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: June 23, 2022

RECOMMENDATION

Recommend the VCE Board adopt the following:

1. 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 add a (3) Base Green option;
2. 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.

OVERVIEW

Beginning in June 2020, Staff introduced the topic of expanded customer rate/product options 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, to gather input and discuss the next steps. A brief summary of key feedback/issues identified by the CAC and Board is included in the discussion 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 in July, will increase VCE's ability to set rates calibrated to actual cost and reserve requirements while providing a lower price option than 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 impacts. In addition, the 2021 Power Charge Indifference Adjustment (PCIA) increases, resource adequacy, 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 community. Additionally, VCE evaluation has included the recent regulatory efforts focusing on fiscal standards, implementation of programs, geopolitical climate, solar energy supply chain interruptions, and VCE rate and reserves stabilization.

The current VCE customer rate/product option structure limits VCE's ability to stay competitive 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.

This report provides additional detail on customer rate/product options, seeks feedback on the proposed structure, and examines associated potential risks.

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 "Base Green" option. The Base Green 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 Base Green option would provide 0-5% more renewable than California Renewable Portfolio Standard (RPS) requirements, thus supporting environmental objectives aligned with VCE's mission.

Figure 1 below summarizes the proposed customer product options.

Figure 1 – Draft Customer Rate Structure (Design)

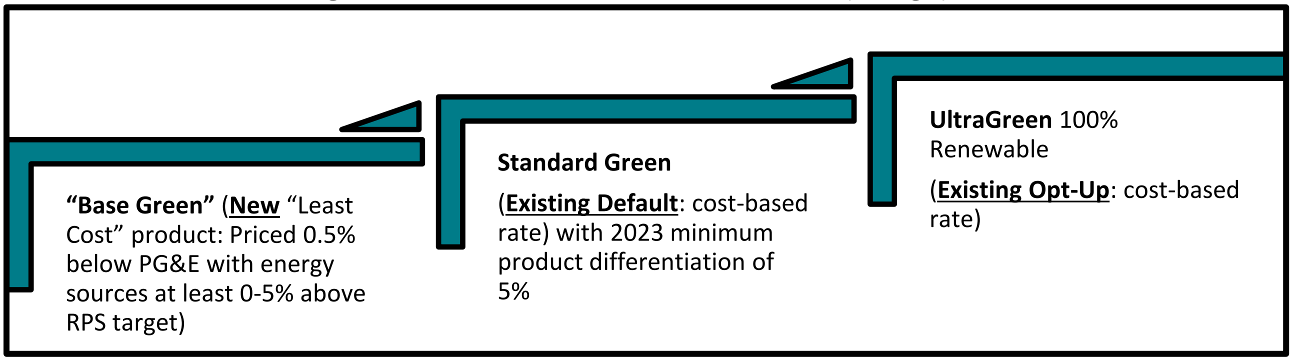

Table 1 below shows more detail on VCE's three-product proposal.

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	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 multi-year portfolio mix for Standard Green default through 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 projected customer product RPS.

***Table 2 –** VCE Projected (RPS)

Customer Rate Option	2023	2024	2025
Base Green **(new)**	41%	45%	48%
Standard Green - Default **(existing)**	46%	86%	83%
UltraGreen – Opt-up **(existing)**	100%	100%	100%

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

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 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 ~$1.25 less per bill.

Fiscal Impact Scenarios

Staff also recognizes that the 2022 PCIA rate is temporarily more favorable, and increasing power costs are forecast for the reasons mentioned above. Staff prepared three scenarios to compare possible impacts using information presented with VCE's adopted budget and forecast for 2022. The scenarios evaluated multiple participation factors with the same total cost basis for allocation purposes. 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 "Base Green" 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. Without the additional rate/product option, VCE customers' current choice is to opt out, which has a more significant impact on VCE's remaining customers. Although customer loss is unlikely with current customer rates, 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.

Community Advisory Committee Feedback

On May 26, the CAC provided initial feedback on the updated draft customer rate/product options. CAC Feedback included:

- Product Differentiation – The need for distinct RPS differences between the Standard Green and potential new "Base Green" products to establish value differentiation has been recommended to start at 5%. Standard Green is recommended to be eligible for customer dividends and community programs.

- Analysis of the duration needed to provide this option as VCE moves toward a 100% renewable future. Staff recommends that this option be evaluated at the earliest in 2028 or upon annual participation greater than 5%.
- Marketing framework – Staff recommends that this product be offered to customers with cost concerns and not actively promoted. The product option could be provided on a 12-month (or other fixed term) basis before returning to Standard Green to reduce the need for marketing customers to opt up to our default Standard Green option.
- Organizational Cost/Benefit – Examine 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 a benchmark for rate equity for CARES and FERA 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.

Staff agrees that rate structure design should incorporate a clear differentiation between the customer rate/product options to demonstrate the value of each option. VCE's annual rate-setting process provides a forum review and propose any customer rate/option adjustments to the price, value pairing (RPS, community programs, etc.), and participation over time.

Tentative Timeline

Consistent with prior Board's direction, Staff recommends consideration of this option for implementation in 2023. If the Board approves adding an additional customer rate option in July, VCE will develop an associated communications and outreach strategy pre and post implementation.

Schedule for Customer Rate/Product Option Consideration:

- 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. - Current***
- July 2022: Board consideration of final updated draft rate options. If adopted, an additional rate option would be implemented as early as January 2023.

CONCLUSION/NEXT STEPS

Staff recommends adopting an expanded customer rate structure similar to those implemented by other CCAs. Staff recognizes that conditions outside VCE's direct control have impacted financial results. Adding a least-cost Base Green customer rate/product would give customers an additional choice without altering 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.

Staff will be returning to the CAC as part of VCE's 2023 customer rate setting process and, subject to Board direction, will include a new Base Green product for implementation in 2023.