VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 4

TO: Board of Directors

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

SUBJECT: Customer Rate Adjustment – Effective November 2021

DATE: October 21, 2021

RECOMMENDATION

1. Approve a 5% average generation rate adjustment (equal to 1.9% total electricity charges) effective November 2021 for VCE customer classes excluding California Alternative Rates for Energy (CARE) and Family Electric Rates Assistance (FERA) customers.
2. Direct staff to bring back a cost-recovery based rate structure and estimated 2022 customer rates for consideration at the November Board meeting.

BACKGROUND/ANALYSIS

As discussed at Board meetings dating back to 2018 and more recently during Board deliberations on fiscal year budget adoption this summer, all electric utilities develop forecasts of cost and revenue requirements based upon informed technical estimates. These forecasts incorporate factors such as future weather, load, market power prices, and other business conditions. Actual outcomes inevitably vary and in extreme instances, outcomes may vary significantly. For example, VCE, much like other California utilities, experienced just such variability during August 2020 when excessively hot weather and market price increases impacted the western United States. The net cost impact of this event to VCE was about $800K (and would have been closer to $2.5 million absent VCE's risk management and hedging practices). These events continue to “ripple” through the energy sector in the form of higher forward power market prices. During the current period while VCE transitions to longer-term renewable fixed-price power contracts over the next two years, it has relatively high exposure to these rising market prices.

Utilities and CCA’s affected by such events must recover costs from customers or draw from reserve funds if available. As an example, PG&E’s 2022 rates are forecast to increase in response to wildfires, storms, drought, rising power market prices, and other factors. Under VCE’s current policy, it has been drawing from reserves to stabilize customer rates by matching PG&E generation rates. CCAs in general - and VCE specifically - face two additional revenue impacting uncertainties: PG&E rate revisions and changes to the Power Charge Indifference Adjustment (PCIA). Alterations to these components result in a corresponding and direct need for VCE to adjust rates (upward or downward) to maintain adopted financial and other Stretegic Plan objectives. As shown in Table 1 below, these factors have impacted other CCA's who have also taken steps to implement cost-recovery based rates.

Table 1

CCA	IOU Territory	% Difference to IOU (default product)
Clean Power SF	PG&E	+2%
MCE Clean Energy	PG&E	+7%
Pioneer Community Energy	PG&E	+6%
San Jose Clean Energy	PG&E	+8%
Sonoma Clean Power	PG&E	+5%
Clean Power Alliance (Los Angeles area)	SCE	+8%
Desert Clean Energy	SCE	+20%

As discussed at previous Board meetings, these rate determining factors and rising power market prices have stretched VCE's financials and forced the Board to adopt cost mitigation measures beginning as early as 2018 (e.g. rate increase, delayed procurement of renewables, reduced program activity). These factors, together with impacts associated with COVID and a cost forecast modeling error in estimating the benefits of VCE's long-term renewable power purchase contracts, make it necessary for VCE to accelerate a rate adjustment planned for early 2022.

The recommended action will allow VCE to partially address this combination of issues to slow the draw on reserves and help stabilize financials going into 2022. As noted during the October 14th Board meeting, this accelerated rate adjustment will be revisited in November/December as the 2022 PCIA and PG&E's 2022 rates are finalized. Based on updated financial forecasting, staff anticipates that additional rate adjustments will be necessary going into 2022 to rebuild reserves that have been used over the past several years for customer rate stabilization and to balance costs with revenues going forward.

Fiscal Effects

The recommended rate adjustment is forecast to increase the total average monthly residential bill by approximately $3/mo or 1.9%[1]. Table 2 shows the estimated average monthly impact on total bills based on key customer classes.

[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 5% increase in VCE's portion of the electricity bill equates to an approximate 1.9% increase in the total electricity charges for the average residential customer.

Table 2

Customer Class	Residential	Sm Commercial	Med Commercial	Large Commercial*	Ag
Approximate Average Annual Bill	$ 1,860/yr	$ 4,800/yr	$ 55,200/yr	$ 98,400/yr	$ 21,600/yr
Approximate Average Monthly Bill	$ 155/mo	$ 400/mo	$ 4,600/mo	$ 8,200/mo	$ 1,800/mo
Ave. Approximate Monthly Impact of 1.9% adjustment	**Approx. $3/mo**	**Approx. $8/mo**	**Approx. $115/mo******	**Approx. $197/mo******	**Approx. $ 34/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.

The recommended rate 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 adjustment averages approximately $238,000/month in additional revenue over the next three months (November through January). The additional revenue will help off-set forecasted deficits in the second quarter of 2022.

CONCLUSION/NEXT STEPS

If approved by the Board, this accelerated rate adjustment would be further considered within the context of the 2022 PCIA and PG&E rates as they become available in November and December. VCE's rates for 2022 would be calibrated against those two factors to begin the process of recovering costs and building back reserves over the next two years – with the accelerated rate adjustment being the first step in that direction. 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 analysis on the longer-term outlook will be provided at the November Board meeting.