

VALLEY CLEAN ENERGY ALLIANCE**Staff Report – Item 17**

TO: Board of Directors

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

SUBJECT: Updated Draft Customer Rate/Product Options

DATE: June 9, 2022

RECOMMENDATION

Receive report and provide feedback on updated draft customer rate/product options.

OVERVIEW

In November 2021, the Board considered expanding customer rate options as part of a package of measures related to the adoption of VCE's 2022 customer rates and annual budget. The Board deferred consideration of an additional customer rate option to focus on rate adjustments to stabilize VCE's 2022 budget. The Board directed Staff to return in mid-2022 to continue the examination of a potential additional customer rate option.

The purpose of this report is to re-introduce the possible expansion of customer rate options, gather input from the Board, and suggest the next steps. Note: the Community Advisory Committee (CAC), has received reports/presentations on the potential to expand customer rate options at their last two meetings. A brief summary of key feedback/issues identified by the CAC is included in the Discussion section below.

BACKGROUND

Since VCE's launch in 2018, customers have been offered two rate options: (1) Standard Green default and (2) 100% renewable UltraGreen opt up. Standard Green is designed to offer higher renewable content over time at a price that is competitive with PG&E. UltraGreen offers 100% renewable content at a modest premium of approximately \$7-10/mo for a typical residential customer.

Additional customer rate/product options were initially introduced to the Board in June 2020 during VCE's Fiscal Year 2020/21 budget process as a potential tool to help address ongoing fiscal challenges associated with power market and regulatory volatility. Based on Staff and CAC feedback, the Board directed Staff to continue to investigate additional customer rate options and bring back proposals for consideration. Following investigation/analysis in 2021, and in the context of spiking power and PCIA costs, the Board postponed consideration of additional rate options until mid-2022.

In November 2020, the Board adopted VCE's Strategic Plan for 2021 through 2023. This Plan identified six interrelated goals to guide VCE's activities over the 2021-2023 period. Plan goals

included: Maintain and grow a solid financial foundation and manage costs to achieve long-term organizational health; and, Manage customer rates to optimize VCE's financial health while maintaining rate competitiveness with PG&E. These two policy statements form the basis for further examining VCE's customer rate/product options.

In late 2021, the Board adopted a cost-recovery rate policy approach to help support a more stable financial foundation, especially given ongoing regulatory (PCIA, RA) and power market conditions largely outside VCE's direct control. This report provides additional detail on customer rate/product options and seeks initial feedback on the proposed structure and the examination of potential risks.

DISCUSSION

Over the past several years, as detailed in multiple budget and rate reports/presentations, significant volatility exists in the regulatory and power market arenas, which has driven cost/revenue uncertainties in the energy sector. VCE, the CCA community, and VCE partners (regulatory, financial, and suppliers) anticipate continued uncertainty in the long-term forecasts of major cost drivers for CCA's (energy and Resource Adequacy). This uncertainty, in turn, places greater pressure on CCA's to adjust rates to recover costs largely outside their control and to maintain adequate reserves.

Since formation, like other CCA's, VCE has explored rate, product, and financial practices to help address these primary cost drivers that influence reserves accumulation, rate stability, establishing a credit rating, and expanding longer-term power purchase agreements. VCE's has taken actions over the past three years to mitigate these impacts which are outlined in the November 10, 2021 Board Item 16 found [here](#).

Most recently, the Board adopted a cost recovery rate policy in November 2021 that included setting rates to cover costs and build reserves. As noted above, as part of the Board's consideration of a cost recovery rate policy, Staff presented an additional customer rate option concept to reinforce VCE's companion policy to provide cost competitive rates. This type of "least cost" customer rate option has been employed by several CCA's as an added measure to help create more certainty regarding customer retention/recruitment while increasing choice and expanding the potential appeal for new communities to consider joining a CCA. These key factors form the basis for VCE's exploration of an expanded set of customer rate options.

Comparable CCA programs - Update

As presented to the Board in November, multiple CCA programs in PG&E's service territory have adopted cost recovery based customer rate structures. An updated summary of these CCA programs is shown in Table 1 below.

Table 1 – CCA Survey – as of 04/22

CCA	IOU Territory	Customer Accounts	Number of Rate Options	% Difference to IOU Gen Rate (default product)	Renewable Content Target (default product)
Valley Clean Energy	PG&E	63,509	2	0% (match)	42%
Clean Power SF	PG&E	311,777	2	0% (match)	50%
East Bay Community Energy	PG&E	546,707	2	-1%	40%
MCE Clean Energy	PG&E	473,826	3	-6%	60%
Peninsula Clean Energy	PG&E	287,987	2	-5%	50%
Pioneer Community Energy	PG&E	87,704	2	-6%	33%
San Jose Clean Energy	PG&E	350,000	3	8%	60%
Silicon Valley Clean Energy	PG&E	225,973	2	-0.50%	50%
Sonoma Clean Power	PG&E	243,436	2	-0.50%	49%
Clean Power Alliance (Los Angeles area)	SCE	1,000,000	3	-6%	50%
Desert Clean Energy	SCE	37,375	2	14%	100%

Notes:

- (1) The above information is based on recent publicly available data and is subject to change per IOU and/or CCA rate activities and PCIA adjustments.
- (2) VCE's current year target renewable content rate is 20% due to cost-cutting strategies.
- (3) Due to the PCIA structure, each CCA has a specific "vintage" date based on what year it launched service and how it phased in its customer base.

Draft Customer Product Structure

As presented in concept last November, the draft customer product structure with three customer rate options could be established by implementing a new "GreenSaver" option. The envisaged GreenSaver option could add two primary beneficial elements to VCE's existing product offerings. First, increased customer choice by adding a new least-cost customer option that could be priced approximately 0.5% below PG&E's base bundled product on a total bill basis. And second, the portfolio serving the GreenSaver option could be designed to provide 5% more renewable content than the State's RPS requirements, thus supporting an energy portfolio aligned with VCE's mission.

Figure 1 below summarizes the potential customer product options.

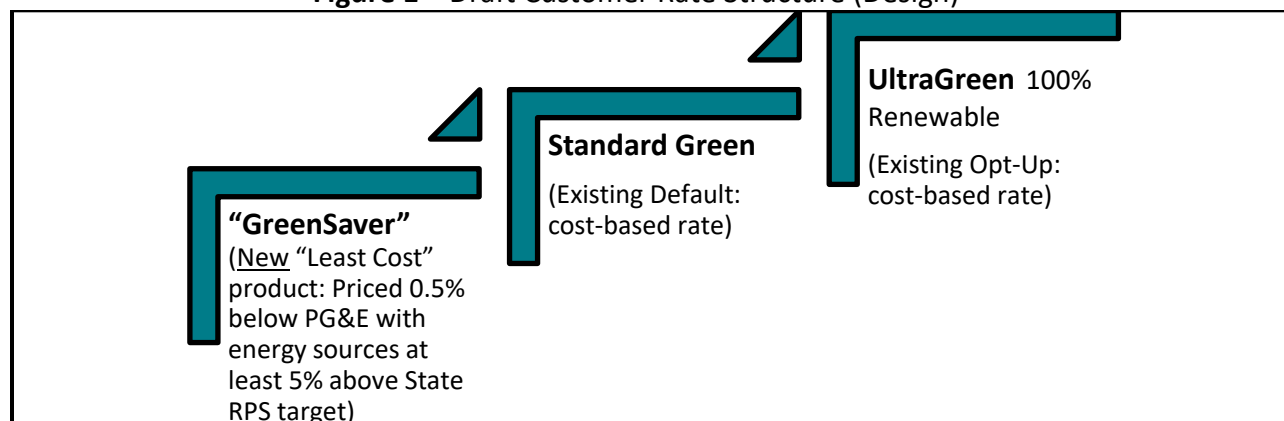
Figure 1 – Draft Customer Rate Structure (Design)

Table 2 below shows more detail on VCE's potential three customer rate options.

Table 2 – VCE Draft Customer Products (Content and Pricing Strategy)

Customer Rate Option	Rate	Portfolio	Notes
GreenSaver (new)	Less than PG&E (-0.5%) total bill comparison	5% above RPS requirements	<ul style="list-style-type: none"> Ineligible to participate in customer dividend program; reduced access to full customer program benefits CARE/FERA customers maintain the existing VCE multi-year portfolio mix for Standard Green default through 2023
Standard Green - Default (existing)	Cost-based	Maintain existing VCE multi-year portfolio mix	<ul style="list-style-type: none"> Portfolio minimum percent renewable content above GreenSaver to maintain product differentiation Eligible for customer dividend program and full customer program benefits
UltraGreen – Opt-up (existing)	Cost-based	Maintain existing 100% renewable portfolio	<ul style="list-style-type: none"> Eligible for customer dividend program and full customer program benefits

Note: VCE's existing customer dividend program would continue to provide VCE with a mechanism to credit eligible customers when VCE reaches its financial/reserve objectives.

Based on staff research, CCA programs with additional customer product options and cost-recovery rates have not experienced significant "opt-out" or "opt down" activity. The research supports these general findings in both the residential and commercial/industrial sectors regardless of the CCA's age, geography, or size. Moreover, VCE would continue as planned to grow its overall environmentally beneficial portfolio content over the next five years regardless of the customer rate structure (i.e., 2 or 3 customer rate options).

Sample monthly average bill comparison

Staff recognizes the importance of evaluating the sensitivity of various levels of "opt-out"/"opt-down" scenarios and the relative impacts to the average bill. Based on the above-proposed rate/product structure and 2022 VCE rates, a sample monthly average bill comparison follows:

New "GreenSaver" customer option
5% above RPS target & lower on a
total bill comparison to PG&E by 0.5%.

"Standard Green" is the current default "basis" rate with
increased renewable energy priced to recover costs + build
reserves.

***Sample Residential Cost Comparison**

GreenSaver	Standard Green	UltraGreen	PG&E
Approximately 5% above RPS Target	45% Renewable 75% Carbon-free	100% Renewable 100% Carbon-free	**29% Renewable
Average Total Costs \$171.15	Average Total Costs \$172.46	Average Total Costs \$180.97	Average Total Costs \$172.46
Electric Generation \$64.15	Electric Generation \$65.46	Electric Generation \$73.97	Electric Generation \$79.46
PG&E Added Fees \$14.00	PG&E Added Fees \$14.00	PG&E Added Fees \$14.00	PG&E Added Fees (Included in Generation)
PF&E Delivery Charges \$93.00	PF&E Delivery Charges \$93.00	PF&E Delivery Charges \$93.00	PF&E Delivery Charges \$93.00
Average lower by 0.5% of Total Bill (1-2% Gen Discount)		Average \$7-10 Per Month	

*Typical Monthly Electric Charges based on typical usage of a residential customer in VCE service area (547 KWH/Month) of PG&E rates and VCE rates effective as of March 1, 2022 under the E-1 rate schedule. Actual differences may vary depending on usage, rate schedule and other factors. Estimate provided is a monthly 12-month period.

**Note: Represents the most recent (2019) power content data reported to the California Energy Commission's Power Source Disclosure Program

Community Advisory Committee Feedback

In March, Staff re-opened the discussion on additional customer rate options with the CAC. Staff presented an updated analysis of the materials presented to the CAC and Board in Fall 2021 and gathered initial feedback from the CAC. On May 26, Staff presented an updated draft customer rate/product option to the CAC based on their initial feedback from March. Staff is currently working to incorporate additional elements to address some of the following CAC feedback:

- Product Differentiation – Need distinct differences between the Standard Green and potential new "GreenSaver" products to establish value differentiation.
- Analysis of the duration needed to provide this option as VCE moves toward a 100% renewable future.
- Marketing framework for introducing the new product
- Organizational Cost/Benefit – Examine the value added by additional customer choice vs. the effort/value added and risk of customer "opt down."

Staff agrees that the rate structure design should incorporate a clear differentiation between the customer rate option portfolios to demonstrate the value of each option. The annual rate-setting process can help to review and propose any customer rate/option adjustments to the

price, value pairing (RPS, community programs, etc.), and participation over time. Staff will return to the CAC in late June with an updated analysis and final draft recommendation.

Tentative Timeline

Prudent financial management decisions and the Board's direction have positioned VCE to consider this policy option for potential implementation in 2023. Staff proposes the following tentative timeline to enable adequate review regarding the advisability of adding an additional customer rate option beginning in early 2023. If the Board ultimately approves adding an additional customer rate option, VCE will develop an associated communications and outreach strategy pre and post implementation.

Schedule for Additional Customer Rate Option Consideration:

- *May 2022: CAC Introduction/feedback on updated draft rate options. - **Completed***
- *June 2022: Board Introduction/feedback action on updated draft rate options. - **Current***
- *June 2022: CAC consideration/recommendation on updated draft rate options.*
- *July 2022: Board consideration of final updated draft rate options. If adopted, an additional rate option would be implemented as early as January 2023.*

CONCLUSION/NEXT STEPS

Staff recognizes that conditions outside VCE's direct control have impacted financial results. Adding a least-cost GreenSaver customer rate/product option gives customers an additional choice but does not alter VCE's overall portfolio or progress toward 2030 renewable goals. By allowing VCE to more easily set rates to meet costs/build reserves, it enhances local control, customer choice, cost competitiveness, and VCE's ability to execute local programs.

Staff is seeking initial Board feedback on the updated potential draft customer rate/product option. As noted in the proposed schedule, Staff will be returning to the CAC in June to incorporate feedback from the Board and CAC and bring recommendations back for Board consideration as early as July.