VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 15

TO: Board of Directors

FROM: Mitch Sears, Interim General Manager
Edward Burnham, Director of Finance & Internal Operations

SUBJECT: VCE 2022 Customer Rates

DATE: February 10, 2022

RECOMMENDATIONS

1. Approve VCE 2022 Customer Rates:
    a. Customer rates for 2022 to match PG&E 2022 generation rates for all customer classes.
    b. A rate credit of 2.5% for CARE and FERA customers in 2022
2. Conduct a mid-year rates review in Q2 2022 to assess rates forecast and determine the feasibility of:
    a. allocating additional funds for 2022 clean energy content procurement,
    b. allocating additional funds to program implementation,
    c. providing additional rate credits for all customer classes during peak summer months in 2022.
3. Direct Staff to continue to develop and evaluate the feasibility of a revised rate structure with three customer options: (1) Standard Green (default) and (2) UltraGreen (100% renewable) with cost-based rates and adding a (3) least-cost customer rate option.

OVERVIEW

Beginning in mid-2020, VCE began exploring the concept of cost-based rates to address financial issues associated with the power market and regulatory volatility. Steeply rising Power Charge Indifference Adjustment (PCIA) (+46% for 2021) and power market costs (+57% since May 2021), have required VCE to draw on reserves to stabilize customers rates and maintain its current rate policy of matching PG&E generation rates. In Q1 of 2021, the Board directed Staff to develop an expanded and cost-based rate structure to address these issues. In September, Staff presented a background report to the Board and CAC that included a draft outline rate structure and development/implementation schedule.

Based on updated power market forecasts and VCE financial model results that corrected an overestimation of the value of VCE's long-term renewable contracts, the Board approved an accelerated rate adjustment of approximately 2% on the average overall customer bill in mid-October. This cost-based rate adjustment decreased the draw on reserves.

The Community Advisory Committee considered the proposed cost-based rate policy and structure at its November 28, 2021 meeting and updated the recommendation for the 2022 rates on January 20, 2022.

This report and recommendation update the customer rates consistent with recent CAC and Board direction. In addition, VCE will continue to develop rates calibrated to actual cost and reserve requirements rather than simply indexed to PG&E's generation rates for 2023.

BACKGROUND

In 2017, prior to launch, VCE adopted and registered its Implementation Plan with the California Public Utilities Commission (CPUC). The Plan included a provision that program rates must collect sufficient revenue from participating customers to fully fund VCE's budget, including the need to establish sufficient operating reserve funds. Over the past three years VCE has systematically analyzed policy options and implemented strategies to stabilize customer rates, reduce cost, and manage reserves. This is in keeping with its Strategic Plan goal to maintain financial stability while continuing to offer customer choice, competitive pricing and establishment of local programs. Several of these key financial mitigation strategies have included: discontinuing a rate discount, scaling back voluntary procurement of renewable energy credits (RECs), and signing long-term contracts for fixed price renewable/battery storage projects.

Recognizing that additional steps may be needed to achieve cost recovery objectives, in early 2020 staff began investigating rate related strategies employed by other CCAs designed to address on-going financial pressures outside of a CCAs control (e.g. PCIA, RA, power market prices). Based on general Board direction, research was conducted with input from the CAC Rates Task Group through mid-2021, resulting in a staff concept for an expanded and cost-based customer rate structure. The concept was reviewed by the CAC in September and by the Board in September and October. The staff report related to the concept is at: Item-17-Customer-Rate-Structure-Policy-9-9-21.pdf (valleycleanenergy.org).

Rate Adjustment and Policy Update

Additional forecast information on rising power markets, correction of an overestimation of the value of VCE's long-term renewable contracts, and elevated 2021 PCIA rates prompted the Board to approve a rate adjustment on October 21, 2021. The rate adjustment of approximately 2% on the average overall VCE customer bill for the remaining months of 2021 and into 2022 reduced the draw on VCE's financial reserves. This adjustment went into effect on November 1, 2021. For reference, the Board staff report related to the accelerated rate adjustment is at: Item-4-Rate-Adjustment-10-21-21.pdf (valleycleanenergy.org).

On November 10, 2021, the Board adopted the following update to the VCE rates policy:

> Cost-Based Rate Policy: VCE will set customer rates to collect sufficient revenue from participating customers to fully fund VCE's budget and establish sufficient operating reserve funds.

Additional Rate and Financial Factors

On November 8, 2021, PG&E completed the standard ERRA filings for PCIA and bundled rates with the CPUC with significant changes from forecasts received from the CalCCA analyst forecasts. Staff and Board recommended delaying the adoption of customer rate adjustments and the 2022 budget to include the PG&E updated filings. In mid-December, in an unusual move, the California Public Utilities Commission (CPUC) asked PG&E to submit options to spread its 2022 rate increase of over 30% over more than the standard 12-month period. PG&E filed these options in late December, resulting in a range of a 27% rate increase over 24-months to a 33% increase over the standard 12-month period. In addition, the PCIA decrease for 2022 was revised from a -75% to a -59% based on the incorporation of actual vs. projected value of PG&E's energy portfolio for October and November 2021.

According to the proposed decision by the CPUC on January 24, 2022, PG&E will be implementing the following adjustments effective March 1, 2022.

- 2022 PCIA set to decrease 57%
- 2022 PG&E's average generation rates set to increase by 33%
- All rate changes are inclusive of PG&E December actuals

Community Advisory Committee Recommendation

On September 23, 2021, the Community Advisory Committee (CAC) received a background presentation on the rate-based concept and structure. On October 28, 2021, the CAC considered and recommended the rate-based policy adopted by the Board on November 10. On January 20, 2022, Staff incorporated the updated PG&E filing described above. The CAC considered the updated recommendation analysis of Staff and adopted the below recommendations for 2022 customer rates.

1. Adopt customer rates for 2022 to match PG&E 2022 generation rates for all customer classes to cover VCE's FY 2022 budget expenditures and to achieve between 80-90 days cash reserves by the end of 2022;
2. Provide a 2.5% rate credit for CARE and FERA customers in 2022;
3. Conduct a mid-year rates review in Q2 2022 to assess rates forecast and determine the feasibility of:
   a. allocating additional funds for 2022 clean energy content procurement,
   b. allocating additional funds to program implementation,
   c. providing additional rate credits for all customer classes during peak summer months in 2022.

ANALYSIS

As discussed at previous Board and CAC meetings, the CPUC is scheduled to adopt 2022 PG&E bundled rates inclusive of setting PCIA and generation rates at their February 10, 2022 meeting as described above. The updated analysis shown below is based on the best available information as of the writing of this report. Based on information from VCE and Calca's Analysts, VCE has incorporated the following assumptions in its updated financial forecasts for 2022 (assuming 2022 PG&E rates/PCIA are implemented on March 1, 2022):

- PCIA: 57% reduction over 2021 PCIA
    - Previous Projection from PG&E's November CPUC filing: 75% reduction
- Generation rates: 33% increase in PG&E rates
    - The November projection from PG&E's filing: 36% increase
    - The CPUC requested from PG&E's December update to include amortized rate increase options over 18 & 24 months

Staff has updated VCE's financial model with the updated January base assumptions for 2022. Consistent with previous discussions with the Board and CAC, Staff has run three budget impact scenarios to help inform the Board's consideration of rate options for 2022, including:

1. Scenario 1 (Low Income/At-Risk* Credit): 2.5% (Approx. $750,000) rate credit for CARE/FERA customers; all other revenues directed to reserves.
2. Scenario 2 (Base Case): no modifications; all revenues directed to reserves.
3. Scenario 3 (Low Income/At-Risk* + Credit): 3.5% rate credit for CARE/FERA customers plus 1% rate credit for other customers; all other revenues directed to reserves.

*Includes CARE/FERA and Medical Baseline customers

The recommended scenario 2 adjustments would not apply to CARE and FERA customers who make up approximately 25% of VCE's total load. Taking these customers into account, the fiscal effect of the recommended rate credit is $750,000 for from March 1, 2022 through February 28, 2023.

<u>Customer Bill Fiscal Effects (Scenario 2)</u>
Over the past 18 months the Board has considered the volatility of inputs that impact customer rates. Economy wide disruptions, surging wholesale power markets, and regulatory actions have all contributed to an unprecedented and unstable customer rate structure. As the Board is aware, VCE has taken action to address some of that volatility by drawing on reserves to help create more stable customer rates. However, as PG&E significantly raises rates in 2022 to recover their costs, VCE must consider the need to rebuild reserves and prepare for PCIA volatility going into 2023. These rate impacts are being felt across the State with all three Investor Owned Utilities raising rates by more than 20% in 2022.

The fiscal effects on VCE customers are summarized in the table below. While the rate increases are not insignificant, the staff recommendation does include rate credits for low income and vulnerable customers (CARE, FERA, and Medical Baseline) and a mid-year review to assess revenues and possible additional rate credits. Note: CARE/FERA customers make up over 25% of VCE's customer base and receive 20% and 18% discounts respectively on their electricity bills.

The recommended rate adjustment is forecast to increase the total average monthly residential bill by approximately $19/mo. or 10%[1]. Table 1 shows the estimated average monthly impact

[1] The VCE generation charges plus PCIA and franchise fees are approximately 40% of the total average residential electricity bill; PG&E's Transmission, Distribution and other charges account for the other 60% of the total electricity bill. Therefore, a 33% generation rate increase in VCE's portion of the electricity bill equates to an approximate 10% increase in the total electricity charges for the average residential customer.

on total bills based on key customer classes.

Table 1 - Rate Impacts (Approximate Averages)

Customer Class	Residential	Low Income / At-Risk Credit	Ms Commercial	Med Commercial	Large Commercial*	Ag
Annual Bill	$1,860/yr	(18/yr)	$ 4,500/yr	$ 55,200/yr	$ 98,400/yr	$ 21,600/yr
Monthly Bill	$155/mo	(**$1.5) /mo**	$ 400/mo	$4,600/mo	$ 8,200/mo	$ 1,800/mo
Monthly Impact of 33% adj.	Approx. $19/mo	Approx. $17.5 mo	Approx. $48/mo	Approx. $745/mo**	Approx. $1,221/mo**	Approx. $ 214/mo

Notes:
* Large Commercial does not include the less than 10 largest commercial customers (E-19 and E-20) as it would be a non-representative average for the majority of large commercial customers. The average monthly impact for E-19 and E-20 customers would be approximately $830 based on an average monthly bill of approximately $34,500.
** Medium and Large Commercial rates include the limited portion of the demand charges on the generation portion of the bill, resulting in approximate 0.5% higher increases.

VCE Fiscal Effects

Table 2 below shows the forecasted budget impacts of the three scenarios modeled by staff. Consistent with the rate policy adopted by the Board on November 10, 2021, Staff and CAC are recommending that VCE set rates for 2022 at a level that will fully fund the 2022 budget, build back reserves that have been used over the past 18 months to stabilize customer rates, and provide a level of financial relief to VCE's low-income customers. Based on the updated information from the CPUC proposed decision and analysis, Staff and CAC are recommending that VCE establish a target of 80-90 days cash reserve by the end of 2022. In addition, this is consistent with feedback we have received from CalCCA and financial partners. Two significant benefits from this approach: (1) increased financial stability while taking a significant step toward establishing an investment grade credit rating, and (2) preparing for future PCIA and power market volatility.

Table 2 – 2022 Revenue & Costs Update

	Actuals			Actual YTD (6 Month)	Budget Scenarios	Preliminary Forecast*		
Scenario 1	FY2019	FY2020	FY2021	FY2022	CY2022	CY2023	CY2024	CY2025
Revenue	51,035	55,249	54,657	29,677	89,750	69,500	70,750	71,050
Power Cost	38,540	41,538	54,234	30,133	66,990	52,400	47,100	48,400
Other Expenses	3,850	4,346	4,267	2,276	5,292	5,398	5,506	5,616
Net Income	8,646	9,365	(3,844)	(2,732)	17,468	11,702	18,144	17,034
Scenario 2	FY2019	FY2020	FY2021	FY2022	CY2022	CY2023	CY2024	CY2025
Revenue	51,035	55,249	54,657	29,677	90,500	70,250	71,500	71,800
Power Cost	38,540	41,538	54,234	30,133	66,990	52,400	47,100	48,400
Other Expenses	3,850	4,346	4,267	2,276	5,292	5,398	5,506	5,616
Net Income	8,646	9,365	(3,844)	(2,732)	18,218	12,452	18,894	17,784
Scenario 3	FY2019	FY2020	FY2021	FY2022	CY2022	CY2023	CY2024	CY2025
Revenue	51,035	55,249	54,657	29,677	89,000	68,750	70,000	70,300
Power Cost	38,540	41,538	54,234	30,133	66,990	52,400	47,100	48,400
Other Expenses	3,850	4,346	4,267	2,276	5,292	5,398	5,506	5,616
Net Income	8,646	9,365	(3,844)	(2,732)	16,718	10,952	17,394	16,284

* Notes: Revenues are highly subject to PG&E filings that impact generation rates and PCIA. Power costs are based of current forward market pricing that impact PPA values (cost reductions) and unhedged load costs. Red outline shows staff recommendation.

Customer Outreach & Communications

VCE continues a measured, transparent customer outreach strategy with an emphasis on VCE's additional benefits such as more choice in electricity supply, local control, and community reinvestment through energy contracts and programs.

Based on VCE matching PG&E rates and other CCAs undertaking similar rate actions, staff does not anticipate significant opt-out customer activity in response to the rate changes. VCE will continue to monitor customer activity as the rates are implemented for possible adjustments.

CONCLUSION/NEXT STEPS

If approved by the Board, this rate adjustment would partially address recovering costs and building back reserves over the next twelve months. The longer-term outlook (2024+) shows increased stability and cost certainty due to VCE's fixed price long-term renewable power purchase contracts coming fully on-line combined with a cost-recovery based rate structure. Additional rate and financial forecasts on the longer-term outlook will be provided as part of the mid-year rates review.