local in their service territories, have a unique commitment to underserved customers compared to IOUs, and have the ability to design programs and rates that are regionally and locally specific to their communities; CCAs have built-in advantages in best serving these customers, retaining them in their customer base, and providing options for them that meet low-income and hard to serve constituents’ needs.

**III. Panel Discussion: Investor-Owned Utility Perspective on Current State of Retail Electricity Market and Coming Changes**

Q. In this ‘future’ retail electric system, how do you see the role for the regulated utility evolving and what, if any, functions should be preserved for the regulated utility support achieving State policy goals? Do you see some form or another of retail “choice” as inevitable, in part as a result of technology changes like DERs?  If so, do you prefer to see public policy (including policies adopted by the CPUC) react to it or drive it?

LACCE comments on previous questions have made it clear that LACCE sees the IOUs role as evolving to a distribution grid manager only. The comments of the IOUs during this panel were consistent with those made by CCAs, customers, and other market providers earlier: the stranded cost issue must be examined and resolved quickly, fairly and in a transparent manner. Both PG&E and SCE claimed they are undercollecting on stranded power costs for every customer that leaves for CCA or Direct Access. CCAs claim that the process is not transparent and that the IOUs maintain all of the information needed for a fair resolution. It is clear that the CPUC’s main priority is to resolve this issue fairly and transparently.

Many, including Commissioners, have stated that the current regulatory process cannot keep up with the technology changes (like DERs) that are becoming available to customers. The technology providers have stated that they cannot invest long-term in their business plans while uncertainty exists in the market due to regulatory processes; customer choice providers have stated the same. It is clear that the CPUC should adapt to market changes instead of driving them. Again, CCAs were created to drive change in the market by responding to local and community needs – quickly. It seems that CCAs should be looked upon to help drive market supply in response to customer demand under a more flexible regulatory environment in which State policies and goals can be more effectively met.

**IV. “Big Think Presentation” on the Future of Retail Electricity Service**

Q. Are there any urgent steps that the CPUC, the CEC and/or CAISO need to take over next 12-18 months to begin changing the role of the utility and the structure of regulation?

We have stated throughout this document that initiating a fair and transparent discussion of stranded costs for IOUs’ departing load is the priority. In addition, LACCE believes pilots involving CCAs (as service providers) and IOUs (as grid managers only) should be tested where IOU bundled customer retention rates are extremely low.

Q. What entity should have final responsibility for ensuring California meets its 2030 clean energy and climate goals?

In a truly evolved regulatory structure with CCAs and other third-parties offering load and programs designed around California’s 2030 energy and climate goals, we suggest that local governments, who will assume responsibility for GHG reductions, clean energy and climate goals; should be responsible for reporting these accomplishments towards achieving the State’s energy and climate goals.