Provider of Last Resort (POLR) Workshop #2

Rulemaking 21-03-011

March 7, 2022

California Public Utilities Commission

Workshop Preliminary Information

- Questions-and-Answers protocols:
  - Q-and-A sessions will be held at the end of each section.
  - Since all attendees are on mute, please use the “raise hand” function on the right side of your screen.
  - Alternatively, please use the Q-and-A messaging function on the right side of your screen – (not the “Chat” messaging function.)

- **Notice of Recording: This public meeting will be recorded and may be posted online for subsequent viewing.**

Agenda

Time	Topic	Presenters
9:00 - 9:15	Introduction and Opening Remarks	Commissioner Darcie L. Houck
9:15 – 9:45	ED Proposed POLR Framework	CPUC Energy Division
9:45-10:35	Definition of POLR Service	CalCCA, SDG&E
10:35-10:45	BREAK	
10:45-Noon	Resource Availability	Various Parties
Noon-1:00	LUNCH	
1:00-2:00	Liquidity Needs	Pacific Gas & Electric, CalCCA
2:00-2:55	Financial Monitoring of the CCAs	CalCCA, SCE
2:55-3:00	Final Remarks	Commissioner Darcie L. Houck

Introductory Remarks

Commissioner Darcie L. Houck, CPUC

Energy Division Presentation on POLR Framework

Key Requirements of SB 520

- IOU shall be the Provider of Last Resort unless the CPUC designate another Load Serving Entity provide service
  - *(Provisions regarding the designation of alternate LSE as POLR to be addressed in Phase II)*
- POLR shall receive reasonable cost recovery for being designated and providing service as POLR
- To ensure continued achievement of California's Clean Energy goals, the CPUC shall:
  - Establish rules for all LSEs in preparation of large unplanned customer migrations
  - Recommend modification to regulations
- IOU shall provide billing and collection services to POLR
- The CPUC shall supervise and regulate the POLR to ensure customers are provided electric service without disruption

Background

- Procedural context
  - The Scoping Memo identified three phases:
    - Phase I to identify current gaps in the POLR process for IOUs
    - Phase II to determine if and how a third party POLR could be allowed to act as the POLR
    - Phase II for any other issues that may need to be addressed
  - The first Workshop was held on October 29, 2021
  - This Workshop will consider party proposals in response to the first workshop.

Problem statement

The Commission has adopted and implemented a process to return customers to the IOU in the event of a CCA failure. Under conditions in which the IOUs have the resources to readily absorb the customers, this process currently serves its purpose, but may need revisions in order to meet the requirements set by SB 520:

- To ensure that the POLR can recover its costs to avoid shifting new costs onto bundled customers
- To ensure that state reliability and greenhouse gas compliance programs are maintained and on track

If the LSE fails and the POLR is not readily able to secure the resources needed to serve the returning customers, not only will the procurement costs will spike for returning customers, but the capacity shortfall will continue, impacting the cost for everyone. In a worst-case scenario, the conditions could lead to additional LSE failures. The POLR must be able to perform its responsibilities even in the event of large and/or cascading failures and in extreme market conditions, when the resources are not readily available.

- Develop an emergency plan to ensure the continuity of electric service in such conditions.
- Consider actions to minimize the risk of a catastrophic failure occurring in the first place

Proposed Framework for Phase I of POLR

New frameworks under consideration

Continuity of Service Plan

To ensure procurement is met during a major market event or under conditions where load from CCA cannot be easily absorbed by POLR

Emergency Plan
Applies to both CCAs and ESPs

LSE Monitoring and Risk Management

Identify at-risk CCAs and address financial issues ahead of time to minimize the risk of to the rest of the energy market

Prevention Strategy
Applies only to CCAs

Existing requirements for Non-IOU LSEs under review

Cost Recovery: Financial Security Requirements/ Reentry Fees

Review the current framework and determine whether any revisions are necessary to reflect accurate cost recovery

LSE Deregistration Process & Compliance Requirements

Formalize the deregistration procedures to ensure procurement compliance requirements are met

Framework sufficient for individual LSE failure under "normal" conditions
Applies to both CCAs and ESPs

Phase I POLR Workplan

1. Establish new policies to plan for and prevent of catastrophic failure:
   a. **Continuity of Service Plan:** Develop emergency plan to ensure POLR's ability to provide electric under extreme conditions
   b. **Risk Management Plan:** Consider a monitoring process for identifying at-risk CCAs and addressing financial issues to minimize the risk of a large scale failure
2. Review and update existing procedures and policies for:
   a. **Financial Security Requirements/Reentry Fees:** Review the current framework and methodology to consider whether it avoids cost shifting and serves the needs
   b. **LSE Deregistration Process & Compliance Requirements:** Establish the process to ensure procurement compliance requirements are met

1.a. Continuity of Service Plan

Last minute procurement in market conditions in which there is a shortfall of resource capacity could put the POLR at financial risk and increase the cost to returning customers and potentially all ratepayers. The POLR would need:

1. **Access to Liquidity:** If IOUs are required to procure additional resources on short notice, there may be issues related to having the needed liquidity to perform these activities. This would be particularly relevant if the IOU itself has credit problems.
2. **Emergency Procurement or Access to Generation resources:** LSEs that declare bankruptcy will default on contracts and resources may be resold to POLR for much higher prices or to entities outside CAISO territory. Projects under construction in default may fail to come online.
3. **POLR Service:** If POLR service must be implemented under these extreme conditions, what other aspects of this service need to be addressed? Is there a short term vs. long term phasing that is needed?

1.b Risk Management and Financial Monitoring

While public financial information is available from CCAs, it is disorganized, decentralized, and often buried in layers of websites or other documentation. As recent CCAs failures have shown, this lack of transparency has led to regulators and IOUs scrambling to catch up. Advance indications of financial instability could help provide orderly, less costly transitions

- Financial information is already publicly available. Do we need additional information that is not public?
- Besides simply gathering the information, are there actions the CPUC can take in the event that certain financial warning flags are detected?
- UCAN proposed trigger induced financial reporting. What would be the triggers and how are they used?
- CalCCA proposed financial review requirements during the implementation phase for CCAs
- Should energy hedging positions also be reported (confidentially) and reviewed?

POLR Framework Q&A

- Does Energy Division's proposed framework accurately capture the core problem statement and set of issues that need to be addressed in Phase 1? If not, what needs to be changed or considered?

Roundtable Discussion: Definition of POLR Service

R.21-03-011
Provider of Last Resort

POLR Definition

California Community Choice Association

March 7, 2022

Issues

How should the POLR term be defined?

What process should be used to return customers to bundled service?

Retain Current Rules and Processes for CCA Returns

Consensus view of CalCCA and the IOUs

POLR Service for returning CCA customers:

- Up to six months of POLR service with the excess costs covered through a financial security mechanism

This six-month period covered by the re-entry fee affords the IOU time to plan for and hedge the returning customers after the six-months ends

Retain Current Return Process

Direct Access – Large customers & affiliated small	Protected by §394.25(e)? No. Return to TBS; Customer pays Re-Entry Fees*	Option to elect alt. DA provider? Yes, w/in 60 days	If fail to depart during safe harbor, remain on TBS additional 6 months	Move to BPS, minimum stay = 18 months; 6 mo. advance notice to depart
Direct Access – Residential & small commercial	Protected by §394.25(e)? Yes. Go to BPS. LSE pays Re-Entry Fees**	Option to elect alt. DA provider? Yes, small comm. w/in 60 days	If fail to depart during safe harbor, remain on BPS for minimum stay period (18 mos)	6 mo. advance notice to depart
CCA	Protected by §394.25(e)? Yes. Go to BPS. LSE pays Re-Entry Fees**	Option to elect DA provider? Yes, commercial w/in 60 days	If fail to depart during safe harbor, remain on BPS for minimum stay period (12 mos)	6 mo. advance notice to depart

Definition of POLR Service Q&A

- What are the existing POLR service requirements as currently implemented by IOUs?

- What changes are needed, if any, to ensure the IOU can provide POLR service under all conditions?

- Are the current timelines in the IOU tariffs for service of returning customers sufficient?

Roundtable Discussion: Resource Availability

SOUTHERN CALIFORNIA EDISON
Energy for What's Ahead℠

POLR OIR

Phase 1 – IOU POLR Service
Workshop #2
Topic: Resource Availability

William V. Walsh
Vice President, Energy Procurement & Management

March 7, 2022

Ensuring that RA, IRP, and RPS obligations are met when a CCA returns customers

Current Framework – Renewable Portfolio Standards (RPS)

- RPS obligation met by LSE for energy served prior to load migration to the POLR; POLR responsible for energy beyond that point (unless and until served by another provider)

CCA / IOU Consensus Proposed Changes – RPS

- The LSE should maintain the RPS compliance obligation for the period it served customers
- The POLR should then take on the RPS compliance obligation beginning with the energy consumed during POLR service
- The POLR should have a waiver or grace period for compliance if needed
- Clarify compliance process to ensure that deregistering entity can close out compliance obligation expeditiously and allow the IOU sufficient time to demonstrate compliance if the mass involuntary return of customers and the compliance window are too close together to allow for reasonable compliance

Ensuring that RA, IRP, and RPS obligations are met when a CCA returns customers

Current Framework – Resource Adequacy (RA)

- LSE RA obligation ends when CCA or ESP deregistration occurs, and obligation shifts to POLR once Energy Division adjusts RA requirements and CAM allocations
- RA rules allow POLR to seek system RA waiver for unanticipated mass load migrations

CCA / IOU Consensus Proposed Changes – RA

- The POLR should not be ordered to perform advanced procurement/hedging for an unknown mass involuntary return (i.e., one that occurs no written advance notice to the POLR)
  - Would increase costs for any LSE's customers required to pay for advance procurement
  - Would drive up costs for all customers by artificially increasing demand
  - Could strand valuable products
  - Calculating amount of need would be challenging
- If the defaulting LSE provides advance written notice of the mass involuntary return of customers to the POLR (i.e., a known mass involuntary return), the POLR can begin planning to serve that load

Ensuring that RA, IRP, and RPS obligations are met when a CCA returns customers

Current Framework – Integrated Resources Planning (IRP)

- No clear transition of IRP procurement obligations in the event of failure and mass involuntary load migration/ deregistration (e.g., MTR procurement obligations)

Proposed Changes – IRP

- **CalCCA**: If the CCA causing a mass involuntarily return of customers to the POLR has met its IRP procurement requirements, the POLR should pick up the returned customers' share of going forward obligations to the extent it is the default provider. If the CCA has not met its procurement requirements, the POLR should procure to fill the near-term shortfall. The POLR/default provider should have a grace period/waiver if necessary to fill the shortfall
- **IOUs**: In general agreement with CalCCA's position but need to address any very near-term procurement requirement and the cost implications of such; may result in need for extension of compliance window to account for unanticipated load migration

R.21-03-011
Provider of Last Resort

Contract Assignment

California Community Choice Association

March 7, 2022

Issue

Should the Commission require CCAs/ESPs to provide in their contracts with suppliers for the assignment of the contract to the POLR in the event the CCA/ESP deregisters and returns customers to bundled service?

Contract Assignment to POLR: *Policy Concerns*

Adds complexity in supply procurement

Adds complexity in supply management (*e.g.*, resale of products)

Potentially increases contract costs for CCAs and their customers

Requires renegotiation of existing agreements

Contract Assignment to POLR: *Legal Concerns*

A POLR assignment provision presents serious legal questions in the context of bankruptcy, where the provision would have its greatest value

An assignment provision would implicate two overarching policies of the Bankruptcy Code:

(1) Control over contracts

(2) Centralization of assets and claims

Contract Assignment to POLR: *Legal Concerns* (2)

Control over Contracts:

- The Bankruptcy Code makes a provision automatically terminating or modifying an executory contract upon the commencement of a bankruptcy case inoperative
- The ability to control executory contracts is one of the most powerful tools available to a debtor or trustee in bankruptcy

Centralization of assets and claims:

- Undermine the Court's jurisdiction in distributing the bankruptcy estate's assets or reorganizing its obligations
- Under increasing price conditions, assigning a contract to the POLR would deprive other creditors of the full value of the contract to satisfy claims

Frank DeRosa,

Senior Policy Advisor

8minute Solar Energy

Securing LSE Resources

Paul Chernick

President, Resource Insight

Consultant to Small Business Utility Advocates

Provider of Last Resort Workshop #2

California PUC Rulemaking 21-03-011

What Happens if an LSE Goes Bust?

- **LSE has *X* MW of load, along with a variety of resource:**
  - X_e of energy hedges
  - X_r or more of renewable energy
  - X_c or more of capacity (RA and other obligations)
- **LSE ceases operation and returns load to POLR**
- **POLR winds up responsible for serving X_e, X_r, and X_c**
- **What happens to the LSE's resources?**

What if the Contracts are Voided?

- **POLR purchases resources in the markets**
  - May be a scramble
- **If market prices for replacement resources < POLR's average costs, no problem**
- **If market prices for replacement resources > POLR's average costs, problems arise.**
  - Prices rise for all POLR customers, or
  - Prices rise a lot for the LSE's former customers
- **High prices may increase chance of LSE failure**

If the POLR has Step-Up Rights

- **POLR can assume the LSE's resource contracts, at same terms as the LSE**
  - If it wants them
  - Independent decision for each contract
- **Mitigates exposure to market conditions**
- **May reduce costs to POLR customers**
  - PUC will need to decide rules for rolling returning customers into general POLR rate
- **Will not help if:**
  - Supplier default triggers LSE failure
  - LSE contracts are all above market

Resource Availability Q&A

- Should the POLR be required to assume the failed LSE resource contracts? How would novation or "Right of First Refusal" clauses impact LSEs costs and/or abilities to enter contracts? How would it impact the POLR? Are there legal implications?

- SEIA/LSA indicated that contract assignment would be beneficial in lowering the risk profile of potential agreements. Can this be expanded upon, and how is risk considered when finalizing a deal with a CCA?

- What alternative solutions should be considered to ensure that contracted resources (both under development and operational) continue to be delivered in CAISO service territory in the event of LSE failure? For instance,
  - Are there alternative approaches that would give the POLR the right to purchase output from these contracts at the LSE's cost?
  - Could existing CAM and VAMO resources be used to meet POLR needs?

Roundtable Discussion: POLR Liquidity Needs

Provider of Last Resort (POLR)
Workshop 2 - POLR Liquidity Needs

March 7, 2022

Together, Building
a Better California

The Need for Upfront Liquidity for the POLR

Energy purchases must be made immediately upon the mass return of customers in the event an LSE failed to provide, or denied, service or otherwise failed to meet its obligations.

The POLR requires upfront liquidity to provide reliable service in a short amount of time.

1. **CAISO Energy Purchases**: CAISO calculates the invoice approximately 9 days after the purchase date and requires payment approximately 6 days after sending the invoice to the POLR.
2. **Billed Customer Revenues**: Customers' bills cover approximately 30 days of POLR service with approximately 19 days to make payment to the POLR.
   - Payment processing, delinquent payments, etc. will extend the timeline for the POLR to receive billed customer revenues.

There is a need to provide sufficient cash flow to provide reliable service.

- PG&E's procurement pool concept is intended to provide sufficient cash flow for the POLR.
- Providing a means to cover approximately 2 months of POLR service is needed to reliably serve the mass involuntary return of customers.

Timeline of the Initial 60 Days of POLR Service

POLR Actions

Prior to Day 1: POLR determines liquidity needs.
- POLR requests CPUC authority and is authorized to access the (upfront) procurement pool

Day 1: POLR begins serving returning customers.
- Purchases are made through the CAISO market.

Starting Approximately Day 15: POLR pays CAISO invoices.
- Includes CAISO market purchases for serving returning customers.

POLR Service (Initial 60 Days)

Customer Actions

Day 30: Customer receives service bill from the IOU.
- Customer may be billed earlier/later depending on the billing cycle.

Day 49: Customer pays service bill.
- Customer may pay earlier/later depending on the billing cycle.
- Note: Customer payments may be delinquent and paid later.

Day 1-60: Customer elects a new service provider. If the customer does not elect a new service provider, or if there is no other service provider available, that customer will go to the IOU as the default service provider.
- Switching rules may need to differ depending on the entity serving as the POLR and default service provider.

Note: PG&E proposed that POLR service be for a term of 6 months to allow the new service provider time to plan for the new customer after POLR service ends. During the first 60 days of POLR service, the customer has an opportunity to elect a new service provider.

Establishing the Source and Contribution for the Pool

Leveraging the existing ERRA forecasting process and its inputs/assumptions can streamline the review process for the CPUC and stakeholders.

- To mitigate the need for upfront liquidity, the procurement pool is intended to cover approximately 2 months of POLR service.

Q1 (Annually):
- Using inputs from the ERRA forecasting process, determine the forecasted departing load for each CCA for Year Y.

Q4 (Annually):
- Apply the forecasted PCIA benchmark(s) for Year Y to the 2 highest months of each CCA's load to establish each CCA's contribution to the procurement pool.
- Each CCA shall contribute its portion to the procurement pool by December 31 of Year Y-1.

Note: Each CCA may post its contribution through (1) cash; or (2) a pooled Letter-of-Credit (LC) arrangement for an amount equal to the sum of each participating CCA's contribution.

Year Y-1 | **Year Y**

EXAMPLE (CCA 1)

Month	Average On-Peak Price ($/MWh)	On-Peak Load Forecast (MWh)	On-Peak Contribution	Average Off-Peak Price ($/MWh)	Off-Peak Load Forecast (MWh)	Off-Peak Contribution	Total Contribution
August	$45.00	140,000	$6,300,000	$35.00	105,000	$3,675,000	$19,550,000
September	$45.00	135,000	$6,075,000	$35.00	100,000	$3,500,000	

Illustrative Example: Accessing and Replenishing the Pool

Step 1: POLR determines liquidity needs of $30 M.

- POLR draws upon the pool to cover an estimated 2 months of incremental procurement costs. An additional amount of **$10.45 M** is needed to supplement the failed CCA's contribution.

Debit/Credit Description	DEBITS	CREDITS
Total Procurement Pool	-	($200,000,000)
Failed CCA's Contribution	$19,550,000	-
Loan	$10,450,000	-
Ending Balance		**($170,000,000)**

Debit/Credit Description	DEBITS	CREDITS
Upfront Liquidity for POLR	-	($30,000,000)
Energy Costs	$92,000,000	-
RPS Costs	$8,000,000	-
RA Costs	$26,000,000	-
Billed Revenues		($101,000,000)
Total Costs for POLR Service	**$126,000,000**	**($131,000,000)**
Ending Balance		**($5,000,000)**

Step 2: POLR provides service to customers for a term of 6 months.

- POLR incurs total actual costs of **$126 M**.
  - Pursuant to 394.25(e), the failed CCA is responsible for **$131 M** of the reentry fees.
- After accounting for its contribution of **$19.55 M**, the remaining balance owed to the POLR from the failed CCA is **$111.45 M**.
  - This does not account for the **$10.45 M** borrowed from the pool, which must be separately repaid.

Step 3: POLR recovers $0 additional funds for the CCA.

- POLR receives **$101 M in incremental billed revenue**.
- POLR has **$5 M in the balancing account** which it transfers back to the pool.
- The **ending balance of the pool must be $180.45 M** to maintain indifference. This leaves **$5.45 M owed to the pool**, which could be recovered via a monthly flat NBC on bills of customers that were under POLR service.

* Assumes using a bundled generation rate that reflects incremental revenue to the POLR

Additional Discussion Items

- **POLR requires sufficient upfront liquidity to provide reliable service in a short amount of time.**
  - **PG&E bundled customers currently pay for and carry the costs for this liquidity.**
- **Depending on who the POLR is (e.g., IOU or another LSE), the incremental procurement costs can be disproportionately higher or lower than its average costs in normal course of business.**

Benefits of a Procurement Pool

- **Sufficient Cash Flow**: Provides sufficient upfront access for the POLR to provide reliable service to customers in a short amount of time.
- **Shared Services**: Pooling to meet upfront liquidity needs can reduce collective costs (e.g., increasing bargaining power) and posting among CCAs.

Other Considerations

1) What procurement costs should be included to establish the procurement pool? Energy? RA? RPS?
2) Should the procurement pool be established at the TAC-level? Statewide level?
3) Who would manage / be the beneficiary of the procurement pool?

CALCCA
ADVANCING LOCAL ENERGY CHOICE cal-cca.org

R.21-03-011
Provider of Last Resort

Liquidity

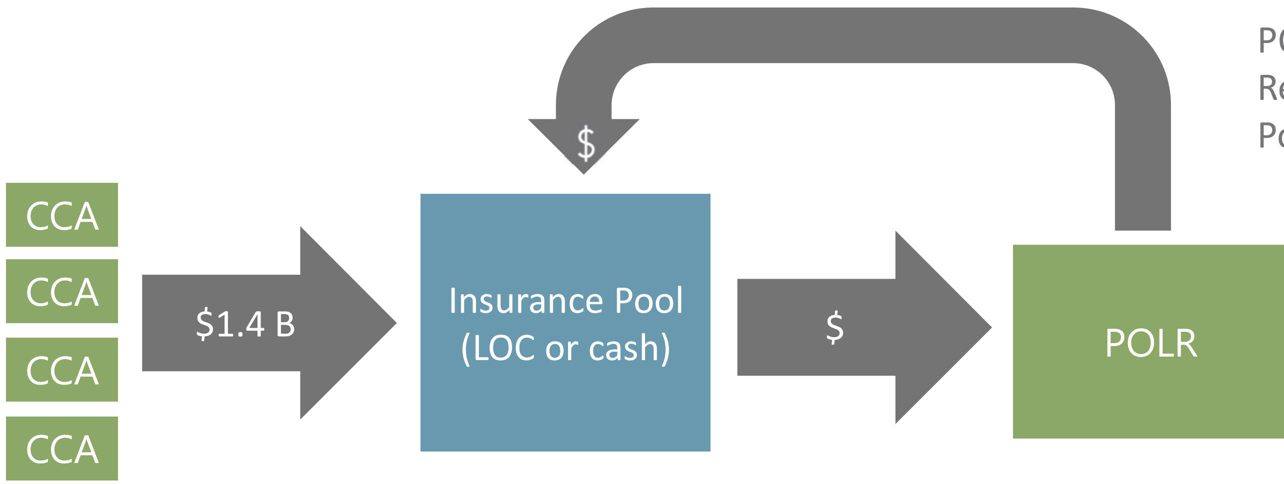
California Community Choice Association

March 7, 2022

Issue

Does the existing Financial Security Requirement adequately reflect the costs the POLR would experience if customers are returned to the POLR?

PG&E Pool Design Is Unworkable



POLR Replenishes Pool

All CCAs pay two months of forecast costs; *no revenue offset*

Draw on defaulting CCA FSR + others to meet liquidity needs

Considerations:
- Excessive response to liquidity need
- Is there a fair process to permit the POLR to draw on an LOC from one LSE for another LSE's failure?
- Why should ESPs be exempt?

Potential Modifications to Improve FSR Accuracy

Forecast *procurement cost* calculation

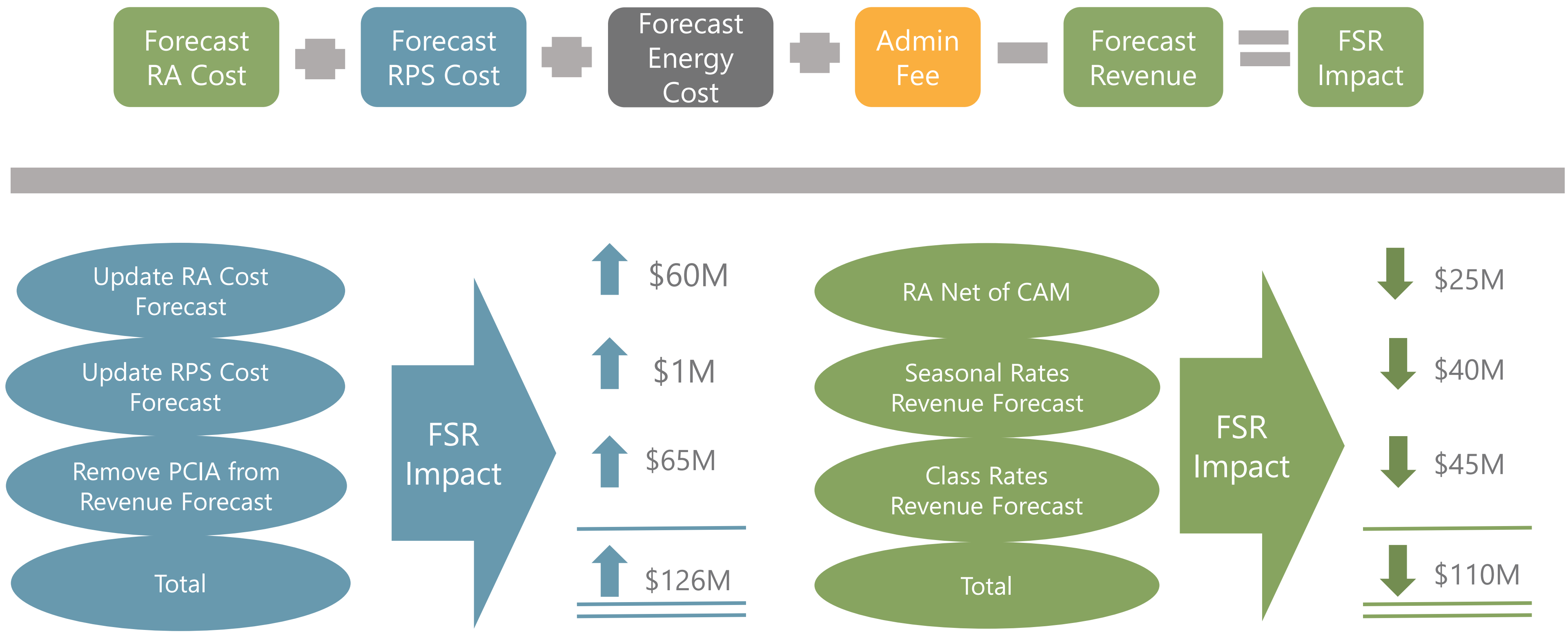
- ✓ Use most current ERRA market price benchmark as proxies for forecast RA and RPS costs

Load adjustments should reflect CAM allocations

Forecast *bundled revenue offset* calculation

- ✓ Reflect average customer rates by class to better reflect anticipated revenues from each LSE
- ✓ Reflect approved rate changes
- ✓ Seasonally differentiate average revenues to match seasonal differentiation of forecast costs
- ✓ Improve reflection of PCIA interaction with revenues and costs

FSR Change Illustrative Example



Other Resources Available to Meet POLR Needs

CAM Resources

CAM allocation for the returned customers will remain in place and available to the POLR to meet RA requirements

RPS Resources

- IOUs as POLR hold substantial banked RPS resources that could be deployed by POLR
- Unallocated and unsold short-term VAMO resources will be available to meet immediate needs

Other PCIA Resources

The current calculation does not account for an increase in the value of PCIA resources when market prices increase

POLR Liquidity Needs Q&A

- Could the POLR require additional cash flow, in excess of the financial security requirements, to maintain its liquidity? If so, what scale of liquidity may be needed?

- If additional liquidity is needed, is an insurance pool as proposed by PG&E a reasonable option? How would an insurance pool work? How much should it be, who should contribute, where are funds held, how is it drawn upon and how would it be replenished if it is drawn upon?

- 3. What other options may be available to provide liquidity to an IOU?

Roundtable Discussion: Risk Monitoring and Financial Monitoring

CALCCA
ADVANCING LOCAL ENERGY CHOICE cal-cca.org

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Provider of Last Resort

Financial Monitoring

California Community Choice Association

March 7, 2022

Issue

What CCA/ESP information will enable the Commission to better anticipate and manage potential customer returns?

New CCAs*

Greater Rigor in Pre-launch Financial Planning

Require submission of Feasibility Study with Implementation Plan + *pro forma* financial statement

Establish annual assumptions to be included in the *pro forma* financial statement submitted with the Plan

Establish milestones for critical implementation action and review progress in quarterly CPUC staff check-in

Update *pro forma* financial statement six months prior to launch for review with CPUC and presentation to governing board

* Does not apply to expansions of existing CCAs

Liquidity

Risk Management

Debt

Willingness to Adjust Rates

Existing CCAs

Financial Condition Interactions

Illustration: Credit Rating Factors for POUs

EXHIBIT 1

US Public Power Electric Utilities with Generation Ownership Exposure Sector Scorecard Overview

Factor	Factor Weighting	Sub-factor	Sub-factor Weighting
Cost Recovery Framework Within Service Territory	25%	--*	25%
Willingness and Ability to Recover Costs with Sound Financial Metrics	25%	--*	25%
Generation and Power Procurement Risk Exposure	10%	--*	10%
Competitiveness	10%	--*	10%
Financial Strength and Liquidity	30%	Adjusted Days Liquidity on Hand (three-year average)	10%
		Adjusted Debt Ratio (three-year average)	10%
		Adjusted Debt Service Coverage Ratio OR Fixed Obligation Charge Coverage Ratio (three-year average)	10%
Total	**100%**		**100%**

Source: *US Public Power Electric Utilities with Generation Ownership Exposure Methodology,* Moody's Investors Service (Aug. 14, 2019)

CCA Financial Information Available in Public Documents

- ✓ Data points to calculate days liquidity on hand
- ✓ Data points to calculate debt ratio
- ✓ Risk management policies
- ✓ Ratemaking policies and changes

CalCCA is aggregating key document access from all member CCAs through a single portal on its website https://cal-cca.org/key-cca-documents

LSE Financial Monitoring

Investment Grade Credit Rating	No financial monitoring required
No Investment Grade Credit Rating	Days Liquidity on Hand reported
DLOH < Designated Threshold	Consultation with Energy Division Staff

Financial Monitoring of Community Choice Aggregators

POLR Phase I – Workshop II

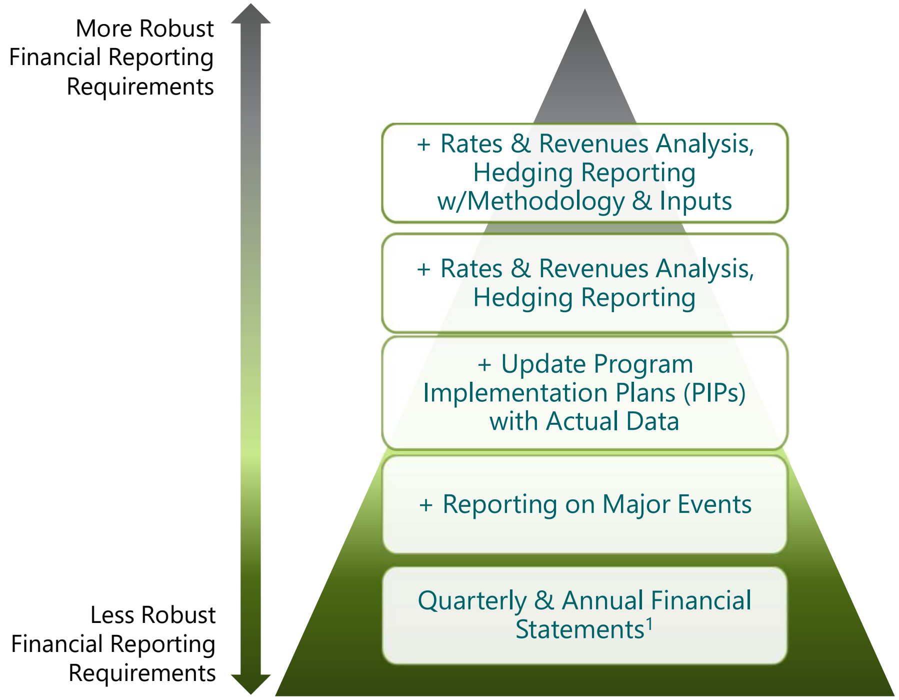
March 7, 2022

Should CCAs and ESPs be required to meet critical safeguards during the Implementation Phase before serving customers?

- At a minimum, the Commission should update the registration processes to require additional, ongoing information from LSEs to enable the Commission to monitor financial health for consumer protection purposes
- The Commission has the requisite jurisdiction to require additional financial reporting
  - Pursuant to P.U. Code Sections 366.2, 394, and 394.25, CPUC has consumer protection jurisdiction over CCAs and ESPs, including ensuring financial viability
  - P.U. Code Section 366.2(c)(17): "The community choice aggregator shall register with the commission, ***which may require additional information to ensure compliance with basic consumer protection rules*** and other procedural matters."
  - P.U. Section 394(b)(9): "In determining the financial viability of the electric service provider, the commission shall take into account the number of customers the potential registrant expects to serve, the number of kilowatt-hours of electricity it expects to provide, ***and any other appropriate criteria to ensure that residential and small commercial customers have adequate recourse in the event of fraud or nonperformance."*** *See also* 394.25(a)(b),(e)

Proposed Approach to LSE Financial Monitoring

- Commission should implement regular monitoring of LSE financial health so that it can detect early warning signs of a potential LSE failure.



- Consider prioritizing a rollout of LSE financial reporting requirements and/or determine what requirements are appropriate based on the criteria similar to:
  - Priority 1 – Recently formed or forming CCAs
  - Priority 2 – CCAs with some history of operation
  - Priority 3 – CCAs with extended track record of performance
  - Priority 4 – ESPs serving residential and/or small commercial customers
- LSEs with an investment-grade credit rating may not have additional requirements other than the financial statements[1] available on a timely basis
- LSEs without an investment-grade credit rating may have additional reporting requirements that include key metrics with financial statements
  - Suggested key metrics for LSE monitoring: profitability, total liquidity resources available, current rates comparison to IOU rates, long term energy supply procurement comparison to load requirements, rate of uncollectible, etc.)

1. Financial Statements include income statement, balance sheet, and statement of cash flows.

Appendix

3.5 Risk Management and Financial Monitoring

- Parties provided a variety of recommendations to monitor the financial status of Community Choice Aggregators (CCAs.) The following questions are provided to further explore these recommendations.
  - The IOUs, CalCCA, and Cal Advocates propose that financial monitoring of CCAs could help identify CCAs with financial problems, facilitating an early response to those problems to help maintain market stability.
    1. What benefits would such monitoring provide?
    2. What kinds of financial information should CCAs report? Should reports be limited to publicly available information, or should additional confidential reports containing confidential information be provided? Be specific about the types of information, you recommend.
    3. How should the financial reporting be utilized?
  - UCAN argues that some sort of regular and/or trigger-induced financial reporting should be required from LSEs to monitor potential failure.
    1. Should reporting requirements be established based on specific triggers, and if so, what triggers?
  - CalCCA proposes that the financial reporting requirements should occur through upgraded requirements to the implementation plans.
    1. What if any critical financial or other standards should a CCA be required to meet during the Implementation Phase, as a condition of receiving approval to begin serving customers?
    2. Would financial reporting requirements in implementation plans be established for the Implementation Phase of new CCAs only, or for all CCAs?

Risk Monitoring and Financial Monitoring Q&A

- Should a CCA and ESPs be required to meet certain critical safeguards during the Implementation Phase before serving customers?

- Should reporting requirements be established based on specific triggers, and if so, what triggers?

- What kinds of financial information should CCAs report? Should reports be limited to publicly available information, or should there be additional confidential reports containing confidential information, like hedged energy positions? Alternatively, what information could be reasonably provided by CCAs and ESP to provide notice of critical circumstances?

Closing Remarks

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