VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Agenda Item 5

TO:	Valley Clean Energy Alliance Board of Directors
FROM:	Lisa Limcaco, Director of Finance and Internal Operations, VCE Gary Lawson, Sacramento Municipal Utility District Mitch Sears, Interim General Manager, VCE
SUBJECT:	California Public Utilities Commission's Decision on the Power Charge Indifference Adjustment (PCIA) and its potential impact on VCE
DATE:	November 1, 2018

RECOMMENDATION

Staff recommends the Board to review the various policy options available to VCE to lessen the fiscal impact of the PCIA and PG&E rates. Staff recommends the Board develop several different scenarios based on the projected final 2019 PG&E rates and PCIA.

BACKGROUND

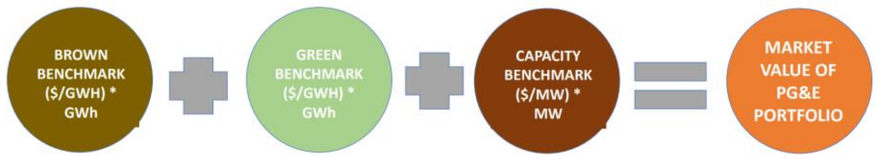
Power Charge Indifference Adjustment (PCIA)

The PCIA is an exit fee charged by the state's investor-owned utilities (IOUs) to those customers that leave PG&E as their generation provider to become Direct Access customers, or customers of Community Choice Aggregators (CCAs). The intent of the PCIA is to make remaining bundled utility customers economically "indifferent" to customers that have departed from the utility bundled service. The utilities, over time, procured or built and owned resources to serve all of their customers. The PCIA is so that departing customers bear their share of resources procured for them when they were bundled IOU customers.

The PCIA is the "exit fee" that is intended to ensure such indifference. The PCIA can be negative (PG&E customers paying VCE customers) or positive (VCE customers paying PG&E customers).

Figure 1 below shows the fundamental PCIA formula, in addition to the Market Value component of the PCIA formula.

Figure 1. Fundamental PCIA Formulas



California Public Utility Commission (CPUC) Proceedings and Decisions

On August 1, 2018, the CPUC Administrative Law Judge Roscow issued the Proposed Decision(PD) modifying the PCIA methodology after studying the issue for a year and took testimony from all sides. The PD was generally acceptable to CCAs.

On August 14, 2018, Commissioner Peterman issued the Alternate Proposed Decision (APD). The major contested difference between the PD and APD dealt with whether Public Utilities Code allows legacy UOG under the PCIA and whether to continue the 10-year limit on cost recovery for post-2002 UOG and certain storage costs under the PCIA. The PD established a PCIA collar with an upper cap starting at 2.2 cents/KWh while the APD established a PCIA collar starting in 2020, with the cap limiting upward or downward changes in the PCIA to 25 percent in either direction from the prior year. The APD was generally favorable to PG&E.

On October 5, 2018, Commissioner Peterman issued a Revised Alternate Proposed Decision which contained no substantial revisions except to capping the annual PCIA change of $0.5 cent/h on PCIA starting 2020.

On October 11, 2018, the CPUC voted unanimously to approve the revised APD. The revised APD increases Total Portfolio Cost and reduces the Portfolio Value resulting in an increase of PCIA.

ANALYSIS

With VCE's launch being June 2018, there has been little time for VCE to accumulate cash reserves to offset against the impact the revised ADP decision will have on 2019 VCE's financial position. The factors that have the most impact on VCE's financial position yet which VCE has no control over are the following:

1) PCIA
   The preliminary Annual Electric True-up – Change to PG&E's Electric Rates on January 1, 2019 Advice letter issued on September 4, 2018, reflects a PCIA increase compared to 2018 of approximately 30% for VCE.
      - VCE's PCIA currently 2.75 cents/KWh would increase to 3.56 cents/KWh with this PCIA increase
2) PG&E rates
   The preliminary Annual Electric True-up – Change to PG&E's Electric Rates on January 1, 2019 Advice letter issued on September 4, 2018, reflect a PG&E rate decrease from 2018 of approximately 0.34%.

Impact on VCE Financials

Based on the above Advice letter dated September 4, 2018, PCIA and PG&E rates will have a negative impact on the VCE financials in 2019 and 2020. The general outcomes of the PCIA increase and PG&E rate decrease are: 1) significant fiscal impact 2) VCE does not meet business financial objectives and 3) it significantly impacts VCE's ability to pursue core mission objectives.

However, the impact will not be certain until the final PG&E rates and PCIA are approved by the CPUC (projected to be in December 2018.)

Policy Options

The following policy options are available to lessen the impact of the PCIA and PG&E rates on VCE's financial position:

- Reduce/eliminate rate discount
  - Positive fiscal impact until the ADP methodology calculation of PCIA becomes stable
  - Retains price competitiveness
  - Move to a rate discount/rate rebate structure that is based on Net Income of VCE (similar to Monterey Bay Community Energy).
- Eliminate the premium credit ($.01/KWh) to NEM customers providing net energy to VCE (option proposed by the Community Advisory Committee (CAC))
- NEM enrollment deferral
  - Positive fiscal impact with deferral of NEM enrollment until 2021
  - With the current NEM roll-in planned for January 1, 2019, VCE has opportunity to further delay that roll-in
  - NEM customers are still benefitting from their solar systems and are still contributing to the grid de-carbonization

- Reduce renewable/clean energy content
  - Minimal fiscal impact with reducing renewable/clean energy content
  - Impact a core mission objective to provide higher percentage of renewable/clean power mix than PG&E

Summary of CAC meeting

At the CAC meeting held on October 29, 2018, staff presented an update on PCIA and the financial impacts on VCE. CAC members provided suggestions on 1) possible communications to VCE customers, 2) other policy options to review regarding VCE's NEM policy and 3) options to increase VCE's customers opting up to Ultra Green. Please review the CAC staff report for further details.