

**VALLEY CLEAN ENERGY ALLIANCE****Staff Report – Item 9**

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**TO:** Community Advisory Committee

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

**SUBJECT:** Introduction of Rate Adjustment System

**DATE:** September 22, 2022

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**RECOMMENDATION**

Informational item – no action requested.

The purpose of this report is to provide an introductory presentation and seek CAC feedback on a framework that would allow VCE's rates to automatically adjust within a defined range to more timely and accurately reflect external cost factors outside VCE's direct control.

**BACKGROUND/ANALYSIS**

VCE and all other Load Serving Entities (i.e. CCA's, Publicly Owned Utilities, and Investor Owned Utilities), face volatility in multiple external cost factors that are largely outside utility control. For VCE, the primary factors are energy market fluctuations (up and down) and regulatory mandates. Most LSE's have adopted rate adjustment systems that allow for rates and revenue to automatically adjust within defined parameters to keep pace with market and regulatory changes. The IOUs' version of this approach is typically a "balancing account" that allows them to recover costs retroactively since their rates are regulated by the California Public Utilities Commission (CPUC) making them difficult to adjust quickly.

At the September 8, 2022, Board meeting, Staff introduced this conceptual rate adjustment framework that would allow VCE to automatically adjust rates/revenues up or down based on parameters set by the Board. The Board provided direction to continue to refine the concept and report back to the Board.

**VCE Financial Policies and Mitigation Strategies**

In 2017, prior to launch, VCE adopted and registered its Implementation Plan (IP) with the CPUC. The Plan included a provision that program rates must collect sufficient revenue from participating customers to fully fund VCE's budget, including operating reserves. Over the past four years, VCE has analyzed policy options and implemented strategies to stabilize customer rates, reduce/control costs, and manage reserves. VCE's key financial policies and mitigation strategies include:

- 2017 – VCE IP: Rates must collect sufficient revenue to fully fund VCE's budget and

operating reserves.

- 2020 – Strategic Plan: Maintain financial stability while continuing to offer customer choice, competitive pricing, and establishment of local programs.
- 2018 – 2021 – Systematic analysis of policy options and implementation strategies to stabilize customer rates, reduce costs, and manage reserves:
  - Discontinue rate discount; temporarily scaled back REC purchases; sign long-term renewable PPA's
- November 2021- Adopted cost-based rate policy.
- July 2022 – Board adopted a three-tiered customer product structure starting in 2023.

### Rate Adjustment System Concept

Currently, VCE sets rates annually for its default product to cover costs set competitively to PG&E's rates, regardless of market volatility and/or changing regulatory requirements. While this current approach is reasonably simple to calculate and communicate, it requires VCE to use reserves to smooth unanticipated power market and regulatory impacts. To better address revenue variability associated with these impacts, Staff has investigated best practices of other Load Serving Entities. The most common approaches utilize automatic adjustments within predetermined guidelines triggered by movement in power markets (up or down), and/or additional costs associated with regulatory mandates (e.g. Power Charge Indifference Adjustment – PCIA).

Under this type of adjustment system, the Board would set adjustment limits (up or down), that could be triggered by power market movement and/or regulatory actions. Generally, implementing timely smaller adjustments reduces the potential for larger swings in customer rates if changes are implemented only once a year, consistent with VCE's current practice. Such adjustments also moderate pressure on reserves by being more responsive to cash-flow needs.

It is important to note that these types of rate adjustment frameworks do not compel a rate adjustment if the context of a market price trend or regulatory decision does not require an adjustment to maintain long-term financial stability. For example, if market power costs are reacting to a temporary event such as a storm that knocks out transmission lines that might otherwise trigger consideration of a rate adjustment under adopted parameters, VCE could choose to "wait and see" if power markets "quickly" return to more normal levels. If however, an event and cost impacts persist, the system would allow for an adjustment to meet VCE's revenue requirements and cost based rates policy. While this type of system offers flexibility to manage VCE rates more effectively, it does require informed design to achieve desired results and an appropriate delegation of responsibility.

Staff is seeking feedback from the CAC on Rate Adjustment system structure. As shown in the proposed timeline below, CAC feedback will help inform the Rate Adjustment proposal outlined to the Board at their November meeting. CAC consideration of a final draft rate structure is scheduled for the late November CAC meeting, followed by Board consideration of the final draft in December.

### Tentative Timeline

As noted above, various factors outside VCE's direct control are the main drivers for evaluating this option. Current conditions allow VCE to consider this policy option without pressure to take immediate action. Based on these factors, the Board approved the basic timeline below.

- September – Review and receive CAC input on a concept (**Current; Sept 22**)
  - Develop Draft Schedule and Examples
  - Examples based on three product categories (Base, Standard, and Ultra Green)
  - Address potential CARE/FERA protections
- October 2022 – Review draft Rate Adjustment System with CAC
  - Receive additional feedback for the Draft Customer Rate Adjustment System
- November 2022 – Return to Board and CAC for proposed Rate Adjustment System
  - Present Draft Customer Rate Adjustment System to Board
  - Present Draft Proposed Customer Rate Adjustment System to CAC for recommendation
- December 2022 – Rate Adjustment System for 2023
  - Present Draft Proposed Customer Rate Adjustment System for possible board adoption (2023 Implementation)
  - Consolidate with 2023 Budget & Rates Adoption

Staff will be providing additional detail in its informational presentation at the meeting.

### **CONCLUSION/NEXT STEPS**

As directed by the Board, Staff is seeking feedback from the CAC on the potential implementation of a Rate Adjustment System similar to those implemented by other utilities and CCA's. The timeline outlined above would lead to implementation in 2023. The Board provided direction to develop and return to the Board for consideration of this type of Rate Adjustment System consistent with VCE's current rate and budget policies.