VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 9

TO: Community Advisory Committee

FROM: Mitch Sears, Interim General Manager

SUBJECT: Preliminary discussion and timeline of studying an alternative rebate structure.

DATE: January 24, 2019

RECOMMENDATION

Create a CAC task group to collaborate with staff to analyze a new rate structure and rebate program for fiscal year 2019/2020.

BACKGROUND AND DISCUSSION

At the November 15, 2018 board meeting, staff recommended a package of policy modifications that work together to address PCIA volatility and resulting budget shortfalls anticipated for 2019 and 2020. One of the policy modifications approved by the Board was to study adoption of a new rate structure starting in July 2019 (VCE's 2020 Fiscal Year).

As an alternative to providing customers with a pre-determined, up front rate discount relative to PG&E service, but to still provide the opportunity for customers to obtain generation rate savings and to allow VCE to meet its financial obligations, staff recommended studying an alternative rebate structure. The alternative would move from a monthly fixed rate discount structure to a yearly "dividend" rate structure where bill credits are awarded annually if VCE meets certain financial thresholds. In essence, if VCE does well its customers will benefit by receiving bill credits. This is a rate structure currently employed by Monterey Bay Community Power (MBCP). Under this potential rebate structure, VCE customers would no longer receive a fixed monthly discount but would receive an annual bill credit if VCE met certain financial thresholds. Based on preliminary research leading up to the Board's November 2018 direction, staff identified the following potential advantages for VCE related to a "dividend" rebate structure:

- Financial stabilization. Allows more precise management of financial standing based on financial thresholds defined by VCE by rewarding customers with bill credits on the basis of VCE financial performance.
- Communication with customers. Financial thresholds that trigger annual divided bill credits are transparent and can be easily communicated to VCE customers.

In addition, monthly customer bill questions are likely to decrease since there will not be a monthly percentage discount to calculate.

- Simplified rate administration. As noted in the previous section on electric generation rates, setting identical rates to that of PG&E can save VCE time and money otherwise required to develop rate schedules.
- Mission driven. The "dividend" approach allows VCE to shift the focus from rate comparisons and rate design to the range of goals that define the reasons VCE was established in the first place. Namely, cost competitive cleaner resources, local control, custom tailored programs responsive to community needs, and improving the local economy by investing in clean power resources and returning some of the annual savings back to the customers.
- Build customer satisfaction and loyalty. CCA programs are community owned, managed and directed by a local Board representing its customers. It is therefore reasonable to provide a return/dividend to VCE customers at the end of each year as a bill credit. This dividend could be announced annually at the beginning of the operating year, once staff has established a budget that will consider operational and program expenditures and reserve requirements. By allocating the dividend or credit at the end of the fiscal year, VCE would be able to pay out on a "performance basis," and build customer satisfaction and loyalty as well.

The potential primary drawbacks of this rate structure for VCE include:

- Changing rate design one year after launch could cause customer confusion that will need to be addressed in VCE outreach.
- Some customer classes may prefer monthly discounts. However, MBCP has observed that this type of rate design has not been a significant driver for opt-outs.
- Based on the projected PCIA rate for 2019, VCE will not have the ability to provide a dividend to its customers in the immediate future which could lead to increased opt-outs in certain customer classes.

Based on Board interest in seeing analysis of this (and potentially other) rebate approaches by mid-2019, staff has prepared the attached tentative timeline to have the final new rate structure and rebate program considered by the Board in April 2019.

REQUESTED ACTION

- Create a CAC task group to collaborate with staff to develop a new rate structure and rebate program for fiscal year 2019/2020.

Attachment

Timeline for New rate structure and rebate program

NEW RATE STRUCTURE/REBATE PROJECT TIMELINE

ENTER START DATE: **1/24/2019**

ACTIVITY	START	END	NOTES
Project Start	1/25/2019		
CAC task group and staff work on draft of rate/rebate structure	1/25/2019	2/27/2019	
Present draft of rate/rebate structure to CAC	3/4/2019	3/4/2019	
Present draft of rate/rebate structure to VCE Board	3/14/2019	3/14/2019	
Finalize rate/rebate structure	3/4/2019	3/27/2019	
Approve recommendation to Board by CAC	4/1/2019	4/1/2019	
Approve final rate/rebate structure by VCE Board	4/11/2019	4/11/2019	
SMUD to make changes to the back office billing	4/12/2019	6/30/2019	
Marketing & Outreach on New Rate Structure/Rebate	4/12/2019	6/30/2019	
Implement New Rate/Rebate Structure	7/1/2019	7/1/2019	
Monitor and review billing of New rate/rebate structure	7/1/2019	7/31/2019	
Project End	7/31/2019		