VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 21

TO: Board of Directors

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

SUBJECT: Customer Rate/Product Options

DATE: July 14, 2022

RECOMMENDATIONS

1. Approve the attached resolution adopting a new three-tiered customer rate structure adding a new least cost "Base Green" option in 2023 to the existing "Standard Green" (default rate) and "UltraGreen" (existing 100% renewable rate) customer rate options;
2. Approve enrolling California Alternative Rates for Energy (CARE) and Family Electric Rates Assistance (FERA) customers in the Base Green option with Standard Green features as described in the staff report.
3. Direct staff incorporate recommendations 1 and 2 into the 2023 Customer Rate Setting process.

OVERVIEW

Beginning in June 2020, Staff introduced the topic of an expanded customer rate/product structure to the Board and CAC as a potential tool to help address ongoing fiscal challenges associated with power market and regulatory volatility. 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. On May 26, 2022, Staff presented the updated customer rate option for additional feedback from the CAC. Staff re-introduced the possible expansion of customer rate options to the Board on June 9, 2022. A brief summary of key feedback/issues identified by the Board and CAC is included in the discussion below. Staff returned to the CAC on June 23, 2022 to present a proposed new rate structure with three customer options and received a unanimous CAC recommendation shown below. For reference, please see the most recent Staff report to the CAC located here and the Board located here.

This report and recommendation serve to expand VCE's customer rate/product structure consistent with recent Board direction. The proposed expanded rate/product structure, if adopted by the Board, will increase VCE's ability to set rates calibrated to actual cost and reserve requirements while providing a discounted price option compared to PG&E.

BACKGROUND

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/drought impacts. In addition, increases to the 2021 Power Charge Indifference Adjustment (PCIA), resource adequacy (RA), and power market costs have required VCE to draw against reserves to stabilize customer rates and maintain its rate policies to be competitive with PG&E generation rates. As part of evaluating options to overcome cost pressures, VCE has explored rate, product, and financial practices to help address factors influencing reserves accumulation, rate stability, establishing a credit rating, and expanding longer-term power purchase agreements.

The volatility of PCIA, RA mandates, and power prices are the primary drivers affecting costs and revenues for the CCA's. Additionally, the recent regulatory efforts focusing on fiscal standards for CCA's, implementation of programs, geopolitical climate, solar energy supply chain interruptions, and VCE rate and reserves stabilization are factors that have been incorporated into VCE's assessment of rate structures.

The current VCE customer rate/product option structure constrains VCE's flexibility in maintaining competitive rates with PG&E without using cash reserves. Since VCE's launch in 2018, customers have been offered two rate options: (1) Standard Green default and (2) 100% renewable UltraGreen.

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. As part of the consideration of the adopted cost-recovery rate policy 2021, and in the context of spiking power and PCIA costs, the Board postponed consideration of additional rate options until mid-2022.

<u>Community Advisory Committee Recommendation</u>

At its last two meetings the Community Advisory Committee (CAC) has received staff presentations on the draft three-tiered customer rate structure. In May the CAC received a background report and provided feedback on the proposed rate structure. On June 23, 2022 the Committee received a presentation on the updated draft customer rate/product options and considered additional staff analysis based on feedback received at the previous CAC meeting. This updated analysis addressed the following:

- Product Differentiation – The need for distinct renewable power content differences between the default Standard Green and new "Base Green" products has been recommended to start at 5% to establish value differentiation. Additionally, Standard Green customers would be eligible for customer dividends and community programs – Base Green customers would not.
- Organizational Cost/Benefit – Examination of the value added by additional customer choice vs. the effort/value added and the risk of customer "opt down." The additional customer rate/product option provides: (1) additional customer choice, (2) additional affordability options, and (3) a CARE and FERA rate for lower income customers. The additional customer rate/product option also ensures competitive rates for current and future member jurisdictions if VCE is required to raise the Standard Green product rate above PG&E's bundled rate for full cost-recovery, including reserves and programs.

Research of other CCA's with similar rate structures indicates a low risk of significant number of customers opting down.

- Analysis of the duration needed to provide this additional rate option as VCE moves toward a 100% renewable future. Staff recommends that this option be re-evaluated in 2028 or upon annual participation greater than 5%, which ever occurs first.
- Outreach framework – The primary focus of this additional rate option is for customer retention. The outreach focus would be tailored to fit circumstances where the customer is actively seeking options (e.g. contacting customer service call center to opt out).

The CAC discussion, feedback, and ultimate recommendation have been incorporated into the Staff recommended VCE rate/option structure. The CAC voted to recommend the adoption of the expanded rate structure. Additionally, the CAC supported the Staff recommendation that California Alternative Rates for Energy (CARE) and Family Electric Rates Assistance (FERA) customers be enrolled in the Base Green option while retaining the higher renewable content associated with VCE's Standard Green portfolio.

The CAC recommended that the Board adopt the following:

a. Adopt a new rate structure with three customer options starting in 2023: (1) Standard Green (default) and (2) UltraGreen (100% renewable) with rates based on cost-recovery and (3) Base Green option with rates at or below PG&E rates (on a total bill comparison);
b. Automatically enroll California Alternative Rates for Energy (CARE) and Family Electric Rates Assistance (FERA) customers in the Base Green option as described in the staff report; CARE/FERA customers will not have access to the Customer Dividend program but will retain access to all other programs.

DISCUSSION & ANALYSIS

Since launch four years ago, VCE has systematically analyzed policy options and implemented strategies to control costs and manage reserves in response to the fiscal challenges and related factors noted earlier in this report. The primary fiscal policy tool controlled by VCE is likely its most potent: the ability to design products and set customer rates. Adding a third customer rate option employs this policy tool to establish a competitive rate with PG&E, allowing VCE's existing default and opt-up rates to more actively reflect market and regulatory conditions. This is consistent with VCE's policy to set rates to meet costs, build/maintain reserves, and execue local programs.

<u>Proposed Customer Product Structure</u>

The proposed three-tier customer product structure would be established by implementing a new "Base Green" option while retaining VCE's existing two customer product choices (Standard Green and Ultra Green). The Base Green option is designed to offer competitive/slightly lower rates to PG&E with renewable energy content that matches or slightly exceeds State standards (Renewable Portfoilio Standard - RPS).

Figure 1 below summarizes the recommended customer product options.

Figure 1 – Draft Customer Rate Structure (Design)

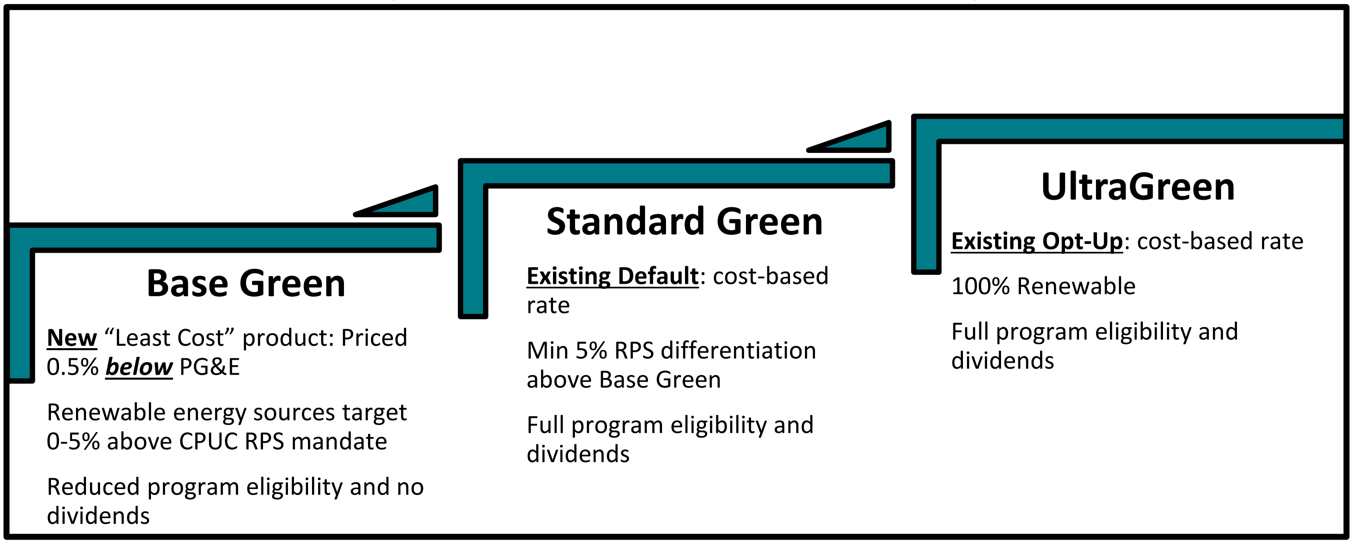

Table 1 below provides additional detail on the three-tiered customer product proposal.

Table 1 – VCE Draft Customer Products (Content and Pricing Strategy)

Customer Rate Option	Rate	Portfolio	Notes
Base Green **(new)**	Less than PG&E (-0.5%) total bill comparison	Target 0-5% above RPS requirements	• Ineligible to participate in customer dividend program; reduced access to customer program benefits • CARE/FERA customers maintain the existing VCE Standard Green RPS and Customer Programs for 2023
Standard Green - Default **(existing)**	Cost-based	Maintain existing VCE multi-year portfolio mix	• To establish product differentiation, the 2023 standard green portfolio target will be a minimum of 5% above the Base Green renewable content. The product differentiation percentage target will be revisited as part of the 2024 rate adoption process. • Eligible for customer dividend program and full customer program benefits
UltraGreen – Opt-up **(existing)**	Cost-based	Maintain existing 100% renewable portfolio	• 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.

Table 2 below shows current and projected customer product RPS levels associated with the three customer rate options.

Table 2 – VCE Projected* (RPS)

Customer Rate Option	2023	2024	2025
CPUC RPS Mandate	41%	45%	47
Base Green (new)	42%	48%	52%
Standard Green - Default **(existing)**	47%	85%	83%
UltraGreen – Opt-up **(existing)**	100%	100%	100%

* The table above is based on current VCE renewable contracts.

Based on staff research, sister 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).

Fiscal Impact

Staff analyzed the potential fiscal impact on customer bills and VCE. The analysis is summarized below.

- 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 on the average customer bill. Based on the above-proposed rate/product structure and 2022 VCE rates, a sample monthly average bill comparison resulted in the Base Green product option being approximately $1.25 less per bill with current favorable PG&E generation and PCIA rates. Although this is a relatively small individual impact, it does demonstrate that VCE would have competitive rates with PG&E. It is important to note that the rates paid by Base Green customers, under current conditions, would still cover the basic cost of service to serve them but would not contribute fully to reserve or program funds. This analysis is the basis for limiting Base Green customers participation in VCE dividend payments and programs.

- Fiscal Impact Scenarios – Sensitivity Analysis. Staff prepared three scenarios associated with potential participation levels in the Base Green rate option to test possible impacts on VCE. Using information presented with VCE's adopted budget and forecast for 2022, the scenarios evaluated multiple participation levels with the same total cost basis for allocation purposes.

  Under the most likely scenario based on current budget, power costs, and opt-down rates from other CCA's, the new customer rate/product option generates slight increases of approximately 1% in the average costs of VCE's default Standard Green and UltraGreen rates. Based on staff research of other CCA rates, VCE's adjusted rates under a three-tiered customer rate option structure remain competitive with PG&E and within the ranges of rates offered by other CCAs. It is also important to note that between 2023-25, VCE will be offering a superior default rate renewable content product (i.e. more than 80% renewable by 2024).

  Staff believes that the small increases to existing Standard Green and UltraGreen rates should be weighed against VCE's added ability to retain and regain cost-sensitive customers by offering customers the lowest-cost product available. Without the additional rate/product option, VCE customers' current choice is to opt out, which has a greater potential impact on VCE's remaining customers. Although customer loss is unlikely with current customer rates, it is also important to note the potential rate impact that existing VCE customers may experience absent an option to retain cost-sensitive customers in a situation where regulatory and/or power market costs require VCE to set rates above PG&E to cover costs and build/maintain reserves.

Since launch, VCE has taken a pragmatic approach to balancing business objectives (e.g. offering cleaner electricity at competitive rates). Staff believes that adding an additional customer rate option continues that approach by reducing opt-out risk while setting rates that allow VCE to build/maintain healthy reserves and continue to build toward a portfolio that significantly out paces even the State's ambitious clean energy goals.

Proposed Implemenation Timeline

Consistent with prior Board direction, Staff recommends implementation of the three-tiered rate structure in 2023 to coincide with VCE's annual rate setting process. The annual rate-setting process also provides a forum to review and propose any customer rate/option adjustments in future years.

Schedule for Customer Rate/Product Option:

- May 2022: CAC Introduction/feedback on updated draft rate options. - **Completed**
- June 2022: Board Introduction/feedback action on updated draft rate options. - **Completed**
- June 2022: CAC consideration/recommendation on updated draft rate options. - **Completed**
- July 2022: Board consideration of final updated draft rate options. - **Current**

If adopted, an additional rate option would be implemented with the VCE 2023 Rates.

For reference, this is the proposed schedule for implementation of 2023 rates:

- May - August 2022: Begin 2023 Rate study/preliminary revenue needs
- September 2022: Mid-year rate review of 2022 actuals
- October to December 2022: Review 2023 customer rate study review and rate adoption.
- December 2022: Board adoption of 2023 rates
- Q1 2023: Rates update report to Board/CAC.

CONCLUSION

Staff is recommending adoption of an expanded customer rate/option structure similar to those implemented by other CCA's. Staff recognizes that the recommended action is a shift from VCE's current rate structure but also that it is driven by forces outside of VCE's direct control. Adding a new least-cost Base Green customer rate/product option gives customers an additional choice but does not alter VCE's overall portfolio or progress toward 2030 renewable goals. Staff is making the recommendation because a three-tiered rate structure supports local control, customer choice, cost competitiveness and the ability to execute local programs.

If the expanded customer rate/option structure is approved, staff will bring recommended VCE 2023 customer rates to the Board for consideration as outlined in the schedule.

ATTACHMENT: Resolution adopting Cost-Based Rate Policy and Revised Customer Rate Structure

VALLEY CLEAN ENERGY ALLIANCE

RESOLUTION NO. 2022- ___

A RESOLUTION OF THE BOARD OF DIRECTORS OF VALLEY CLEAN ENERGY ALLIANCE APPROVING A NEW CUSTOMER RATE OPTION TO CREATE A THREE-TIER CUSTOMER RATE STRUCTURE

WHEREAS, the Valley Clean Energy Alliance ("VCE") was formed as a community choice aggregation agency ("CCA") on November 16, 2016, under the Joint Exercise of Power Act, California Government Code sections 6500 et seq., among the County of Yolo, and the Cities of Davis and Woodland, to reduce greenhouse gas emissions, provide electricity, carry out programs to reduce energy consumption, develop local jobs in renewable energy, and promote energy security and rate stability in all of the member jurisdictions. The City of Winters, located in Yolo County, was added as a member of VCE and a party to the JPA in December of 2019; and,

WHEREAS, VCE desires to offer rate options to its customers; and,

WHEREAS, the new three-tiered rate structure is designed to offer more customer rate options and increase VCE's ability to set rates calibrated to actual cost and reserve requirements while providing a competitive price option to PG&E; and,

WHEREAS, VCE has been considering an additional customer rate option since mid-2020 to expand customer choice.

NOW, THEREFORE, the Board of Directors of the Valley Clean Energy Alliance resolves as follows:

1. The Board of Directors hereby approves and authorizes the Executive Officer to implement a three-tiered customer rate structure beginning in 2023, establishing a new least cost option to join VCE's existing Standard Green default and UltraGreen opt-up rates.

PASSED, APPROVED AND ADOPTED, at a regular meeting of the Valley Clean Energy Alliance, held on the ____ day of ________________, 2022, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

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Jesse Loren, VCE Chair

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Alisa M. Lembke, VCE Board Secretary