



# Memorandum

**TO:** TRANSPORTATION AND  
ENVIRONMENT COMMITTEE

**FROM:** Lori Mitchell

**SUBJECT:** SEE BELOW

**DATE:** August 11, 2021

Approved

Date

8/19/21

**SUBJECT: LOWERING PG&E ABOVE-MARKET COSTS FOR CLEAN ENERGY**

## **RECOMMENDATION**

Accept a status report on “Lowering PG&E Above-Market Costs for Clean Energy” as part of the approved 2021-2022 City Roadmap.

## **OUTCOME**

This status report provides the Transportation and Environment (T&E) Committee an update on the “Lowering PG&E Above-Market Costs for Clean Energy” City Roadmap initiative.

## **BACKGROUND**

California law authorizes investor-owned utilities (IOU) to collect additional revenue from ratepayers in their service territory, including from those customers who no longer receive electric generation service from that IOU, to pay for past IOU investments in “above-market” electric generation and the “above-market” compliance attributes linked to those generation assets.<sup>1</sup> These costs may be collected from ratepayers through the Power Charge Indifference Adjustment (PCIA), an additional per kilowatt-hour (kWh) charge paid to the IOU.<sup>2</sup>

San José Clean Energy (SJCE) customers pay monthly PCIA fees to Pacific Gas and Electric Company (PG&E). The PG&E PCIA “above-market” cost calculation is revised every year based on confidential PG&E projections on costs and revenues. In 2018, the California Public Utilities Commission (CPUC) Decision 18-09-010 authorized the creation of two new IOU balancing accounts that dramatically changed the annual PCIA calculation methodology. The non-transparent annual re-calculation of the PCIA has introduced cost uncertainty for all ratepayers and resulted in more price volatility.

<sup>1</sup> AB 117 (2002); Pub. Util. Code Section 366.2(f)

<sup>2</sup> Pub. Util. Code 365.1(c) (2)

The City of San José planned for potential risks associated with variations in PG&E PCIA rates in the SJCE Business Plan presented to the San José City Council on February 27, 2017.<sup>3</sup> The 2017 SJCE Business Plan assumed that the PCIA would increase by 10% over the 2017 level for 2018, but that the PG&E PCIA rate was expected to decline slightly after 2018 over a ten-year period as market prices increase more than the cost of PG&E surplus resources.<sup>4</sup> The 2017 SJCE Business Plan was based on the PCIA calculation methodology that was applicable at the time. In 2018, the CPUC revised the annual PCIA calculation methodology in Decision 18-01-019, which resulted in year-over-year PCIA volatility and unpredictability in the forecast of long-term PG&E PCIA charges.

## **ANALYSIS**

The 2021-2022 City Roadmap was presented and approved by the City Council on March 16, 2021.<sup>5</sup> The City Roadmap includes an initiative for SJCE: “Lowering PG&E Above-Market Costs for Clean Energy.” The description of this initiative is to advance regulatory and legislative initiatives to ensure San José Clean Energy (SJCE) rates are cost competitive. SJCE will collaborate with other CCAs and CalCCA to do the necessary analysis to refine Power Charge Indifference Adjustment (PCIA) cost projections and develop alternative approaches to the calculation and implementation of the PCIA that lower costs for all customers. Lowering the PCIA is critical to ensuring that SJCE has cost competitive rates.

### **Overview of SJCE Actions and Deliverables**

The following provides further detail on SJCE actions to address the CED item identified in the Roadmap and the T&E 2021-2022 Workplan.

#### **Educational Materials**

*Deliverables:* SJCE PCIA Fact Sheets and social media; website updates; legislative letters of support.

SJCE collaborated closely with the California Community Choice Association (CalCCA), the CCA regulatory and legislative advocacy association, to create targeted educational materials to explain PG&E above market costs and PG&E PCIA rates. SB 612 (Portantino) is the CalCCA sponsored ratepayer equity bill introduced in the 2021 California legislative session to reduce PG&E above market costs and resulting PCIA rates.<sup>5</sup>

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<sup>3</sup> San Jose Clean Energy Community Choice Aggregation Business Plan, February 27, 2017. Prepared by EES Consulting Inc.

<sup>4</sup> San Jose Clean 2017 Energy Business Plan, p. 71

<sup>5</sup> [https://leginfo.ca.gov/faces/billNavClient.xhtml?bill\\_id=202120220SB612](https://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=202120220SB612)

SJCE produced these educational materials between January and June of 2021:

- Fact Sheet on PG&E Above Market Costs and PCIA Rates (Attachment A)
- Educational Video<sup>6</sup> on PG&E Above Market Costs and PCIA Rates
- PCIA website content and updates<sup>7</sup>
- PCIA and SB 612 educational slide decks
- SB 612 (Portantino) Fact Sheet (Attachment B)
- SB 612 (Portantino) Social Media updates
- SB 612 Letters of Support

SJCE collaborated with CalCCA and shared these materials between January and June of 2021:

- CalCCA webpage explaining PCIA calculation methodology and PCIA rate impacts
- CalCCA SB 612 (Portantino) Fact Sheet
- CalCCA SB 612 (Portantino) Social Media updates
- CalCCA webpage on SB 612 (Portantino)<sup>8</sup>

### Legislative Outreach

*Deliverables:* Meet with San José Delegates and legislative staff; develop legislative letters of Support or opposition on PCIA related items; update the San José PCIA stakeholder list.

SJCE worked in close coordination with the City of San José's legislative team, including the City's external legislative consultants, and the CalCCA legislative team and consultants to educate members of the California Legislature on PG&E above market costs for past investments in energy resources and dramatically increasing PCIA rates. SJCE specifically addressed PCIA cost impacts to SJCE customers and the benefits of SJCE renewable investments and program offerings. SJCE held additional meetings with a wide range of legislative offices when Senator Portantino introduced SB 612 to help explain the benefits of the bill and the importance of promoting needed rate equity measures to reduce PCIA costs for all customers.

SJCE managed outreach to the following legislative offices between January and June of 2021:

- Assemblymembers representing the City of San José:
  - Assemblyman Stone (co-author)
  - Assemblyman Low (co-author)
  - Assemblyman Lee (co-author)
  - Assemblyman Kalra (co-author)
- Senators representing San José:
  - Senator Wieckowski
  - Senator Cortese
  - Senator Laird
- Targeted Assembly and Senate offices

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<sup>6</sup> <https://www.youtube.com/watch?v=-kcyc7udbu8>

<sup>7</sup> <http://www.sanjosecleanenergy.org/residential-rates/>

<sup>8</sup> <https://cal-cca.org/pcia/> and <https://cal-cca.org/sb-612/>

- Assembly Energy Committee consultants
- Senate Energy Committee consultants
- Senator Portantino's office

In addition to office meetings, SJCE delivered City of San José and SJCE letters of support on SB 612 (Portantino) to all Senate Energy Committee members and urged stakeholders to deliver letters of support in advance of the Senate Energy Committee hearing on April 26, 2021. On the day of the Senate Energy Committee hearing, SJCE and City of San José testified in support of SB 612 (Portantino), which passed by an overwhelming majority of an 11 to 2 vote. The bill next passed Senate Appropriations Committee May 20, 2021 with 5 to 0 vote.

In advance of the Senate Floor vote on SB 612 (Portantino), SJCE again delivered letters of support on behalf of the City and SJCE and urged supporters to do the same. The bill passed June 1, 2021 with a 33 to 6 vote. Finally, SJCE delivered City of San José and SJCE letters of support in advance of the Assembly Energy Committee hearing, and successfully urged an increasing number of SJCE supporters to do the same. Unfortunately, Assembly Utility and Energy Committee Chair Holden pulled the bill from the hearing calendar on June 28, 2021, and SB 612 was not heard or taken up for a vote. This action forced the bill to miss legislatively established procedural deadlines and ended opportunities to advance the bill in the 2021 legislative session.

SB 612 (Portantino) is now a two-year bill with the potential of being heard in the Assembly Utilities and Energy Committee in January 2022. While the bill did not make it to the Governor's desk in 2021, SJCE did succeed in building a broad coalition of supporters including: local governments and their advocacy organizations, local community based organizations and low income advocates, renewable developers and their trade associations, technology companies and their trade associations, and environmental justice advocates. This coalition of support will be helpful in future efforts.

### Stakeholder Outreach

*Deliverables:* Update City of San José PCIA stakeholder list; share SJCE PCIA and IOU portfolio management fact sheets with non-profit and private sector stakeholders, encourage stakeholders to send letters of support/opposition.

SJCE coordinated with the City of San José legislative team to identify potential legislative and regulatory supporters of PCIA reform. The final list of SB 612 (Portantino) supporters includes over 100 cities and counties, local government associations, local community organizations, local and state low income advocates, local and state environmental and social justice advocates, Silicon Valley technology companies and their trade associations, and solar and wind developers and their trade associations. SJCE led coordinating efforts with other CCAs to brief stakeholders on potential allies on the risks of increasing PCIA costs to CCA customers.

SJCE educated the following stakeholders on the issues and each of them sent letters of support on SB 612 (Portantino):

- American Clean Power – California
- Amigos de Guadalupe
- Bay Area Mayors (Mayor Liccardo, Mayor Breed, and Mayor Schaaf)
- California Solar + Storage Association
- Climate Reality, Silicon Valley Chapter
- County of Santa Clara
- eBay
- Grail Family Services
- International Children’s Action Network (ICAN)
- Intersect Power
- Joint Venture Silicon Valley
- League of California Cities
- Mothers Out Front, Silicon Valley Chapter
- NEXTracker
- San José Community Energy Advocates
- San José Mayor Sam Liccardo
- School of Arts & Culture at the Mexican Heritage Plaza
- Silicon Valley Leadership Group
- Solaria
- Somos Mayfair
- SunPower Corporation
- SunRun
- TechNet
- TerraGen
- Veggielution

#### Financial and Legal Analysis of Expanded Reform to Lower Costs

*Deliverables:* PCIA market price analysis; research of utility Exit Fee treatment in other states, and analysis of potential PCIA impacts from CPUC 2021 IOU reliability procurement requirements.

SJCE conducted extensive PCIA financial and legal analysis to identify opportunities to reduce PCIA volatility. SJCE’s research focused on identifying underlying drivers of PG&E PCIA cost increases and included:

1. Analysis of PG&E costs to identify accounting errors contributing to PG&E PCIA rate increases
2. Study of Resource Adequacy (RA), Renewable Portfolio Standard (RPS), Greenhouse gas (GHG)-free and Brown Power Index (PCIA inputs) market drivers

### 3. Forecasts of likely increases to PG&E PCIA cost inputs and market conditions

Additional activities included:

- Expanded CalCCA PCIA model sensitivities to better forecast PG&E PCIA rates
- Expanded analysis of PCIA rates on SJCE operations and revenue projections

SJCE financial analysis included an assessment of substituting long-term Brown Power price forecasts in place of short-term Brown Power price forecasts to assess the impact on PCIA rates. Initial results show this single adjustment in isolation is inconclusive in reducing PCIA rates.

In addition to IOU PCIA cost analysis, SJCE explored regulatory opportunities to participate in public CPUC proceedings to encourage improved oversight of IOU portfolio management costs that may contribute to rising PCIA rates. SJCE also commissioned Keyes & Fox/EQ Research to conduct research of other states with CCAs and departing loads fees, including departing load exit fee sunset provisions. CCAs currently operate in seven states, but only California authorizes an IOU exit fee tariff and an indefinite IOU collection of a tariff imposed on departed load customers.<sup>9</sup> This research is presented in Attachment C.

A study of potential PCIA impacts due to the CPUC 2021 Summer Reliability Procurement requirements will occur as part of PG&E 2022 Energy Resource Recovery Account (ERRA) Forecast proceeding and PG&E 2023 General Rate Case (GRC) proceeding.<sup>10</sup> Expanded and more refined CalCCA and SJCE PCIA cost modeling will support CalCCA and SJCE intervention in these proceedings to identify the appropriate IOU cost accounting and cost allocation to PG&E and CCA customers through generation, transmission and distribution rates, and other fees and charges.

#### Support of Expanded Reform Options

*Deliverables:* Develop consensus around new and expanded policy reforms to lower PCIA costs.

SJCE continues to work closely with the City of San José, CalCCA leadership, and CCA Directors to identify opportunities for PCIA regulatory reform to mitigate steadily increasing PCIA customer costs and limit IOU cost shifts onto CCAs. Actions include regular meetings to explore regulatory and legislative PCIA reform opportunities, improved PCIA cost forecasts, and strategies for long-term PCIA financing to stabilize customer and CCA operating costs for the benefit of all Californians. CCAs also support CalCCA to file a PCIA Phase 2 Working Group 3 Decision (D. 21-05-030) Application for Rehearing (AfR). The CPUC may issue a subsequent decision resolving the AfR on the merits, but there is no applicable deadline. Parties may file a writ of appeal after some time has passed without a CPUC decision granting or denying the AfR in the California court of appeals or California Supreme Court.

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<sup>9</sup> “IOU Reasonableness Review Processes and Exit Fee Methodologies: A State by State Review”, Prepared for San José Clean Energy by EQ Research LLC and Keyes and Fox LLP, August 11, 2020, updated March 2021

<sup>10</sup> R.20-11-003

SJCE is jointly intervening with other CCAs in the PG&E 2022 ERRR proceeding to closely monitor this proceeding. PG&E is requesting a 2022 ERRR Forecast revenue requirement of \$4.736 billion. Preliminary forecasts indicate that the 2022 PG&E PCIA rate for SJCE's 2018 vintage will decline. This PCIA rate reduction is partially attributable to higher energy market prices. SJCE will review all future PG&E cost and revenue forecasts that could impact the 2022 PCIA in the PG&E ERRR November Update. If the proceeding stays on schedule, the CPUC will approve final PG&E PCIA rates by January 2022. SJCE plans to update the T&E Committee after the PG&E November update in early December 2021 on the forecast of the 2022 PCIA and impacts on SJCE operations.

SJCE is also jointly intervening with other CCAs in PG&E's 2023 GRC. The PG&E 2023 Phase 1 GRC application covers the years 2023, 2024, 2025 and 2026. PG&E requests a 2023 revenue requirement of \$15.461 billion, which is a \$4.560 billion, or 29.9% increase from the 2022 adopted GRC revenue requirement amount.<sup>11</sup> The 2023 GRC revenue request is addition to 2022 ERRR revenue request. PG&E is requesting a 9.6% total company revenue increase over currently authorized and requested GRC base rates for 2022. PG&E requests an 18% average residential rate increase in 2023 relative to 2021 bills, a 48.2% increase in Electric Distribution and a 1.1% increase in Electric Generation cost categories.<sup>12</sup> SJCE will jointly intervene with other CCAs in this PG&E 2023 Phase 1 GRC proceeding to review potential PG&E accounting or cost allocation errors that could impact future SJCE customer PCIA rates, including potentially inappropriate cost shifts from PG&E to CCA customers.

## **CONCLUSION**

The February 2021 San José City Roadmap identified reducing PG&E above market costs as a key initiative for the City. SJCE staff has taken specific actions in advocacy, outreach, and financial and legal analysis of PG&E above market costs and the PG&E PCIA. SJCE staff will continue these efforts and will update the T&E Committee of its progress.

## **EVALUATION AND FOLLOW-UP**

As directed by Council, staff will return to T&E in Fall 2021 to provide a status report on SJCE business operations, including updated forecasts for program and power costs, the PCIA, borrowing, and loan repayments.

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<sup>11</sup> PG&E Phase 1 2023 GRC, A.21-06-021, PG&E-10, p. 17-1

<sup>12</sup> Application, p.16 (Table 1)

### **CLIMATE SMART SAN JOSÉ**

The recommendation in this memo aligns with one or more Climate Smart San José energy, water, or mobility goals.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's website for the August 30, 2021 T&E agenda.

### **COORDINATION**

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Office of Administration, Policy, and Intergovernmental Relations.

### **COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

### **FISCAL/POLICY ALIGNMENT**

The recommended action aligns with the 2021-2022 City Roadmap and the T&E 2021-2022 Workplan reporting requirements.

### **CEQA**

Not a project, File NO. PP17-009. Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action.

/s/  
LORI MITCHELL  
Director, Community Energy



TRANSPORTATION AND ENVIRONMENT COMMITTEE

August 30, 2021

**Subject: Lowering PG&E Above-Market Costs for Clean Energy**

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Attachments

Attachment A: SJCE Fact Sheet on PG&E Above Market Costs and PCIA Rates Feb 2021

Attachment B: SJCE SB 612 (Portantino) Fact Sheet May 2021

Attachment C: IOU Reasonableness Review Processes and Exit Fee Methodologies: A state by state review

For questions, please contact Kari Smith, Division Manager, at (408) 793-5317.