WESTERN COMMUNITY ENERGY
YOUR NEIGHBORHOOD POWER AUTHORITY

Frequently Asked Questions about: Power Charge Indifference Adjustment (PCIA)

The Western Riverside Council of Governments (WRCOG) is developing a Program, called Western Community Energy (WCE), in order to provide residents and business a choice in the energy supply they receive, enable local control over rate setting and customer programs, and offer rates competitive to the utility, Southern California Edison (SCE).

Prior to deciding whether to move ahead with a CCA, WRCOG prepared a study that examined whether a CCA in Western Riverside County could achieve the above-stated goals. The study included a conservative business plan that examined and estimated a number of costs associated with the overall Program, with an objective of assessing the likelihood that Western Community Energy could in fact deliver energy at a lower cost to residents and businesses compared to SCE. One of the costs examined in the study is referred to as the Power Charge Indifference Adjustment, or PCIA.

The PCIA, also known as an "Exit Fee," ensures that customers who decide to remain with SCE instead of having energy provided by the new CCA do not end up taking on the long-term financial obligations the utility incurred on behalf of customers who move to the new CCA. The PCIA is meant to ensure that remaining utility customers are not cross-subsidizing departing customers. The energy previously consumed by SCE utility customers who move to the CCA is known as "departing load."

PCIA OBJECTIVES

1. Ensure the remaining SCE utility customers are not cross-subsidizing departing customers.
2. Makes the remaining SCE utility customers indifferent to customers departing from the utility by ensuring that remaining utility customers are not cross-subsidizing departing customers.

The assumption underlying this Exit Fee is to prevent any costs from shifting from departing load customers to remaining utility customers. When utilities purchase contracts for electricity on behalf of their retail customers, and when those customers later decide to buy their electricity from another source (like the CCA), state law requires that remaining utility procurement customers do not experience cost increases as a result of customers migrating to a CCA.

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What is the Power Charge Indifference Adjustment (PCIA)?

ANSWER

PCIA is a fee charged by SCE to CCA customers to ensure remaining utility customers do not experience cost increases as a result of customers migrating to a CCA.

How is the PCIA calculated?

ANSWER

The PCIA is determined by calculating the difference between:

- The "**actual portfolio cost**" which represents the cost related to SCE's power procurement, and
- The "**market value"** (which is determined by the CPUC prescribed methodology) of the portfolio.

Do CCA customers pay any costs related to the utility's procurement of power?

ANSWER

Yes. Because power plants take a long time to be constructed and because SCE has entered into long-term power purchase contracts, Public Utility Code Sections 366.1 and 366.2 require the CPUC to make sure that customers leaving the utility do not burden remaining utility customers with costs which were incurred to serve them.

Does WCE's Feasibility Study take the PCIA into account?

ANSWER

Yes. In order to maintain a very conservative approach, WCE's financial pro formas take into account a high PCIA amount for SCE's costs, and still shows potential savings to WCE customers.

Can the PCIA decrease and can a departing load customer receive a credit when the PCIA is negative?

ANSWER

Yes. A credit, but not a cash payment. The PCIA may be positive or negative representing the above- or below-market cost of power as determined every January. SCE will track any negative PCIA values and offset them against a departing load customer's future positive PCIA.

Why are CCA's concerned with the PCIA?

ANSWER

CCAs are concerned with the PCIA because depending on what it is determined to be, it could affect the potential cost savings that CCAs aspire to offer to their customers. As such, existing and emerging CCAs want to make certain that PCIA charges, and the development of methodologies to determine them accurate.

A number of issues are of concern, including:

1. **Transparency:** Relative information is not always available, which causes uncertainty as to what factors are included in the PCIA.
2. **Accountability:** Exit Fees are not audited to determine if the Fees are accurate.
3. **Proper Valuation:** Utilities are not required or encouraged to find the best deal for selling existing contracts.
4. **Termination of fee:** There is no "true-up" at the end of the year and/or cycle.
5. **A high PCIA could impact projected cost savings to CCA customers:** The PCIA is one of many factors that contribute to ultimate energy costs.

How is WCE tracking the PCIA?

ANSWER

WCE is actively participating in CPUC proceedings regarding the PCIA to ensure that the concerns raised above are addressed.

Does the PCIA represent a profit to a utility or its remaining customers?

ANSWER

No. The PCIA revenue from the departing load customers is fully credited to SCE's customers to offset the above-market costs of SCE's procurement obligations.

Do all customers who depart SCE for the new CCA pay the same PCIA?

ANSWER

No. The PCIA is different depending on when a customer leaves SCE and what SCE's portfolio is at the time. For example, a customer who departed in 2012 paid the "2012 vintage PCIA" which only included the above market costs of pre-2013 vintaged power procured by the utility.

Does the PCIA change from year to year? What causes it to change?

ANSWER

Yes. The PCIA is determined in May and November in SCE's ERRA filing and approved rates are implemented in January, since it is calculated as the difference between SCE's forecast" generation portfolio cost and its "estimated" market value as determined using the Commission methodology.

The main cause for the PCIA increase in recent years has been the drop in the market value of the utility's portfolio due to the steep decline in natural gas prices and the fact that renewable power prices have come down below what the utilities are contracted for.

Do CCA customers pay any other departing load charges?

ANSWER

Yes. Pursuant to statutory mandates, all customers pay towards nuclear decommissioning and for what are referred to as "public purpose" charges. Various non-bypassable departing load charges are listed below:

- Department of Water Resources (DWR) bond charge
- Competition Transition Charge (CTC)
- Power Charge Indifference Adjustment (PCIA) Charge
- Cost Allocation Mechanism (CAM) Charge - to pay for the new resources needed for ongoing system reliability
- Nuclear Decommissioning (ND) Charge
- Public Purpose Program (PPP) Charge

ADDITIONAL QUESTIONS?

Contact WRCOG at 951.405-6700
or www.wrcog.us for additional information