



## Staff Report Item 5

**TO:** East Bay Community Energy Executive Committee

**FROM:** Nick Chaset, Chief Executive Officer

**SUBJECT:** PG&E Carbon-Free Allocations (Informational item)

**DATE:** November 20, 2019

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### Recommendation

Provide input and direct staff to develop an action item for how to proceed with regards to the allocation of carbon-free energy from PG&E to be presented at the December Board of Directors meeting.

### Background and Discussion

In mid-2019, East Bay Community Energy (EBCE) approached PG&E to discuss whether they would be agreeable to selling energy from their large hydro facilities.<sup>1</sup> PG&E had offered energy from large hydro resources in 2018, but ultimately refused to make any sales in 2019. PG&E subsequently approached EBCE and offered to allocate GHG-free resources (nuclear and large hydro) to EBCE and other eligible load serving entities (LSEs). PG&E is having discussions with EBCE (leading on behalf of NorCal CCAs) on the mechanics of implementation.<sup>2</sup>

Separately, there is another effort occurring in the Power Charge Indifference Adjustment (PCIA) Phase 2 working group 3 (WG 3) that is also focusing on the allocation of GHG-free energy, among other things. Since the WG 3 effort is not expected to take effect until 2021, the EBCE effort is meant as an interim approach until WG 3 decisions are finalized. To distinguish the two efforts from each other, the EBCE effort shall be called the "Interim Proposal," and the PCIA WG 3 effort the "PCIA Proposal." Both proposals are works in progress and subject to change pending final CPUC approval.

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<sup>1</sup> Large hydro and nuclear resources count as GHG-free on the power content label (PCL), and investor-owned utilities (IOUs) have been benefiting from counting those resources to meet their GHG-free targets. LSEs, on the other hand, have been paying for those same assets through PCIA, yet do not receive any of the GHG-free benefits through the PCL.

<sup>2</sup> Clean Power Alliance is having similar negotiations with Southern California Edison (SCE) in SCE territory, but both Interim Proposals are distinct and separate from each other.

## Interim Proposal

The key elements of the Interim Proposal are:

- Limited in time to 2019-20
- Has both a backwards-looking piece (for 2019 and the portion of 2020 preceding CPUC approval of the Interim Proposal) and a forward-looking piece (for 2020 through action on the PCIA Proposal)
- Limited in the resources to which it applies:
  - In-state
  - Large hydroelectric
  - Nuclear
- Only available to retail suppliers whose customers pay PCIA with large hydroelectric and nuclear in their PCIA vintage
- Requires active agreement between retail suppliers to offer and to take generation
- Requires that the CPUC approve a mechanism for the allocation of such generation

The Interim Proposal will become effective upon CPUC approval of an advice letter that PG&E will file to amend PG&E's Bundled Procurement Plan to permit allocations. The Interim Proposal will remain in effect until the effective date of a CPUC action on the PCIA Proposal Rulemaking (R.17-06-026) orders an alternative methodology (PCIA Decision). In practice, that means through 2020. For the backwards-looking piece of the Interim Proposal, action by the CEC amending its Draft Modified Power Source Disclosure rules will also be required. So, to be clear, the Interim Proposal requires CPUC and CEC action before PG&E will make allocations available, and it may be that the backwards-looking element falls away.

The purpose of this memorandum is to provide background and information for management to decide whether to take its share of the GHG-free allocation under the interim methodology, and if so, from which pool(s).

With that said, here is additional detail on the Interim Proposal's mechanics.

Under the Interim Proposal, PG&E will allocate to each eligible LSE its load share of large hydro (hydro pool) and/or nuclear resources (nuclear pool) based on an LSE's election. An eligible LSE (as defined in the CAISO Tariff) is one that (1) has forecasted load identified in PG&E's Energy Resource Recovery Account (ERRA) Forecast Application (ERRA Forecast Departed Load) for the calendar year in which the Allocation Amount is accepted; and (2) serves customers who pay the PCIA departing load charges for the above market costs of Resources. If an eligible LSE has ERRA Forecast Departed Load in 2020, but not in 2019, the Eligible LSE can participate in PG&E's annual one-time offer of the Carbon Free Energy for 2020; 2020 allocation amounts will depend on when the final approval is provided by the CPUC. The LSE has 30 days to accept its allocation of hydro and/or nuclear pool(s), and any unallocated amounts will revert back to PG&E to use or dispose as it sees fit pursuant to applicable law. Although there is an attempt by EBCE for LSEs to receive allocations retroactively for 2019, that effort is highly unlikely.

In exchange for the allocation by PG&E, the receiving LSE accepts the conditions that 1) the manner in which the disposition of the resource pools is reasonable; and 2) the LSE waives its ability to make petitions, arguments, or filings to the CPUC or the California Legislature

asserting that PG&E has not offered any allocation, sale, or transfer of Carbon Free Energy or environmental attributes associated with such Carbon Free Energy for the year in which the Eligible LSE accepts such offer.

PG&E will provide some historical production data and ongoing allocation amounts for LSEs to forecast and keep track of allocation amounts. They will also provide the LSE with an annual attestation confirming actual year-end totals of generation from the Resource Pool(s) and notify the California Energy Commission of the sale of the Product for purposes of PCL reporting.

### **Scenarios to Consider**

**Option A** - PG&E offers EBCE carbon-free allocations up to EBCE's load share percentage (8-10% of PG&E load), amounting to ~2,000GWh. EBCE accepts all carbon-free allocations.

**Option B** - PG&E offers EBCE carbon-free allocations up to EBCE's load share percentage (8-10% of PG&E load), amounting to ~2,000GWh. EBCE accepts only the large hydro portion of the allocations, amounting to ~600GWh, and must procure the remaining ~1,400GWh of carbon-free energy in the market.

**Option C** - EBCE accepts all carbon-free allocations from PG&E and distributes all nuclear-associated attributes to the Bright Choice mix, ensuring rate options that will show no nuclear on the Power Content Label.

### **Financial Impacts**

The quantifiable difference between the scenarios lies in the cost of carbon-free energy multiplied by the number of MWh offered in the allocation. This could be as great as ~\$11,200,000 should EBCE deny the nuclear allocations and need to procure the ~1,400 GWh of carbon-free energy elsewhere. This could be as small as \$0 - or alternately, an effective savings of ~\$16,000,000 - should EBCE accept all of the allocations, negating the need to purchase 2,000GWh of carbon-free product in the market.

### **Attachments**

- A. Presentation on PG&E Carbon-Free Allocations



# 2020 Carbon-Free Allocations

PRESENTED BY: NICK CHASET

DATE: NOVEMBER 20, 2019



# PG&E Allocation Process

## Background

PG&E is offering to allocate GHG-free resources (nuclear and large hydro) to eligible load serving entities and is in the process of determining the mechanics of implementation. PG&E will issue a final advice letter outlining the allotted allocations to each eligible LSE based on that LSE's share of PG&E's load, but the letter is not yet finalized and thus the amount of allocations to EBCE is not yet certain. In preparation for the likely allocation, however, EBCE seeks guidance from the Board on the decision around the nuclear allocations.

It is important to note that the amount of allocations offered to EBCE will not change the amount of nuclear or large hydro generated by PG&E, nor the amount of renewables EBCE procures, but EBCE's decision on whether or not to accept some or all of the allotted allocations will have an effect on how much carbon-free energy EBCE will need to procure in the market in 2020.

It is also important to note that the cost of the power associated with these allocations is already recovered through the PCIA regardless of whether or not EBCE takes the allocation. The quantifiable difference between the forthcoming scenarios lies in the cost associated with either accepting or otherwise procuring the allocated volume of nuclear resources.

## Projected 2020 Allocations

~**2,000 GWh of carbon-free attributes**; made up of 30% Large Hydro, 70% Nuclear

# Power Sources & Proposed PCL Changes

## ACS (Asset Controlling Suppliers)

An ACS is a specific type of Electric Power Entity approved and registered by CARB. An ACS owns, operates, or serves as an exclusive marketer of interconnected electricity generating facilities. Once approved by CARB, the underlying power procured from an ACS's system is considered specified source power, subject to meeting all applicable requirements. While most ACS power comes from large hydro, there are often small amounts of other resources in the portfolio, which could include nuclear.

## Specified Source

Electricity derived from a specific set of generators owned, operated, or exclusively marketed by an ACS. Purchases of specified system power of an ACS are considered specified purchases if the transactions are documented through a contract executed prior to generation of the associated electricity and the delivery of the electricity is documented by e-tags.

## Proposed Changes to Power Content Accounting Processes

There will be a vote at the Energy Commission in Dec. 2019 likely accepting new regulation pertaining the Retail Disclosures to Consumers. The changes would require LSEs to disclose the fuel mix information of each electricity portfolio and of California total system electricity. This would mean that any percentage of 1) ACS product and 2) CAISO System electricity originating from nuclear would need to be disclosed as such. The carbon-free resources coming from PG&E nuclear generation, as well as any relative percentage of ACS power purchased by EBCE would show up on the EBCE Power Content Label.

# Financial Impacts of Allocation Decision

Scenario	Allocated Carbon-Free Resources	Accepted Carbon-Free Resources	Carbon-Free Resources to Purchase	Cost of Additional Resources*	Effective Cost to EBCE	Effective Savings for EBCE
Option A	2,000 GWh	2,000 GWh	0 GWh	\$8.00 / MWh	\$0.00	\$16,000,000
Option B	2,000 GWh	600 GWh**	1,400 GWh**	\$8.00 / MWh	\$11,200,000	\$4,800,000
Option C	2,000 GWh	2,000 GWh	0 GWh	\$8.00 / MWh	\$0.00	\$16,000,000

Note:

\* \$8.00/MWh is used as the cost multiplier for additional carbon-free resources. This number is the current budgeted per-unit value for this product, within the range of recent transactions at \$6-7/MWh. The discrepancy in the budgeted value and the latest transaction accounts for an upward price trend in the market, plus a likely mix of PCC1 RECs to make up the difference, as the carbon-free product is relatively scarce in the market; PCC1s are currently trading in the \$15-18 range.

\*\* Represents the roughly 70/30 split in PG&E's carbon-free mix between nuclear and large hydro resources, respectively, with 1,400GWh coming from nuclear and 600GWh coming from large hydro.

# Option A – Accept Entire Allocation

## Scenario:

PG&E offers EBCE carbon-free allocations up to EBCE's load share percentage (8-10% of PG&E load), amounting to ~2,000GWh. EBCE accepts all carbon-free allocations.

## Impacts:

EBCE achieves ~65% of its carbon-free needs for 2020 directly through the PG&E allocations, needing only to procure the remaining ~35% in the market. This translates into an effective savings of around \$16,000,000 that EBCE would otherwise spend procuring carbon-free resources.



# Option B – Accept Only Hydro Allocation

## Process:

PG&E offers EBCE carbon-free allocations up to EBCE's load share percentage (8-10% of PG&E load), amounting to ~2,000GWh. EBCE accepts only the large hydro portion of the allocations, amounting to ~600GWh.

## Impacts:

EBCE must purchase ~1,400GWh of carbon-free product to cover the discrepancy, costing around \$11,200,000 in marketplace transactions.

# Option C – Accept Entire Allocation, Designate Nuclear-Free Rate Option

## Process:

PG&E offers EBCE carbon-free allocations up to EBCE's load share percentage (8-10% of PG&E load), amounting to ~2,000GWh. EBCE accepts all carbon-free allocations from and distributes all nuclear-associated attributes from PG&E allocations to Bright Choice.

## Impacts:

This scenario yields the same financial impact of Option A, though explicitly ensures that EBCE offers rate options for customers who will not accept nuclear in their power mix. Any individual customer or entire city can opt-up to Brilliant100 or Renewable100 to eliminate nuclear generation from their power mix.