

## Calculation of the Market Price Benchmarks for the Power Charge Indifference Adjustment Forecast and True Up

September 30, 2022

Pursuant to Decision (D.) 22-01-023, Energy Division issues the following values for the Power Charge Indifference Adjustment (PCIA) Forecast and True Up, which the investor-owned utilities (IOU) will use for their 2023 Energy Resource Recovery Account (ERRA) Forecast Updates in early October, 2022. The PCIA calculations incorporate Market Price Benchmarks (MPB) – the Energy Index, Renewable Portfolio Standard (RPS) Adder, and Resource Adequacy (RA) Adder – as defined by D.18-10-019 and revised by D.19-10-001 and D.22-01-023. D.22-01-023 directed Energy Division to calculate and distribute these values by the first business day in October each year.

**Table 1. Market Price Benchmarks Used in PCIA Calculations**

<b>2022 Final Market Price Benchmarks</b>				
		PG&E	SCE	SDG&E
RA Adder	System RA	\$8.11		
	Local RA	\$6.84	\$6.60	\$6.60
	Flexible RA	\$6.93		
RPS Adder		\$13.24		

<b>2023 Forecast Market Price Benchmarks</b>				
		PG&E	SCE	SDG&E
Energy Index <sup>1</sup>	On-Peak	\$88.87	\$85.47	\$85.47
	Off-Peak	\$77.22	\$74.17	\$74.17
RA Adder	System RA	\$7.39		
	Local RA	\$6.93	\$6.74	\$6.98
	Flexible RA	\$7.15		
RPS Adder		\$12.63		

<sup>1</sup> The Energy Index is based on Platts forward prices and is a forecast MPB only. There is no “final” Energy Index. Final energy values in PCIA are actual market prices for the given year.

## **Market Price Benchmarks**

The PCIA calculation was established in D.11-12-018 and has most recently been refined in D.22-01-023.<sup>2</sup> The PCIA, or an IOU's Indifference Amount, is equivalent to an IOU's total PCIA-eligible portfolio costs less the portfolio's market value in a given year. Market value is defined in D.19-10-001 as "the estimated financial value, measured in dollars, that is attributed to an IOU portfolio of energy resources for the purpose of calculating the Power Charge Indifference Adjustment for a given year."<sup>3</sup> D.19-10-001 defines MPBs as "estimates of the value per unit (not total portfolio value) associated with three principal sources of value in IOU portfolios (energy, resource adequacy, and renewable energy)."<sup>4</sup> MPBs are multiplied by the relevant portfolio volume as part of the overall calculation of market value. The forecasted adders are mechanisms that aim to reduce uncertainty of the indifference amount, and the true up adders are mechanisms that aim to align realized market revenues with forecasted values.

## **Energy Index**

Energy Index is the MPB that reflects the estimated market value of each unit of energy in an IOU's PCIA-eligible portfolio, in dollars per megawatt hour (\$/MWh). The Energy Index was previously referred to as the "Brown Power Index."<sup>5</sup>

- The Energy Index above was calculated using Platts-ICE Forward Curve-Electricity market data. Energy Division received a Platts on-peak and off-peak forward price for each month of 2023 and each electrical zone (NP15 and SP15), as calculated on each individual non-holiday weekday from September 1, 2022 through September 29, 2022 (inclusive). Using these data, Energy Division calculated a 2023 monthly average price for each peak period and each electrical zone, thereby arriving at the values in Table 1 above. The IOUs will use weighted averages of these values in the October Updates to their 2023 ERRA Forecast Applications.

## **RA Adder**

The RA Adder is the MPB that reflects the estimated value of each unit of capacity in an IOU's PCIA-eligible portfolio that can be used to satisfy Resource Adequacy obligations, in dollars per kilowatt-month (\$/kW-month). The RA Adder has three subcomponents, reflecting each type of RA product required for compliance with the RA program: system, local, and flexible.<sup>6</sup>

- The Forecast RA Adders for system and flexible RA were calculated using the volume-weighted average of all IOU, Community Choice Aggregator (CCA), and Electric Service Provider (ESP) RA-only market transactions executed from September of 2021 through

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<sup>2</sup> The methodology for calculating the PCIA was mandated D.11-12-018 COL 3 and Resolution E-4475. Explanations of the changes to the methodology over time can be found in Appendix 1 of D. 18-10-019, Attachment A of D.19-10-001, and Section 3 of D.22-01-023.

<sup>3</sup> D.19-10-001 at 6.

<sup>4</sup> D.19-10-001 at 6.

<sup>5</sup> D.19-10-001 at 7.

<sup>6</sup> D.19-10-001 at 7.

August of 2022, for delivery in 2023. The Forecast RA Adders for local RA were calculated using the volume-weighted average of all IOU, CCA, and ESP local RA market transactions executed from December of 2019 through August of 2022, with delivery in 2023.

- The Final RA Adders for system and flexible RA were calculated using the volume-weighted average of all IOU, CCA, and ESP RA-only market transactions executed from December of 2020 through August of 2022, for delivery in 2022. The Final RA Adders for local RA were calculated using the volume-weighted average of all IOU, CCA, and ESP local RA market transactions executed from December of 2018 through August of 2022, with delivery in 2022.

### **RPS Adder**

The RPS Adder is the MPB that reflects the estimated value (incremental to the Energy Index) of each unit of RPS-eligible energy that is attributable to the fact of that eligibility, in dollars per megawatt hour (\$/MWh). Both the forecast and the final adders are based on bundled, short-term (under ten years), index-plus,<sup>7</sup> Portfolio Content Category 1 (PCC-1)<sup>8</sup> transactions.

- The Forecast RPS Adder was calculated using the volume-weighted average of all eligible IOU, CCA, and ESP market transactions executed from September 2021 through August 2022, with delivery in 2023.
- The Final RPS Adder was calculated using the volume-weighted average of all eligible IOU, CCA, and ESP market transactions executed from December 2020 through August 2022, with delivery in 2022.

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<sup>7</sup> Index-plus refers to contracts for the market index price of energy plus a REC bid premium.

<sup>8</sup> D.11-12-052 defines PCC-1 as Facilities with First Point of Interconnection within a California Balancing Authority (CBA) or with Generation Scheduled into a CBA.