

VALLEY CLEAN ENERGY ALLIANCE

Staff Report Item 8

TO: Valley Clean Energy Alliance Board of Directors

FROM: Mitch Sears, Interim General Manager
Shawn Marshall, LEAN Energy US
Gary Lawson, Sacramento Municipal Utility District (SMUD)

SUBJECT: Discussion of VCEA Implementation Plan

DATE: September 20, 2017

Recommendations

1. Provide feedback and direction on core content items as follows:
 - a. Governance
 - b. Administration and Finance
 - c. Tarrif structure and Rate Design
 - d. Customer Enrollment Strategy
 - e. Power Product Offerings and Clean Power Targets
 - f. Complementary Energy Programs
 - g. Risk Management

2. Direct Staff and consultants to prepare a draft Implementation Plan for review and input by the Community Advisory Committee and return to the Board of Directors for final direction and adoption at its October meeting.

Summary

The purpose of this staff report/agenda item is to identify Implementation Plan (Plan) elements that require Board direction in order to complete and submit the Plan in mid-October. Staff is seeking direction on core content of the Plan as listed in the recommendation.

Background

As discussed at the July 25, 2017 Board meeting, development and certification of an Implementation Plan (Plan) is a requirement of Public Utilities Code, Section 366.2(c)(3) that provides detail regarding the process and plans for a new CCA program proposed in a certain service territory. It is primarily a compliance filing that must be considered and adopted by the Board at a public hearing and certified by the California Public Utilities Commission (CPUC) before a CCA program can begin serving customers. Once submitted, the CPUC has up to 90 days to certify the plan, at which time VCEA will be able to move forward with power supply contracts and next steps for customer outreach and notification.

Development of Plan Content/Initial Recommendations

To date, the CPUC has certified eight implementation plans with several more currently under review. VCEA staff is working with its SMUD and LEAN consultant team and the Community

Advisory Committee (CAC),to develop a plan that is responsive to statutory/regulatory requirements and follows the lead of other successfully certified plans while highlighting features unique to VCEA.

There are a number of elements within the Plan that require feedback and direction from the VCEA Board. Some of these items are administrative in nature, and others are related to VCEA's plans and targets with respect to customer rates, power supply, renewable content, greenhouse gas reductions and local energy programs.

Over the course of the next three-four weeks, staff and consultants will be seeking input from the CAC and direction from the Board in the key policy areas outlined below. Feedback on these items and initial staff/consultant recommendations will be used to complete a draft Plan for adoption by mid-October. Notes providing context and staff/consultant recommendations are provided in italics under each policy category:

1. Governance Matters

- a. VCEA Mission (included in the JPA Agreement)
- b. Proposed service territory (established by membership in JPA)
- c. Termination of the JPA (language included in the JPA Agreement)
- d. Statement of intent

Recommendations:

2 a, b, and c. *Use the adopted VCEA JPA Agreement as the basis for above-referenced information.*

2c. *Review and adopt the legally required affirmations to be included in the Implementation Plan. Namely that VCEA has or will adopt all of the required principles mandated by laws, including: Universal access; Reliability; Equitable treatment of all customer classes; and Any requirements established by state law or by the CPUC concerning aggregated service.*

2. Administrative and Finance Matters

- a. A brief description of VCEA proposed staffing structure
- b. Whether and how much to charge for administrative exit fees post enrollment
- c. VCEA's source of start-up capital and financing plan

Recommendations:

2 a. *Review staffing explanation provided in VCEA/SMUD comparative analysis that indicates a small core staff of 4-6 supplemented by up to 4 SMUD staff on loan with access to additional hourly service support from SMUD as needed. Indicate this structure as part of a 3-5 year service contract with SMUD with the option of bringing certain operational functions in-house and adding additional VCEA staff as the program matures and grows.*

2 b. *Review per-account administrative exit fee practices of other CCAs . Recommend following PCE and RCEA's practice of waiving per account admin fees for 6 months to one year post-enrollment and imposing modest fees thereafter. Follow the language of the JPA Agreement related to stranded costs in the event that an entire community leaves VCEA service.*

2 c. Include required information regarding jointly funded start-up loan from the County of Yolo and Cities of Davis and Woodland; include repayment terms and plans for initial working capital and wholesale market credit support provided by SMUD and a third-party lender.

3. Tariff Structure and Rate Design

- a. Whether VCEA will match (or not) PGE's current tariff structure
- b. Desired rate savings for default product offering (i.e. target range for % discount from PG&E generation rates)
- c. Ratesetting process including net energy metering

Recommendations:

3 a. *As is the practice of all other operating CCAs, recommend initially matching PG&E's rate/tariff structure to ensure easy customer comparison between VCEA and PG&E generation rates. Include language that allows VCEA to introduce specialized tariffs to better serve the needs of specific customers (e.g. agriculture and other commercial accounts) that may require different incentives to remain with VCEA and engage in its programs.*

3 b. *Review generation rate discounts offered by other CCAs and consider in the context of overall customer savings, Agency reserve targets, and community and environmental goals; Recommend targeting a generation rate below PG&E's 2018 generation rates (for example between 2-4%) pending market conditions, renewable/carbon free content targets, updated load analysis, PG&E adopted rates for 2018, exit fee projections, and budget estimates. Please note that the Implementation Plan does not require specific rate information at the time of Plan submission; thus, a target range related to intended rate discounts is fine.*

3 c. *Describe VCEA's intended ratesetting process and indicate the intent to include Net Energy Metering (NEM) and Feed-In-Tariff (FIT), rates as part of initial tariff structure.*

4. Customer Enrollment Strategy

- a. Number of accounts and projected load forecast
- b. Proposed number of phases (e.g. 1 or 2) and projected timing of each

Recommendations:

4 a. *This information will be provided by SMUD upon analysis of updated load data that was just recently received from PG&E.*

4 b. *Due to the manageable number of estimated accounts in VCEA service territory (Approx 64,500), staff and consultants are recommending a single enrollment phase commencing in June, 2018. However, we recommend adding language that allows for two enrollment phases if needed to start with a subset of accounts at the outset, bringing on remaining accounts within 4-12 months thereafter.*

5. Power Product Offerings and Clean Power Targets

- a. Determine number of product options and provide general description of each
- b. Determine order of priority and renewable/GHG-free content targets
- c. Discuss potential use of unbundled RECs
- d. Outline procurement approach and plan

- e. Include local power preference subject to contract terms, cost and timing parameters

Recommendations:

General note: After the Implementation Plan is filed, more detailed and updated information will be available and developed with regard to actual expected loads (requires the analysis of PG&E customer metering data and development of a “final” load forecast), availability of renewable power supplies and cost, availability of clean power supplies and costs. More discussion with the Advisory Committee and the Board will take place to finalize decisions prior to launch on resource mix, and product offerings given pricing/budget impacts.

- 5 a.** *Consider practices of other CCAs. Recommend starting with 2 product options – 1) a default product that would be priced slightly below PG&E and offers better clean power attributes, and 2) a voluntary “opt-up” product that would be 100% carbon free and/or 100% renewable and offered at premium prices determined by subsequent power supply offers.*
- 5 b.** *Consider practices of other CCAs as well as current supply pricing; Recommend placing priority on carbon-free resources (to achieve greater carbon reduction), followed by renewables. Consider how this impacts power portfolio, customer messaging and costs.*
- 5 c.** *If directed by the Board, recommend including language that VCEA does not intend to use PCC-3 unbundled RECs in its procurement strategy.*
- 5 d.** *Include brief description of SMUD’s contracted wholesale power services and approach to be taken for VCEA. Include information about VCEA’s independent portfolio to be managed by SMUD over the initial five-year contract term.*
- 5 e.** *Recommend including a reference to VCEA’s long-term goal of including as much local power in its power supply portfolio as is technically and financially feasible. Specific local power targets and projects are not needed for the Plan.*

6. Complimentary Energy Programs

- a. Include a brief list of programs that VCEA plans to research and possibly implement over time. These programs could include things like: net energy metering (NEM), feed in tariffs, energy efficiency, electric vehicle incentives, demand response, energy storage projects and distributed energy resources.

Recommendations:

- 6.a** *Consider how this section has been handled in other Implementation Plans. Recommend including of a range of potential programs that VCEA may implement over time, subject resource availability, customer interest and additional market research. Recommend that at its outset, VCEA focus on NEM, Feed in Tariff and energy efficiency offerings and build additional programs from there.*

7. Risk Management

- a. Include in the Implementation Plan discussion of the plans for managing both energy commodity and other enterprise risks.

Recommendation:

General note: Reference in the Implementation Plan that VCEA, in consultation with its service provider SMUD, will develop a set of risk management policies in the coming months. These policies are NOT needed for the Plan but recommend including a reference to them. Three elements of risk management include, but are not limited to:

- a. Power Supply – VCEA will establish policy direction on its power purchase portfolio. Direction re: short-term vs. long-term contract terms, local vs. regional renewables, fixed vs. market pricing alternatives, and fixed delivery vs. variable will be included.
- b. Financial – VCEA will establish policy direction on various financial metrics including targeted financial reserves and how quickly they are accrued, how much debt vs. cash should be used to finance new projects, purchasing authority for VCEA’s director, Agency financial controls and other fiduciary policies.
- c. Enterprise – VCEA will establish with its Wholesale Energy Services provider an enterprise risk management framework with which to assess and manage other risks to the VCEA enterprise.

General Note: The resolution of these risk management issues is not needed for the Implementation Plan. However, Policies on Power Supply and Financial risk management will require Board consideration and adoption well before launch.

Proposed Timing and Approach

Staff is recommending that the Implementation Plan be prepared in the following steps:

- 1) July 25, 2017 Board presentation introducing Implementation Plans and review of key policy elements (completed)
- 2) September 11 CAC meeting – Introduction of Implementation Plan key policy elements (completed)
- 3) September 20 Board meeting – Discussion # 1: Review overall Plan content and solicit Board and public feedback on above referenced matters
- 4) September 27 CAC meeting – Discussion # 2: Updated load analysis complete; present working draft to CAC with focused discussion on product offerings and clean power supply targets.
- 5) October 12 Board meeting – Discussion #3: Present draft Plan for Board discussion and adoption; if substantial changes remain necessary, a special Board meeting will be planned for week of October 16.
- 6) October 16– Submit approved Plan to CPUC for 90-day review and certification.

Fiscal Impact

The cost to develop the Implementation Plan is included in the comprehensive Wholesale Energy Services to be provided by SMUD, and is included in VCEA’s implementation budget.