

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 11

TO: Community Advisory Committee

FROM: Edward Burnham, Director of Finance & Internal Operations
Mitch Sears, Executive Officer

SUBJECT: Rate Adjustment System – Preliminary Draft Policy

DATE: October 27, 2022

RECOMMENDATION

Informational item – no action requested.

OVERVIEW

The purpose of this report is to seek CAC feedback on the preliminary draft rate adjustment policy. The draft policy provides a framework to make timely mid-year customer rate changes, within Board approved parameters, to adjust to external cost factors outside VCE's direct control.

At the September 22, 2022, CAC meeting, Staff introduced this conceptual rate adjustment framework. For reference, please see the most recent Staff report to the CAC located [here](#).

BACKGROUND/ANALYSIS

As discussed in past staff reports, VCE has seen high volatility in the energy sector and overall economy, primarily driven by the uncertainty during the COVID-19 pandemic, international energy market turmoil, and weather impacts. As part of evaluating options to overcome external cost factors outside VCE's direct control related to energy cost adjustments and regulatory adjustments, VCE Staff has drafted a Rate Adjustment Policy similar to other Load Serving Entities (LSEs), to help address factors influencing reserves accumulation, rate stability, establishing a credit rating, and expanding longer-term power purchase agreements.

Recent events and factors, such as the September Heat Storm presented in [Item 16](#) to the Board on October 13, 2022, reinforced the utility of having increased flexibility to modify rates in a timely manner to adjust to external conditions. Staff has evaluated 2022 financial impact events and has not recommended rate adjustments at this time due to favorable near-term forecasts in 2023.

Preliminary Rate Adjustment Policy Draft Overview

The attached draft Rate Adjustment Policy provides a framework to make mid-year customer rate modifications in a timely manner and accurately reflect external cost factors outside VCE's

direct control related to energy cost adjustments and/or regulatory actions. The policy is designed to incorporate the following elements: Purpose, Principles, Process, Authorizations, Control and Accountability, and Administration.

Key Policy features:

- Rates are reviewed annually by VCE Board as part of the annual budget Adoption.
- Board approved parameters set the total rate adjustments that can be implemented, including an annual limit.
- Mid-Year Rate adjustments are limited to Energy Cost Adjustments and Regulatory Adjustments.
- Rate Adjustments require approval by the VCE's Energy Risk Oversight Committee (EROC) before implementation within defined parameters.
- Accountability and reporting to the Board describing any implemented rate adjustment will be provided to the Board at its next regularly scheduled Meeting.

Staff is seeking feedback from the CAC on the attached preliminary draft Rate Adjustment policy. As shown in the proposed timeline below, CAC feedback will help inform the final draft rate adjustment policy that will be presented at the November CAC meeting; followed by Board consideration of the final draft in December.

Updated timeline

As noted above, various factors outside VCE's direct control are the main drivers for evaluating this draft policy. The Board approved the basic timeline below at its September meeting:

- October 2022 – Receive additional CAC feedback on the Draft Customer Rate Adjustment System policy
- November 2022 – Return to the CAC for recommendation on the proposed Rate Adjustment System policy
- December 2022 – Rate Adjustment System for 2023
 - Present Draft Proposed Customer Rate Adjustment System policy for consideration (2023 Implementation)
 - If approved, consolidate with 2023 Budget & Rates Adoption

Staff will be providing additional detail in its informational presentation at the meeting, including several scenarios of rate impacts based on the draft Rate Adjustment System policy.

CONCLUSION/NEXT STEPS

Staff is seeking additional feedback from the CAC on the draft Rate Adjustment System policy.

ATTACHMENT

1. Preliminary Draft - VCE Rate Adjustment Policy



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Valley Clean Energy Alliance
Rate Adjustment Policy

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A. PURPOSE

The Board of Directors of Valley Clean Energy Alliance (VCE) is responsible for setting customer rates to collect sufficient revenue from participating customers to fully fund VCE's budget and establish sufficient operating reserve funds as defined in the VCE Rate Policy. The Board typically considers customer rate setting at the beginning of each year. Due to volatility in energy markets and the unpredictability of regulatory actions, additional flexibility to make limited adjustments to customer rates on a more frequent basis to recover costs is a sound business practice – one adopted by many Load Serving Entities (LSEs).

The Rate Adjustment Policy provides a framework to make timely mid-year customer rate changes, within Board approved parameters, to adjust to external cost factors outside VCE's direct control. Specifically, mid-year rate adjustments made under this policy are limited to material financial changes resulting from either (1) market energy costs or (2) regulatory decisions that impact VCE's costs or revenues. Under this policy, all mid-year customer rate changes are vetted through VCE's Enterprise Risk Oversight Committee (EROC) and reported to the Board at the next meeting following implementation.

B. PRINCIPLES

The following principles guide customer rate adjustment decisions under this policy:

1. Link to annual budget and multi-year forecast - Customer rates shall be set to fully fund operating costs and cash reserve fund targets consistent with multi-year forecasts.
2. Regularly examine Financial Operating Results - Budget variances will be monitored throughout the fiscal year for impacts on annual budgets and multi-year forecast results.
3. Reserves - Customer Rates shall fund reserves consistent with VCE's Financial Reserve Policy and budgeted targets.

C. PROCESS

The Director of Finance and Internal Operations will monitor and review unaudited operating budget variances and decisions/proposed decisions by California Public Utilities Commission (CPUC) and other regulatory bodies for impacts greater than 5% to net income or cash reserves compared to the adopted budget. If a 5% or greater net impact to income or cash reserves is observed or forecast, the Director will initiate a mid-year rate adjustment assessment based on the following factors:

1. Mid-year rate adjustments will only be considered to address two categories of external cost factors outside VCE's direct control: (1) Energy Cost Adjustments and (2) Regulatory Adjustments, where:
 - a. Energy Cost Adjustments – These adjustments are intended to recover the power costs, including renewable resources, energy and energy hedges, resource adequacy and capacity products, and demand side management (DSM) costs, including revenue losses, not otherwise included in VCE's retail generation rates.

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- b. Regulatory Adjustments – These adjustments are intended to recover and adjust VCE revenues to remain within Board authorized revenue requirements/total bundled rate discounts/ premiums when VCE’s finances are materially impacted by CPUC or other regulatory body decisions. Regulatory Adjustments typically include Power Charge Indifference Adjustment (PCIA), PG&E retail rates, balancing account charges, and/or other PG&E and/or regulatory body related actions that directly impact VCE's customer rates. These adjustments may also include other regulatory financial requirements required and approved by CPUC or other regulatory bodies that have a material effect on VCE's cost/revenue structure.
2. Customer rate adjustments shall be consistent with the Authorizations in Section D below. The cumulative mid-year customer rate adjustments approved under this Policy in any fiscal year may not exceed the Authorizations in Section D below.
3. Any given adjustment may result in an upward or downward impact on VCE generation rates given the particular impacts of any one or combination of factors related to Energy Cost Adjustments and/or Regulatory Adjustments.
4. Implementation of a mid-year rate adjustment will maintain the current Base Green product discount and the relative revenue requirement contributions of VCE's Standard Green and Ultra Green customer classes.
5. CARE/FERA and other eligible VCE low-income customers subscribing to VCE's Base Green product shall be charged the lower of VCE's Standard Green and Base Green generation rate, in the instance when VCE's Standard Green generation rate may be less than VCE's Base Green generation rate following a given rate adjustment.
6. The particulars of rate design, existing PG&E rate schedules, and customer class and consumption characteristics, actual discounts / premiums / rates experienced by any particular customer or customer class may vary from overall weighted averages.

Approval/Oversight

7. Director of Finance and Internal Operations shall provide timely reporting to the Executive Officer and EROC analysis of all revenue and energy cost projections for accuracy, content, and compliance with the previously determined priorities and policies.
8. Mid-year customer rate adjustments shall be reviewed and approved by the EROC.
9. The Board shall receive a report of any mid-year rate adjustments at its next scheduled meeting. The cumulative mid-year customer rate adjustments shall be reported as part of the Board’s annual operating budget and rates adoption process.
10. Staff shall develop and maintain procedures for internal control and accountability of the Rate Adjustment Policy.

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D. AUTHORIZATIONS

VCE Customer rates adopted by the Board of Directors may be amended during the year within the parameters listed below:

Type of Rate Adjustment	Authorized Adjustments
Energy Cost Adjustments	Customer rate adjustments related to Energy Cost shall be calculated no more than once per month. Such individual adjustment shall not result in more than a 7.5% increase/decrease to VCE's weighted average total generation rate.
Regulatory Adjustments	<p>Customer rate adjustments related to Regulatory actions shall be calculated throughout the year as warranted following actions by regulatory bodies and/or PG&E, which result in material changes to VCE Board authorized rate discounts/premiums or VCE revenue levels.</p> <p>VCE intends to calculate and implement any such Regulatory Adjustments within 90 days following PG&E's implementation of such actions. The timing, frequency, and financial impact of regulatory body (e.g. CPUC) and PG&E actions that may affect the Regulatory Adjustments are not typically known in advance and may occur multiple times during any given year.</p>
Annual Cumulative Limit	The annual cumulative limit for mid-year customer rate adjustments authorized under this policy is a total of 15%. The Board may modify this limit.

E. CONTROL & ACCOUNTABILITY

An information report describing any implemented mid-year rate adjustment authorized under this policy will be provided to the Board at the next regularly scheduled Board Meeting following implementation of the rate adjustment.

F. POLICY ADMINISTRATION

The Board must approve amendments to this Policy.