VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 7

TO: Community Advisory Committee

FROM: Mitch Sears, Interim General Manager
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SUBJECT: Potential policy strategies for fiscal year 2020/21

DATE: April 23, 2020

RECOMMENDTION

1. Provide feedback on potential policy strategies for fiscal year 2020/21 to help inform analysis and Board recommendations.

OVERVIEW

The purpose of this report is to provide information on several potential policy strategies that may help offset anticipated reduced net income in future budget cycles and help bridge the gap until lower cost long-term renewable energy contracts come on-line in late 2021/2022. Staff is seeking feedback from the Committee to help inform analysis and Board recommendations. Preliminary financial analysis associated with the potential strategies is introduced, which will be analyzed in more depth for the Board' preliminary fiscal year (FY) 2020/21 budget discussion in May; final adoption of the 2020/21 FY Budget is scheduled for the June 11th Board meeting.

BACKGROUND AND ANALYSIS

<u>FY 2020/21 Budget</u>

At the April 2020 Board meeting staff presented the FY2020/21 Preliminary Budget, which forecasts a negative Net Income of -$5.6 million. This forecast is due primarily to two major factors that are both outside of VCE's direct control:

1. PCIA and PG&E generation rates. The Power Charge Indifference Adjustment (PCIA) is forecasted to increase an estimated 44% increase in 2020 and PG&E generation rates are forecast to decrease an estimated 4%.
2. Resource Adequacy (RA) and short-term renewable contracts. VCE faces higher power costs due to significant increase in resource adequacy (RA) costs and the assumption that the upcoming long-term solar projects will not begin delivering energy until the end of 2021 instead of mid-2021 as originally forecast.

Additional detail on these primary drivers includes:

PCIA/Rates – The revenue decline is driven by the following rate impact factors:

a. PCIA will increase by 18% to approximately 3.2 cents per kWh starting May 2020 and will increase an additional 44% to approximately 4.6 cents per kWh starting in October 2020 due to the expectation that PG&E will file a cap exception trigger in 2020. Note: VCE, through CalCCA, is investigating options to defer and/or smooth this PCIA spike in late 2020. Staff will continue to be engaged in this discussion and report to the Board as these issues move through the CPUC process.
b. PG&E generation rates are forecast to decrease by an overall average of 4% for calendar year 2020 and then increase 2% in calendar year 2021; this results in a revenue decline as VCE's policy is to match PG&E generation rates. PG&E generation rates are difficult to forecast – these forecast rates are based on the best available information and Staff generally considers them to be cautious.

Power Costs/Mix – Power costs have increased substantially from 2020 Budgeted amounts to the preliminary 2021 Budget power cost forecast. The increase of $9.4 million is due primarily to the market cost of RA increasing substantially over the past several years. Primary drivers for RA cost increases in this time period include a tightening market as fossil fuel baseload energy resources are retired and shifting market rate design and requirements mandated by the CPUC. Other less significant contributing factors impacting VCE power costs include:

- Adding Winters load (approx. 5% load increase)
- Renewable Energy Credit (RECs) cost increase
- Carbon-free energy cost increase
- Brown power market cost decrease

Resource Adequacy regulatory and market volatility have presented significant challenges for the industry, with CCAs across the state also grappling with the issue. VCE and SMUD actively monitor and manage the long-term portfolio of RA to remain compliant with requirements and to procure power in as cost-effective way as possible. VCE also addresses RA cost volatility through direct participation and CalCCA involvement in regulatory proceedings.

Preliminary 2021 Budget Key Assumptions/Factors
The Preliminary 2021 Budget includes the following key assumptions/factors:
1. Power mix reflected in the Preliminary 2021 Budget remains unchanged from the prior year's budget with 42% renewable and 75% clean content.
2. The load forecast has been updated for 2020 and 2021 using actual load data, opt-out rates and opt-up rates. The retail load forecast for the FY 2021 is estimated at 722 GWh.
3. Energy cost includes: (1) system energy, (2) eligible renewables and (3) carbon free attributes which are estimated at $37.6 million, or 73.9% of the total power costs. Resource adequacy cost is forecasted at $13.3 million, or 26.1% of the total power costs.

Update on PCIA
As stated in the March 12, 2020 Board PCIA staff report, the CPUC issued its Final Decision on PCIA & ERRA. This decision largely adopted the Proposed Decision (PD), recommendations but did include approximately $93 million in overall PCIA reductions for PG&E. This $93 million

reduction was one of the topics VCE and EBCE addressed in its joint meetings at the CPUC in February 2020. Note: PG&E has submitted a challenge opposing the CPUC decision on this reduction and is seeking to reduce the amount to approximately $60 million – a decision is pending.

Staff has analyzed the impacts of the $93 million reduction in PCIA. The overall positive impact on the VCE 2021 Budget is an increase of $0.8 million in operating revenue, lifting negative Net Income from -$6.4 million to -$5.6 million (12.5% change).

Potential Policy Strategies

Staff have begun researching and analyzing potential policy strategies to partially mitigate the negative net income highlighted in the preliminary FY 2020/21 Budget summary. The potential policies may be employed individually or in combination to off-set projected negative net income. In addition to the discussion below, staff has attached a summary table outlining several factors associated with each potential policy change (i.e. estimated fiscal impact, timing, etc.) (Attachment 1). Note: fiscal reserves will allow VCE to buffer PCIA and cost increases over the short-term. Therefore, while reserves can cushion the potential impact, early consideration and implementation of policy strategies may be fiscally advantageous.

Staff is seeking feedback from the Committee on the following potential policy strategies to help inform analysis and Board recommendations. Note: staff has not formed recommendations or priorities at this stage of analysis.

1. Rate Changes

Potential options:

   a. VCE could increase its combined generation rate (generation, PCIA and Franchise Fee Surcharge), above PG&E's generation rates. For every 1% that VCE's rates are above PG&E's generation rates, revenue will increase by approximately $800,000.

   b. Add a third choice for customer rates that could be set near the minimum State standards for renewable energy content. This would allow customers the option to choose a more cost-effective rate (perhaps set at PG&E's generation rate), while maintaining VCE's other two current rate options that deliver higher renewable and GHG free attributes at a premium. This approach has been employed by Clean Power Alliance (LA/Ventura CCA).

2. Power Resource Planning Adjustments

   Potential options:

   a. Currently VCE's long-term renewable PPA's are anticipated to begin delivering energy and associated RA in mid-2021, displacing more expensive existing short-term renewable contracts (PCC1) and GHG free resources. Staff is analyzing the timing of these power deliveries in 2021 and when to dial back the existing short-term contracts. Aligning the actual start dates and end dates may result in a period where overall renewable and GHG levels in VCE's portfolio are much lower but averaged out to meet VCE's goals over a 2 or 3 year period as the higher levels of renewables from the long-term contracts come on-line. These power resource planning adjustments may result in a net cost savings over this 2-3 year period while still meeting VCE's regulatory compliance requirements. Staff analysis of the potential savings, which are dependent on timing of the adjustments and the level of transition out of short-term contracts, indicates VCE could save several million dollars over a 2 to 3 year period while still meeting VCE's renewable goals and state renewable standards.

3. Additional Policy Levers
   a. Accept the GHG-free large hydro and nuclear allocations from PG&E, at a potential benefit of $0.5 million and $0.8 million respectively. As the analysis previously presented to the CAC and Board indicates, these savings are speculative and would only be realized if a market exists in which to realistically sell these characteristics.

   b. Seek additional reductions in operating expense beyond those already captured. Although VCE has already crafted an operating budget that is lower than the current FY 2020 Budget, staff could present a set of more austere measures that could result in additional incremental operational expense savings. The scale of these measures would represent the smallest potential savings of the mitigation options outlined in this report.

CONCLUSION

Staff is seeking feedback from the CAC on these sets of policy options for consideration by the Board as part of its May discussion on the FY 2020/21 preliminary budget.

ATTACHMENT

1. Potential Policy Options – Table

ATTACHMENT 1 - Potential Policy Options Table

Policy	Potential Savings	Ease of Implementation	Timing	Notes/Other Considerations
Rate Change – Rate Increase	$800,000 to $2.4 million	Medium-high difficulty due to outreach efforts and opt-out risk	Could start shortly after BOD approval and start seeing immediate revenue impact	Revenue increase is $800K per 1% change – assume 1-3% target for Potential Savings
Rate Change – Add'l Rate Class	$0.25 to $1.5 million	Medium to high difficulty due to complexity of the roll-out and communication efforts	Could start shortly after BOD approval and start seeing immediate revenue impact	Example scenario assumes ag rates would be slightly below PG&E gen rate; commercial would be at PG&E rate; and residential slightly above higher than PG&E. Other scenarios possible
Power Resource Planning Adjust.	$0 to $3.4 million	Low end of the range less difficult	Throughout fiscal year '21 – '22	Power Content Label impacts; Will require BOD approval
GHG Free – Large Hydro	$0 to $540,000	Low end of the range less difficult	Q3-Q4 2020	Volume is unknown; market interest/ability to resell may be low
GHG Free – Nuclear	$0 to $840,000	Low end of the range less difficult	Q3-Q4 2020	Volume is unknown; market interest/ability to resell may be low; reputational risk
Operations Reductions	$25,000 to $100,000	Low end of range less difficult; high end of range difficult	Impact spread throughout FY 2021 budget	Significant strategic trade-offs between program effectiveness and marginal cost savings

Notes:

1. Policies not listed in priority order.
2. Combination of policies possible.