VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 16

TO: Board of Directors

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

SUBJECT: Introduction of Rate Adjustment System

DATE: September 8, 2022

RECOMMENDATION
Informational item – no action requested.

The purpose of this report is to provide an introductory presentation and seek Board feedback on a conceptual framework that would allow VCE's rates to automatically adjust within a defined range to more timely and accurately reflect key external cost factors that are outside VCE's control.

BACKGROUND/ANALYSIS
VCE and all other Load Serving Entities (i.e. CCA's, Publicly Owned Utilities, and Investor Owned Utilities), face volatility in key external cost factors that are largely outside their control. For VCE, the primary factors are energy market fluctuations (up and down) and regulatory mandates. Most LSE's have adopted rate adjustment systems that allow for rates and revenue to automatically adjust within defined parameters to keep pace with market and regulatory changes. The IOUs' version of this approach is typically a "balancing account" that allow them to retroactively recover revenue since their rates are regulated by the CPUC making them difficult to adjust in a timely manner.

This report introduces a conceptual rate adjustment framework that would allow VCE to automatically adjust rates/revenues up or down based on parameters set by the Board.

<u>VCE Financial Policies and Mitigation Strategies</u>
In 2017, prior to launch, VCE adopted and registered its Implementation Plan (IP) 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 operating reserve funds. Over the past four years, VCE has analyzed policy options and implemented strategies to stabilize customer rates, reduce/control costs, and manage reserves. VCE's key financial policies and mitigation strategies include:

- 2017 – VCE IP: Rates must collect sufficient revenue to fully fund VCE's budget and operating reserves.

- 2020 – Strategic Plan: Maintain financial stability while continuing to offer customer choice, competitive pricing, and establishment of local programs.
- 2018 – 2021 – Systematic analysis of policy options and implementation strategies to stabilize customer rates, reduce costs, and manage reserves:
    - Discontinue rate discount; temporarily scaled back REC purchases; sign long-term renewable PPA's
- November 2021- Adopted cost-based rate policy.
- July 2022 – VCE Board adopted three-tiered customer product structure starting 2023.

<u>Rate Adjustment System Concept</u>
Currently, VCE sets rates annually for its default product to cover costs set competitively to PG&E's rates, regardless of market volatility and/or changing regulatory requirements. While this current approach is reasonably simple to calculate and communicate, it requires VCE to use reserves to smooth unanticipated power market and regulatory impacts. To better address revenue variability associated with these impacts, Staff has investigated best practices of other Load Serving Entities. The most common approaches utilize automatic adjustments within predetermined guidelines triggered by movement in power markets (up or down), and/or additional costs associated with regulatory mandates (e.g. Power Charge Indifference Adjustment – PCIA).

Under this type of adjustment system, the Board would set adjustment limits (up or down), that could be triggered by power market movement and/or regulatory actions. Generally, implementing timely smaller adjustments reduces the potential for larger swings in customer rates if changes are implemented only once a year, consistent with VCE's current practice. Such adjustments also moderate pressure on reserves by being more responsive to cash-flow needs.

It is important to note that these types of rate adjustment frameworks do not compel a rate adjustment if the context of a market price trend or regulatory decision does not require an adjustment to maintain long-term financial stability. For example, if market power costs are reacting to a temporary event such as a storm that knocks out transmission lines that might otherwise trigger consideration of a rate adjustment under adopted parameters, VCE could choose to "wait and see" if power markets either return to more normal levels. If however, an event and cost impacts persist, the system would allow for an adjustment to meet VCE's revenue requirements and cost based rates policy. While this type of system offers flexibility to manage VCE rates more effectively, it does require informed design to achieve desired results and an appropriate delegation of responsibility.

Staff will be providing additional detail in its informational presentation at the meeting.

CONCLUSION/NEXT STEPS
Staff is seeking general Board feedback on this type of rate adjustment framework. If direction is given to continue developing this concept, Staff would draft a proposal for feedback/input by the Community Advisory Committee and return later this Fall with a draft rate adjustment system framework for further Board consideration.