Financial Security Requirement Update

Executive Committee, May 18, 2022
FSR Background

- All CCAs are required to post a Financial Security Requirement (FSR) with their IOU/Provider of Last Resort to cover administrative and net procurement costs the IOU would incur for six months if a CCA failed and its customers were involuntarily returned to the IOU.

- The amount is recalculated every six months using updated power prices; the minimum posting is $147,000 and has never exceeded that amount.

Diagram:

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RA Report Price * RA Quantity + RPS MPB * RPS Quantity + ICE Energy Price * Energy Quantity + Admin charge * number of customers - Average system rate * kWh load = revenues from returned customers
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procurement costs to serve returned customers
Spring Update (FSR July – Dec 2022)

A historic surge in forward power prices right before SCE calculated the new FSR led to an extreme rise in the FSR amount for CCAs in SCE territory.

- **SCE Advice 4789-E**: Total $127 million in required collateral collectively from CCAs by July 1.
- **PG&E Advice 6589-E**: $147,000 minimum required for each CCA.
- **SDG&E Advice 4002-E**: $147,000 minimum required for each CCA.

*Some differences among IOU calculations are inherent in (1) varying levels of bundled customer rates, since bundled revenues offset costs in the FSR formula; (2) NP15/SP15 energy price differences; (3) IOU load weighting of ICE prices.*
CPA Specific Impact

- Unless the amount is recalculated using a more favorable methodology, or the Advice Letter is suspended by the CPUC, CPA must post $97 million by July 1.
- Posting the FSR as currently calculated potentially introduces several unnecessary risks into an already volatile market.

- Increased CCA Financial Risk and Vulnerability to Summer Conditions
- Increased Vulnerability in System Stability for Summer Conditions
- Increased Risk and Pressure on Completing New Projects
CPA/CalCCA Response – Two-Pronged

**Regulatory**
- Dialogue with CPUC, Energy Division, SCE
- Protest Advice Letter
  - Correct errors
  - Use different assumptions
  - Suspend Advice Letter
- Address issues in the ongoing POLR Proceeding

**Financial**
- Explore Surety Bond cover (G&A cost – included in Draft Budget) and/or;
- Increase Line of Credit with JPM (Interest expense)
- Cash/Letter of Credit using existing resources
- Additional June 2 Board meeting agenda item(s) will request one or more authorizations to execute surety bond and/or increase JPM facility should regulatory efforts be unsuccessful