

## VALLEY CLEAN ENERGY ALLIANCE

### Staff Report - Item 6

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**TO:** Community Advisory Committee

**FROM:** Mitch Sears, Interim General Manager  
Jim Parks, Director of Customer Care and Marketing

**SUBJECT:** Recommendation to Adopt the PG&E Residential Time of Use Rate (RTOU) and associated first-year bill protection program

**DATE:** August 22, 2019

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#### **STAFF RECOMMENDATION**

Make a recommendation to the VCE Board in support of the PG&E RTOU rates in VCE service area and to provide first-year bill protection to new RTOU customers.

#### **BACKGROUND**

PG&E is required by the CPUC to implement residential time of use (RTOU) rates as the default rate for eligible residential customers. The new rate is optional for Community Choice Aggregators (CCAs).

PG&E has been working closely with CCAs to ensure a smooth transition across PG&E service territory and has board approvals from East Bay Community Energy, Sonoma Clean Power and Redwood Coast Energy Authority to participate. In addition, MCE, Silicon Valley Clean Energy and Peninsula Clean Energy have staff recommendations in favor of RTOU. Other CCAs are favorable towards the rate but have not made firm commitments.

RTOU pilot studies were performed with two CCAs, MCE and Sonoma Clean Energy, along with studies completed by PG&E. The results showed that RTOU rates helped reduce electrical loads during peak periods. In hot climates (Yolo County), the load reduction averaged 5.2%. SMUD performed a similar study in 2012-2013 and showed similar results of 5.9% peak load reduction due to RTOU.

#### July 25<sup>th</sup> CAC Meeting Discussion

As part of its July 25<sup>th</sup> discussion on RTOU the CAC posed several questions which are addressed below:

1. What will the impact of adopting RTOU be on VCE's budget considering we are in a hot climate and customers may reduce peak loads around 5-6% on average?
2. What will the financial impacts be on energy procurement?
  - Staff response to questions 1 and 2: As presented at the meeting July CAC meeting, PG&E's calculations, assuming no change in behavior, showed customers spending

more by \$300,934 and spending less by \$141,697 if there was no shift in residential customer energy use from peak to non-peak periods. The PG&E analysis represents the “worst case” scenario (Base Case in Table 1). Table 1 below provides additional VCE staff analysis of the potential financial impacts that shows the PG&E scenario and three other potential outcomes based on percentage of load shift away from the peak RTOU period of 4pm-9pm. Based on PG&E’s analysis previously shared with the CAC, staff anticipates the most likely scenario will have the residential customer class shifting approximately 5.5% of its use from peak to non-peak times (Scenario 2 in Table 1). The other scenarios are presented for comparison purposes to show a range of less favorable and more favorable outcomes.

Table 1 shows potential net fiscal impact to VCE when the key drivers of revenues paid by customers and cost savings from reduced resource adequacy (RA) power purchases are factored in. It is important to note that it is assumed within each scenario that VCE will offer bill protection for the first year to match PG&E. This results in a fiscal cost to VCE in the first several years until the bill protection is “paid off”, thereafter the analysis indicates that there will be a net positive fiscal impact if key assumptions remain stable (e.g. RTOU participation rates, RA costs, etc). Due to the number and uncertainty associated with key variables the figures included in the table should be considered best estimates to inform policy decisions.

**Table 1**

Residential TOU Conversion Potential Resource Adequacy Capacity Savings				
	Base Case	Scenario 1	Scenario 2	Scenario 3
Peak Reduction on 22,754 Res Customers	0.00%	1.00%	5.50%	10.00%
May - Sept RA Reductions, MW Months	0	2.88	15.83	28.78
Estimated RA Cost Savings, \$1000s	\$0	\$17	\$95	\$173
Bill Protection, \$1000s	\$ 301	\$ 298	\$ 284	\$ 271
Loss Revenue, \$1000s	\$ 142	\$ 143	\$ 149	\$ 156
Total Revenue (Cost) to VCE 1st Yr, \$1000s	\$ (443)	\$ (424)	\$ (339)	\$ (254)
Total Revenue (Cost) to VCE 2nd Yr, \$1000s	\$ 159	\$172	\$230	\$288

Based on its analysis staff concludes that: (1) the most likely outcome is shown as scenario 2 above with a shift of approximately 5.5% of the eligible residential load from peak to non-peak times, (2) the RTOU program with first year bill protection will become net fiscally positive for VCE after year 2 or 3 of the program, and (3) that based on the analysis and the pilot program results the net impacts of implementation of the RTOU program in VCE territory represent a very low financial risk for VCE while helping achieve organizational goals to reduce peak energy use.

3. What will the financial impacts be on energy procurement?
  - Staff response: Energy procurement impacts are noted in Table 1 above in the “RA Cost Savings” row of the table.

4. Will the PG&E rollout in VCE territory, coincide with the VCE rollout or will there be a time (between October and February) where customers will be on the TOU rate for electricity delivery and on E1 for generation?
  - The 13-month rollout schedule will be followed regardless of whether a CCA participates or not. In different CCA territories, PG&E and CCA customers will be rolled out at the same time.
5. Are other rates (non-E1) impacted? If so, when?
  - Only the E1 rate is targeted.
6. Are some rates going away – specifically E6? If/when they do, will they be shifted to the new TOU?
  - E6 rate closed 5/31/16. Those customers are grandfathered in. They will remain on that rate plan until the end of 2020 – the TOU time periods will remain the same. In 2021 & 2022 the TOU time periods will change.

#### Request for VCE to adopt RTOU

As noted, the RTOU rates will be phased in over a 13-month period beginning October 2020. If the VCE Board agrees to adopt the RTOU rates, they will go into effect during the month of February 2021. Eligible customers on the E1 rate will be defaulted to the new RTOU rate but will have the option to opt back into a standard residential rate (e.g. E1), if they choose. A rate analysis will be provided to customers 90 days prior to implementation and customers will have the opportunity to change rates and not participate in the new TOU rate. Approximately 23,000 VCE customers are eligible for the rate—47% of E1 customers.

PG&E is asking VCE (and other CCA's in its service territory), for two decisions before October 2019:

1. Should VCE adopt PG&E's RTOU rates?
2. Should VCE offer bill protection for the first year?

To date there have been four CAC presentations on this topic; three from VCE staff and one from PG&E. VCE and PG&E staff also made presentations to the VCE board on separate occasions.

#### **STAFF RECOMMENDATIONS TO CAC**

Recommend adoption of the PG&E RTOU rate and bill protection.

Staff believes that the following key factors support this recommendation:

- TOU rates are proven to reduce electrical loads during peak periods. This provides multiple benefits including:
  - Reduce impacts of overloading on the grid during peak periods.
  - Reduce the cost of purchased power during peak periods.
  - Reduce the use of expensive, GHG emitting peak power plants during peak

periods.

- Provide customers with higher levels of control over their electricity bills.

Note: Staff believes it is also helpful if VCE mirrors PG&E rates in this instance so that customers can easily compare VCE and PG&E rates.

- Bill protection:
  - PG&E will offer bill protection.
  - If VCE does not offer bill protection, the likelihood of customers opting out may increase.

These recommendations in no way change VCE's ability to set rates at any time.