
RPS Procurement Expenditure Limitation

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Restroom & Evacuation Procedure

Restrooms and drinking fountains are at the end of the hall.

In the event of an emergency evacuation, please cross McAllister Street, and gather in the Opera House courtyard down Van Ness, across from City Hall.



Workshop Agenda

- I. Overview (9:30 – 9:45)
 - A. Introduction and Opening Remarks
 - B. Proceeding Timeline
 - C. Workshop Goals and Objectives

- II. Context (9:45 – 10:00)
 - A. Prior RPS Cost Containment Policy
 - B. Guiding Principles
 - C. Essential Components for Procurement Expenditure Limitation (PEL)

- III. Presentations of Proposals (10:00 – 12:15)

- LUNCH BREAK (12:15 - 1:30)*

- IV. Discuss Key Components & Issues for PEL (1:30 – 4:45)

- V. Next Steps (4:45 – 5:00)

Proceeding Timeline (to date)

07/23/13: ALJ Ruling w/ Staff Proposal

09/26/13 Comments filed on ALJ Ruling; Alternative Proposals filed

10/23/13 Comments filed on Alternative Proposals

→ 11/20/13: PEL Workshop

01/14/14: Staff issue Revised Staff Proposal

01/17/14: Parties file Revised Alternative Proposals

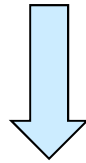
02/02/14: Comments due on all Proposals

02/25/14: Reply Comments due on all Proposals

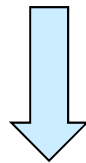


Goals and Objectives

Common understanding of PEL proposals



Constructive discussion about the options for implementing PEL



Informed and complete revised proposals *and* responses to the proposals



Context

Statutory Guidance

399.15(c): Setting the PEL, the Commission shall rely on

1. RPS procurement plans
2. Procurement expenditures that approximate the expected cost of RPS resources
3. The potential that some planned resource additions may be delayed or canceled



Context

Statutory Guidance (cont.)

399.15(d): Developing the PEL, the Commission shall ensure

1. PEL is set a level that prevents disproportionate rate impact
2. Costs of all procurement expenditures credited toward RPS are counted towards the limitation
3. Procurement expenditures do not include any indirect expenses



What is the Role of the PEL within RPS Program?

- The Commission is required to set a limit on RPS procurement expenditures to meet RPS for each IOU
- An IOU may refrain from procuring RPS resources if IOU exceeds its PEL and certain conditions are met
- PEL does not replace least-cost, best-fit evaluation
 - IOUs evaluate RPS projects for shortlisting and contract execution based on least-cost, best-fit (net market value) methodologies
 - The Commission will continue to determine reasonableness, in part, based on least-cost, best-fit (net market value) methodologies



Past RPS Cost Containment Mechanisms

The Market Price Referent (MPR)

- Administratively set based on portion of Public Goods Charge funds allocated for new renewable resources prior to RPS being enacted.
- Only a subset of RPS procurement contracts counted against the cost limitation, e.g., long-term contracts from competitive solicitation
- Initially, MPR set “per se reasonable” price benchmark for RPS
- Cost containment focused at contract level rather than portfolio level

Price of RPS contracts eligible for above-market funds were compared to levelized \$/MWh price of a theoretical 500 MW natural gas plant to determine if RPS contract had “above-market” costs associated with it.



Guiding Principles (from July 23 ruling)

The procurement expenditure limitation should:

1. Rely on a transparent process;
2. Reflect the expected costs of achieving and maintaining 33% RPS;
3. Realistically minimize the costs of achieving and maintaining 33% RPS;
4. Facilitate coordination and consistency between the RPS and the Commission's long-term procurement planning proceeding (LTPP);
5. Encourage portfolio optimization by IOUs.



Key Components of any PEL Policy

Requires methodological framework, inputs and assumptions

- *Over what timeframe should PEL be calculated?*
- *What RPS procurement expenditures count against PEL?*
- *How should rate impact be assessed?*
- *What should RPS procurement expenditures be compared against?*



Key Components of any PEL Policy (cont.)

Requires monitoring and administration process

- Track RPS procurement expenditures relative to PEL
- Process for IOU to inform CPUC that PEL is, or may be, insufficient to meet 33% RPS obligation



Energy Division Staff Proposal

Proposed Methodology for Setting,
Monitoring and Administering RPS
Procurement Expenditure Limitation



- Uses a methodology that is forward looking to evaluate the expected procurement expenditures required to meet 33% RPS procurement obligation
- Comprehensive analysis of known and expected RPS expenditures over 10-year time horizon
- Efficiently incorporates the PEL into existing RPS procurement framework
- Flexible methodology can accommodate changes to RPS procurement requirements and IOU portfolio



Uses a 10-year forecast of an IOU's RPS expenditures to calculate the proportion of RPS expenditures in the IOU's total revenue requirement that contribute to rates

The Formula:

RPS procurement expenditures

total revenue requirements

- The numerator includes all procurement credited toward RPS compliance, consistent with direction in § 399.15(d)(2)
- The denominator grounds a Commission determination that the PEL is set at a level that avoids disproportionate rate impacts, as required by § 399.15(d)(1)



The Formula

Staff Proposal

Numerator: RPS Procurement Expenditures

Forecasted RPS Expenditures from PPAs and Utility-Owned Generation

Minus

Forecasted Revenues from RPS Resale contracts

Plus

Forecasted RPS Expenditures to meet Renewable Net Short (RNS)

Denominator: Total Revenue Requirement

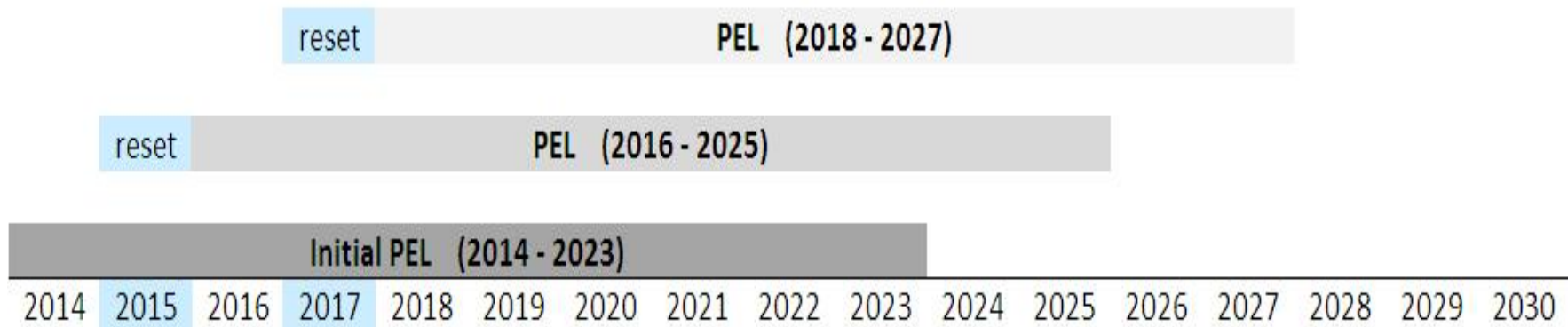
Effective Revenue Requirement in year prior to PEL period (2013),
escalated annually by 2.75% through 10-year PEL period



Timeframe

Staff Proposal

- PEL is calculated for 10-year forward period
- 10-year PEL is reset every two years
- There is only one PEL at any time for each IOU



Staff propose a two-step process for setting PEL, similar to Commission process used for MPR

Step 1: Commission decision

- Methodology, inputs and assumptions for calculating PEL
- Rules and process for PEL monitoring and administration
- Authority and guidance to Staff for calculating PEL for each IOU

Step 2: Staff responsibilities

- Compile data for calculating PEL (e.g., RPS plans)
- Issue draft resolution that presents PELs for each IOU
- Adopted resolution sets PEL for each IOU that the Commission determined would prevent disproportionate rate



Setting PEL (July 23 ruling)

Staff Proposal

Setting the PEL	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total RPS Costs (\$million)	\$145	\$145	\$186	\$226	\$229	\$252	\$278	\$269	\$260	\$261
Revenue Requirement (\$million)	\$1,027	\$1,055	\$1,084	\$1,114	\$1,145	\$1,176	\$1,209	\$1,242	\$1,276	\$1,311
Annual RPS Costs as % of Revenue Requirement	14.1%	13.7%	17.1%	20.3%	20.0%	21.4%	23.0%	21.7%	20.4%	19.9%

- Forecast RPS procurement expenditures and total revenue requirement over 10-year period
- The IOU's PEL would be set at 23%, if adopted by the Commission.
- Competitive procurement process and RPS contract review process protects ratepayers from excessive costs
- PEL is in place until the Commission adopts a new PEL. Staff proposes that the Commission would reset the PEL every two years

Monitoring the PEL

Staff Proposal

IOU updates its PEL model to reflect changes in actual or expected RPS expenditures, for example:

- An RPS facility's commercial online date (COD) changes significantly
 - E.g., a delay in COD may lower RPS expenditures in near term
- An RPS contract is executed or terminated
 - E.g., an executed RPS contract may increase RPS expenditures over the PEL period
- An RPS Sales contract is executed
 - E.g., an executed RPS Sales contract may decrease RPS expenditures over the PEL period



Monitoring PEL (July 23 ruling)

Staff Proposal

Monitoring the PEL	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total RPS Costs* (\$million)	\$150	\$145	\$171	\$215	\$217	\$240	\$290	\$270	\$255	\$245
Revenue Requirement (\$million)	\$1,027	\$1,055	\$1,084	\$1,114	\$1,145	\$1,176	\$1,209	\$1,242	\$1,276	\$1,311
Annual RPS Costs as % of Revenue Requirement	14.6%	13.7%	15.8%	19.3%	18.9%	20.4%	24.0%	21.7%	20.0%	18.7%
Change from Initial Annual PEL Ratio	+0.5%	0.0%	-1.4%	-1.0%	-1.0%	-1.1%	+1.0%	+0.1%	-0.4%	-1.2%

10-year Annual Average RPS Costs as Percentage of Revenue Requirements: 19%

compared to

Procurement Expenditure Limitation (PEL, 2014-2023) 23%

- Annual ratios changed, including in 2020 when the percentage amount is forecast to be higher than the PEL. IOU is within its PEL because the 10-year annual average of 19% is less than the PEL of 23%.
- 10-year annual average is less than 90% of the PEL Ratio. (90% of 23% is 20.7%)

Insufficient PEL for 33% RPS

Staff Proposal

IOU notifies the Commission if the IOU determines that it has reached, or is expected to reach, 90% of its PEL

- IOU files Tier 3 advice letter
- Explanation of IOU's strategy to meet RPS procurement quantity requirements (PQR) within PEL
- Identify any feasible measures to meet PQR within PEL
- Calculate likelihood that IOU will exceed its PEL
- Analysis of whether IOU can procure additional RPS resources without exceeding a de minimis increase in rates
- A plan to continue to procure if the PEL is insufficient to meet PQR, if the IOU chooses

If the Commission finds that advice letter meets conditions of §399.15(f), a resolution would adopt the IOU's advice letter

Utilizes Existing Processes

Staff Proposal

- Relies on annual procurement planning process for IOUs to provide 10-year forecast of supply and demand of RPS resources
 - Calculates RPS expenditures consistent with RPS plans and reports to the Legislature
 - Applies Commission established Renewable Net Short (RNS) methodology
- Utilizes RPS resource costs from RPS Calculator to estimate costs to fulfill RNS
- Integrates PEL into RPS procurement continuum



Characteristics of Proposal

Staff Proposal

- “Portfolio-level” approach provides flexibility for IOUs to manage RPS portfolio costs within PEL
- Preserves existing RPS contract valuation methodology (i.e., least-cost, best-fit) and utilizes existing processes
- Evaluates rate impact based on proportion of revenue requirement associated with RPS procurement expenditures



Goals for Afternoon Session

- Discuss strengths and weaknesses of different approaches for implementing specific elements of the PEL
- Consensus building



What is an Appropriate Timeframe? *Key Issue*

The PEL framework and methodology should consider:

- RPS program continues indefinitely
- RPS program represents a significant portion of each IOU's electric generation portfolio
- RPS program primarily relies on long-term contracts
- An IOU's RPS position, RPS procurement amount and RPS procurement expenditures can vary significantly from one year to the next
- PEL is intended to limit rate impact due to RPS
- Forecasts will always be wrong



RPS procurement expenditures

Key Issue

Which RPS procurement expenditures should count towards the PEL?

- Expenditures for all RECs used for RPS compliance?
- Expenditures associated only with incremental procurement to meet RNS?
- Only RPS-eligible resources procured by IOUs to expressly meet RPS procurement obligation?

What are the strengths and weaknesses of the options?



Disproportionate Rate Impact

Key Issue

Statute requires that the PEL must be set at a level that prevents *disproportionate rate impacts*

- Should this be defined for the RPS program?
 - E.g., greater than a 5% rate impact associated with RPS procurement is disproportionate
- Or, is this a judgment call based on numerous factors?

What are the strengths and weaknesses of the two different approaches?



Disproportionate Rate Impact

Key Issue

What should RPS procurement expenditures be compared against?

- Non-RPS, conventional resources?
- Historic RPS expenditures?
- Total revenue requirement?
- RPS procurement costs or policies in other jurisdictions?
- Can the analysis include indirect expenditures?



Rate Impact Analysis

Key Issue

What method should be used for this calculation?

A. Total RPS costs / Total Retail Sales (cents/kWh)

– E.g., 2.6 cents/kWh for SCE in 2017 (2013 RPS plans)

B. Option A, but as a percentage of system average rates

C. Total RPS costs / Generation Revenue Requirement

D. Compared to the costs of alternative, non-RPS futures



Insufficient PEL to meet RPS

Key Issue

An IOU may refrain from procuring RPS resources if (1) the IOU exceeds its PEL, and (2) unless the IOU can do so “without exceeding a de minimis increase in rates.”

- What methodology or process should be used to determine whether incremental RPS procurement cause a de minimis increase in rates?
- What process should be used for IOUs to inform the Commission that the IOU is approaching its PEL?



Scope of Work

Key Issue

What is an appropriate level of resources and precision for setting and administering the PEL?

- Is a complex cost/benefit analysis required?
- What are the benefits to using a complex cost/benefit analysis?
- What, if any, existing processes or methodologies can be leveraged for the PEL?
 - Annual RPS procurement plans
 - Long-term procurement planning proceeding



A few parties commented that the staff proposal is too easily misunderstood

The RPS program will cause a 23% increase in rates!!!

- How much weight should the Commission give to the perception of a methodology vs. the methodology, *per se*?
- How can the Commission and stakeholders mitigate misperception and/or misinformation stemming from whatever PEL methodology is established?



A Flexible Methodology

Key Issue

Several parties commented that the PEL methodology should be able to accommodate market or regulatory changes

- What are the characteristics of a flexible PEL methodology?
- What conditions should the PEL methodology be able to accommodate? E.g., higher RPS



- When should the PEL expire?
- What if an IOU has a zero RNS?
- Forecast Assumptions
 - Use of existing Renewable Net Short Methodology
 - Use of excess procurement
 - Assumptions about future RPS sales
 - Escalation rate for revenue requirement
 - Escalation rate for generation rate component
- Public access to PEL data inputs



Next Steps

01/14/14: Staff issue Revised Staff Proposal

01/17/14: Parties file Revised Alternative Proposals

02/02/14: Comments due on all Proposals

02/25/14: Reply Comments due on all Proposals



Next Steps (cont.)

Guidance for the next round:

Proposals and comments should be thorough and include:

- Quantitative calculations using actual RPS and IOU data
- A methodology to calculate rate impact for the PEL
- A description of the information and data required, including whether or not the data is publicly available



More Information

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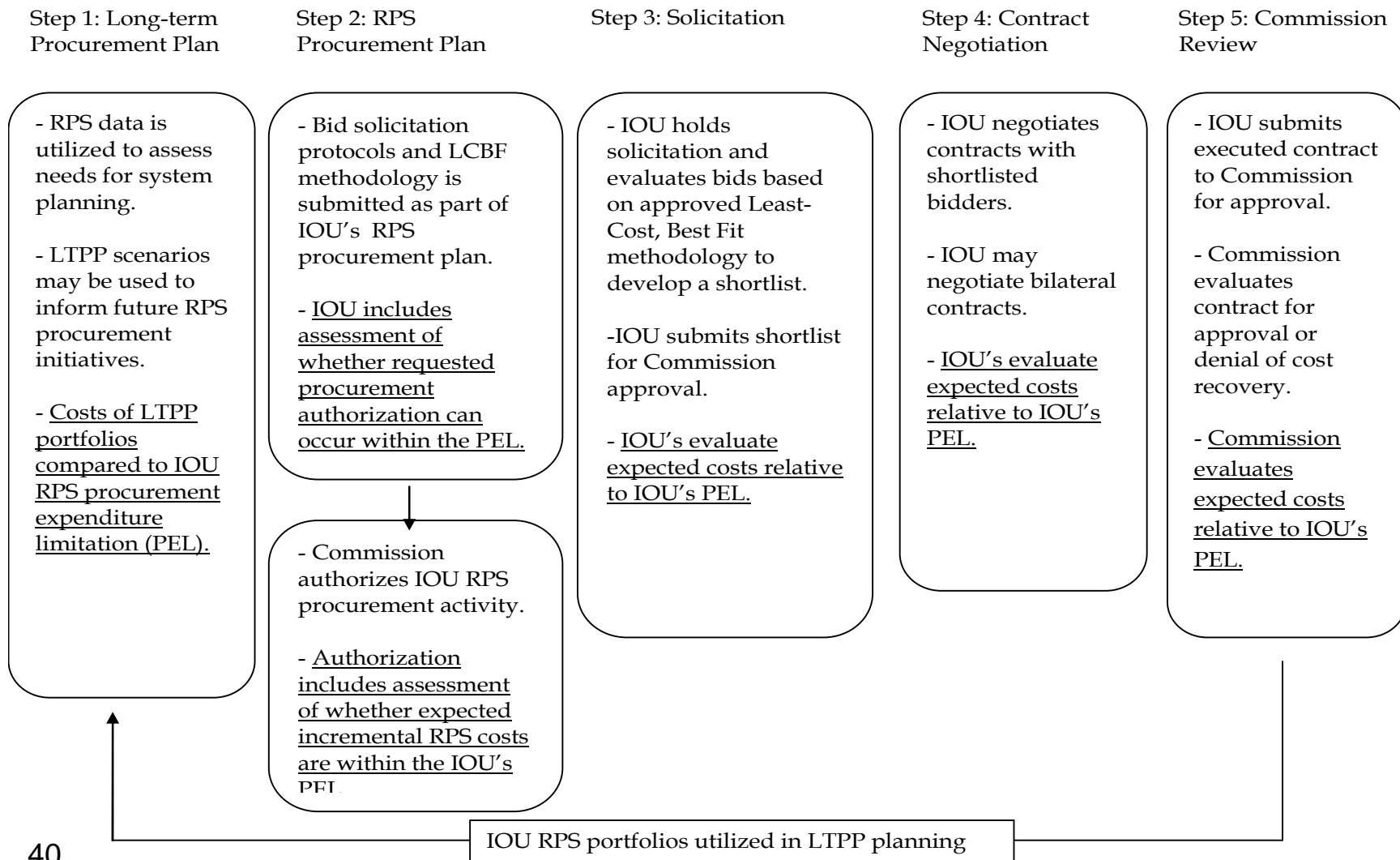
<http://www.cpuc.ca.gov/renewables>



Back Up Slides



Procurement Continuum (July 23 ruling)



Pub. Util. Code Section 399.15(c)-(d)

(c) The commission shall establish a limitation for each electrical corporation on the procurement expenditures for all eligible renewable energy resources used to comply with the renewables portfolio standard. In establishing this limitation, the commission shall rely on the following:

(1) The most recent renewable energy procurement plan.

(2) Procurement expenditures that approximate the expected cost of building, owning, and operating eligible renewable energy resources.

(3) The potential that some planned resource additions may be delayed or canceled.

(d) In developing the limitation pursuant to subdivision (c), the commission shall ensure all of the following:

(1) The limitation is set at a level that prevents disproportionate rate impacts.

(2) The costs of all procurement credited toward achieving the renewables portfolio standard are counted towards the limitation.

(3) Procurement expenditures do not include any indirect expenses, including imbalance energy charges, sale of excess energy, decreased generation from existing resources, transmission upgrades, or the costs associated with relicensing any utility-owned hydroelectric facilities.

Pub. Util. Code Section 399.15(e)-(f)

(e) (1) No later than January 1, 2016, the commission shall prepare a report to the Legislature assessing whether each electrical corporation can achieve a 33-percent renewables portfolio standard by December 31, 2020, and maintain that level thereafter, within the adopted cost limitations. If the commission determines that it is necessary to change the limitation for procurement costs incurred by any electrical corporation after that date, it may propose a revised cap consistent with the criteria in subdivisions (c) and (d). The proposed modifications shall take effect no earlier than January 1, 2017.

(2) Notwithstanding Section 10231.5 of the Government Code, the requirement for submitting a report imposed under paragraph (1) is inoperative on January 1, 2021.

(3) A report to be submitted pursuant to paragraph (1) shall be submitted in compliance with Section 9795 of the Government Code.

(f) If the cost limitation for an electrical corporation is insufficient to support the projected costs of meeting the renewables portfolio standard procurement requirements, the electrical corporation may refrain from entering into new contracts or constructing facilities beyond the quantity that can be procured within the limitation, unless eligible renewable energy resources can be procured without exceeding a de minimis increase in rates, consistent with the long-term procurement plan established for the electrical corporation pursuant to Section 454.5.

Pub. Util. Code Section 399.15(g)

(g) (1) The commission shall monitor the status of the cost limitation for each electrical corporation in order to ensure compliance with this article.

(2) If the commission determines that an electrical corporation may exceed its cost limitation prior to achieving the renewables portfolio standard procurement requirements, the commission shall do both of the following within 60 days of making that determination:

(A) Investigate and identify the reasons why the electrical corporation may exceed its annual cost limitation.

(B) Notify the appropriate policy and fiscal committees of the Legislature that the electrical corporation may exceed its cost limitation, and include the reasons why the electrical corporation may exceed its cost limitation.