VALLEY CLEAN ENERGY ALLIANCE

Staff Report– Item 8

TO: Community Advisory Committee

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

SUBJECT: Updated Draft Customer Rate/Product Options

DATE: May 26, 2022

RECOMMENDATION

1. Receive this report and provide feedback on updated draft customer rate/product options.
2. Provide input on forming an ad hoc rates task group to further discuss VCE rate/products structure for 2023, including the implementation of adding a new "GreenSaver" least-cost generation product offering.

OVERVIEW

At VCE's launch in 2018, customers were offered two rate options: (1) Standard Green default and (2) 100% renewable UltraGreen opt up. The Standard Green product was priced at a 2.5% discount compared to PG&E's generation rate on VCE's default "Standard Green" product. In the fall of 2018, VCE suspended the 2.5% discount following a CPUC decision that increased the Power Charge Indifference Adjustment (PCIA) by approximately 100%. In response, VCE adopted a policy to match PG&E's generation rates on VCE's default product and offer a possible customer dividend in future years if/when VCE attains its financial and reserve targets.

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.

VCE currently offers two retail energy product categories: 1) "Standard Green" which is at least 75% carbon-free and 25% renewable; and 2) "UltraGreen" which is both 100% carbon-free and 100% renewable. VCE's Ultra Green product carries approximately a 5.3% total bill premium compared to VCE's Standard Green product.

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. VCE's 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 revising customer rate/product options and seeks guidance on the proposed structure and the examination of potential risks.

BACKGROUND

Since its inception, 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.

Primary Rate Drivers

Like other CCAs across the State, VCE faces substantial power market price and regulatory uncertainty, including:

- Power Charge Indifference Adjustment (PCIA). A net 46% increase in the PCIA from 2020/21 contributed to the significant revenue erosion of VCE's financial reserves from the highest levels in 2020-2021 to the lowest levels in 2021-2022.
- Resource Adequacy (RA) mandates.
- Power Prices. Average forward market power prices have increased by nearly 60% since April-2021.

Additional Rate/Product Structure Considerations

Other factors also contribute to Staff's recommendation to explore customer rate/product options and include:

- Western Community Energy Bankruptcy. As a result of the WCE bankruptcy, Staff has seen increased regulatory efforts focusing on fiscal standards, including the possibility of requiring additional security deposits.
- Implementation of Programs. Ample revenues and reserves also enhance the ability to execute local programs and provide match funding to other public and private sources for energy-saving devices.
- PG&E Rate Adjustments. PG&E's transmission/distribution charges constitute the most significant portion of customer electric power bills (currently average over 50% to 60%). As PG&E continues to adjust and revise its rate-making practices, VCE customers see a corresponding impact on their electric bills that is almost entirely outside VCE’s ability to affect.
- Geopolitical Climate. The conflict in Ukraine and consequent Russian energy supply disruptions have significantly impacted current and forecast energy prices and availability.
- Supply chain interruptions stem from the COVID Pandemic, and U.S. trade restrictions on solar panels and the like are impacting renewable projects expected to go online in 2022-2024.
- The drawdown of VCE reserves during 2021 for rate stabilization purposes has required VCE to increase its available credit and number of creditors to assure sufficient liquidity and smooth business operations.

VCE has taken actions over the past three years to mitigate these impacts, as summarized below and further detailed in the November 10, 2021 Board Item 16 found here. The drivers described above have impacted VCE and the CCA community. VCE has and continues to monitor rate-related strategies employed by other CCAs designed to address ongoing financial pressures outside of a

CCA's control.

Comparable CCA programs - Update

Multiple CCA programs in PG&E's service territory have adopted cost recovery based customer rate structures. A 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.

Valley Clean Energy, the CCA community, and VCE partners (regulatory, financial, and suppliers) anticipate continued uncertainty in the long-term forecasts of major cost drivers. In Q3 of 2021, the Board directed Staff to develop an expanded and cost-based rate structure to help address these issues.

DISCUSSION & ANALYSIS

VCE has systematically analyzed policy options and implemented strategies to control costs and manage reserves in response to the above mentioned fiscal challenges and related factors. The primary fiscal policy option controlled by VCE is likely the most potent: the ability to design products and set customer rates.

Draft Customer Product Structure

The draft customer product structure with three options could be established by implementing a new "GreenSaver" option. The envisaged GreenSaver option could add two beneficial elements to VCE's existing product offerings. One, increased customer choice by adding a new least-cost customer option that would be priced approximately 0.5% below PG&E's base bundled product on a total bill basis. And two, the GreenSaver option would provide 5% more renewable than California RPS requirements, thus supporting the environmental energy portfolio aligned with VCE's mission.

Figure 1 below summarizes the proposed customer product options.

Figure 1 – Draft Customer Rate Structure (Design)

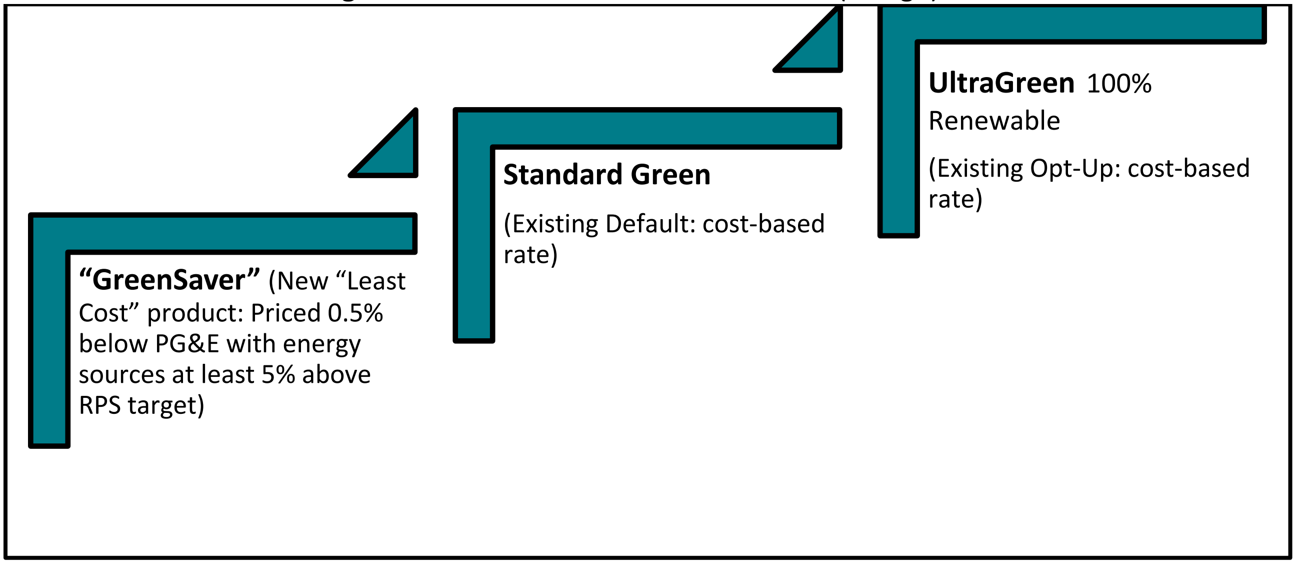

Table 2 below shows more detail on VCE's three-product proposal.

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	• 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	• Portfolio minimum percent renewable content above GreenSaver • 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.

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 Comparion**

GreenSaver	Standard Green	UltraGreen	PG&E
Approxmently 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 Deliver Charges $93.00	PF&E Deliver Charges $93.00	PF&E Deliver Charges $93.00	PF&E Deliver Charges $93.00
Average lower by 0.5% of Total Bill (1-2% Gen Discount)		Average $7-10 Per Month	Average 20% Above Standard Green

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

**Note: Represents the mot resent (2019) power content data reported to the California Energy Commision's Power Source Disclosure Program

Fiscal Impact Scenarios

Staff also recognizes that the 2022 PCIA rate is temporarily more favorable, and increasing power costs are forecast for the reasons described previously. Staff prepared three scenarios to compare possible impacts using information presented with VCE's adopted budget and forecast for 2022. The scenarios evaluated used the following participation factors:

	Scenario 1	Scenario 2	Scenario 3
Customer Rate Option	**GreenSaver Option (New Proposed 3-Product Split)**	**Current Rate Options (No Change - 2-Product Load Split)**	**Stress Test (2-Product Split with 10% Customer Loss)**
GreenSaver (new)	24%		
Standard Green - Default (existing)	71%	95%	95%
UltraGreen – Opt-up	5%	5%	5%
Opt-Out			10%

All above scenarios use the same total cost basis for allocation purposes. Although there may be a recovery of excess energy in scenario three due to reduced load, it includes only a proportional reduction of the required operating reserves. The average megawatt-hour generation cost comparison based on the above allocation is as follows:

	Scenario 1	Scenario 2	Scenario 3
Customer Rate Option	**GreenSaver Option (New Proposed 3-Product Split)**	**Current Rate Options (No Change - 2-Product Load Split)**	**Stress Test (2-Product Split with 10% Customer Loss)**
GreenSaver (new)	$ 86.60		
Standard Green - Default (existing)	$ 88.64	$ 88.13	$ 95.75
UltraGreen – Opt-up (existing)	$ 106.37	$ 105.75	$ 114.90
Opt-Out			$ 105.78

- Comparing Scenario 1 (Draft Customer Rate Option Structure) to Scenario 2 (Existing VCE customer Rate Structure):

The new customer rate/product option generates slight increases of approximately 1% in the average costs of VCE's default Standard Green and UltraGreen options with the addition of the "GreenSaver" option. These small increases to existing Standard Green and UltraGreen options should be weighed against VCE's added ability to retain and regain cost-sensitive customers by offering customers the lowest-cost product available. Scenario 1 has the potential to preserve revenues from cost-sensitive customers and simultaneously support VCE's total renewable objectives.

- Comparing Scenario 3 (Stress Test) to Scenario 2 (Existing Customer Rate Structure)

The additional 10% customer base loss increases the proportional generation cost to the remaining customers by approximately $7.62 (9%) for Standard Green and $9.15 (9%) for UltraGreen.

Although this degree of customer loss is unlikely, it is also important to understand 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.

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 is proposing the following tentative timeline to enable the CAC to review and make recommendations to the Board 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.

Updated Schedule for Additional Customer Rate Option Consideration:

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

Proposed Schedule for 2023 Rate/Product Implementation:

- May 2022: Rates Task Group formation (pre Board decision)
- 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/NEXT STEPS

Staff is seeking feedback on the proposed draft customer rate/product. Staff recognizes that conditions outside VCE's direct control have impacted financial results. Adding a least-cost GreenSaver customer rate/product option alleviates pressure associated with customer retention 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.

As noted in the proposed schedule, Staff will be returning to the CAC in June to incorporate the additional feedback from the CAC for its recommendation to the Board in July.