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**Valley Clean Energy CAC Meeting – October 27, 2022  
via video/teleconference**



**Item 11 – Rate Adjustment System – Preliminary Draft Rate Adjustment**

# Public Comments

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# Item 11 – Rate Adjustment System – Introduction

## Overview

At the September 22, 2022, CAC meeting, Staff introduced a conceptual rate adjustment framework. Staff is seeking CAC feedback on the preliminary draft rate adjustment policy.

The draft policy provides a framework to make timely, within-year customer rate changes within Board approved parameters, to reflect external cost variations outside VCE's direct control.

### **This informational presentation will provide:**

- Background & Introduction of Preliminary Draft Rate Adjustment Policy
- Summary and proposed next steps
- Discussion & Feedback



# Item 11 – Rate Adjustment System – Introduction

## Background

The rate adjustment system was presented to the CAC on September 22, 2022.

- A Rate Adjustment System “RAS” is a common administrative tool for Load Serving Entities (IOU’s, POU’s, CCA’s) to adjust customer rates within defined parameters to more timely and accurately adapt to cost impacts outside the LSE’s control.
- A “RAS” for VCE would align with Strategic Plan goals and policies:

### C. BUDGET REQUIREMENTS

1. The adopted final adjusted budgets must be balanced. Expenditures cannot be greater than the total anticipated unrestricted revenues and use of unrestricted net position.

**Policy:** VCE will set customer rates to collect sufficient revenue from participating customers to fully fund VCE’s budget and establish sufficient operating reserve funds.

**Budget Policy**

**Reserve Policy**

**Rates Policy**

**Strategic Plan**

VCEA will initially build a reserve fund of 30 days operating expenses. Once this is funded, VCEA will begin paying off debt and building cash reserves to meet a 90-day operating reserve level.

Rates, Power Portfolio Resource mix, and Operating Budget will be adjusted as needed to meet VCEA’s target reserves schedule.

**Goal 1: Maintain and grow a strong financial foundation and manage costs to achieve long-term organizational health.**

- 1.1. Objective: Maintain consistently healthy cash reserves to fund VCE’s mission, vision, and goals.
- 1.2. Objective: Achieve an investment grade credit rating by end of 2024.
- 1.3. Objective: Commit to fiscal efficiencies to build a program foundation from which to deliver customer and community value.
- 1.4. Objective: Manage customer rates to optimize VCE’s financial health while maintaining rate competitiveness with PG&E.

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## **Draft Rate Adjustment Policy - Summary**

- The preliminary draft Policy includes the Purpose, Principles, Process, Authorizations, Control and Accountability, and Administration.

## **Key Draft Rate Adjustment Policy features:**

- Rates are reviewed annually by the VCE Board as part of the annual budget process.
- Board approved parameters set the within-year rate adjustment bounds.
- Within-year rate adjustments are limited to energy supply cost and regulatory variability.
- Rate adjustments require approval by the VCE's Energy Risk Oversight Committee (EROC) before implementation.
- Any with-in year rate adjustment(s) will be reported to the Board at its next regularly scheduled meeting.

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## Draft Rate Adjustment Policy - Purpose

The Rate Adjustment Policy provides a framework to make timely within-year customer rate changes, subject to Board approved parameters. Specifically, within-year rate adjustments made under this policy are limited to material financial changes related to the following:

- (1) market energy supply costs, and/or
- (2) regulatory decisions that impact VCE's costs or revenues.

Under this policy, all within-year rate changes are vetted through VCE's Enterprise Risk Oversight Committee (EROC) and reported to the Board at the next meeting following implementation.

## Draft Rate Adjustment Policy – Principles

- Link to annual budget and multi-year forecast - operating costs and cash reserve fund targets
- Regularly examine Financial Operating Results - Budget variances
- Reserves - VCE's Financial Reserve Policy and budgeted targets.

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## Draft Rate Adjustment Policy – Adjustment Categories

### Energy Cost Adjustments

- Power costs including renewable resources, energy and energy hedges, resource adequacy, capacity products, and demand side management (DSM) costs, including revenue losses, not otherwise included in VCE's retail generation rates.

### Regulatory Adjustments

- These adjustments are intended to recover and adjust VCE revenues to remain within Board authorized revenue requirements/total bundled rate discounts/ premiums when VCE's finances are materially impacted by CPUC or other regulatory body decisions.
- Regulatory Adjustments typically include Power Charge Indifference Adjustment (PCIA), PG&E retail rates, balancing account charges, and/or other PG&E and/or regulatory body related actions that directly impact VCE's customer rates.
- These adjustments may also include other regulatory financial requirements required and approved by CPUC or other regulatory bodies that have a material effect on VCE's cost/revenue structure.

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## Draft Rate Adjustment Policy - Approval/Oversight

- Director of Finance and Internal Operations
  - Timely reporting to the Executive Officer and EROC
    - Reporting and Analysis - all revenue and energy cost projections for accuracy, content, and compliance with the previously determined priorities and policies.
- Within-year customer rate adjustments shall be reviewed and approved by the EROC.
- The Board shall receive a report of any within-year rate adjustments at its next scheduled meeting.
- The net cumulative within-year customer rate adjustments shall be reported as part of the Board's annual operating budget and rates adoption process.
- Staff shall develop and maintain procedures for internal control and accountability of the Rate Adjustment Policy.
- The Board must approve any amendments to this Policy



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## Rate Adjustment Policy - Authorizations

Type of Rate Adjustment	Authorized Adjustments
Energy Cost Adjustments	Customer rate adjustments related to Energy Cost shall be calculated no more than once per month. Such individual adjustment shall not result in more than a 7.5% increase/decrease to VCE's weighted average total generation rate.
Regulatory Adjustments	<p>Customer rate adjustments related to Regulatory actions shall be calculated throughout the year as warranted following actions by regulatory bodies and/or PG&amp;E, which result in material changes to VCE Board authorized rate discounts/premiums or VCE revenue levels.</p> <p>VCE intends to calculate and implement any such Regulatory Adjustments within 90 days following PG&amp;E's implementation of such actions. The timing, frequency, and financial impact of regulatory body (e.g. CPUC) and PG&amp;E actions that may affect the Regulatory Adjustments are not typically known in advance and may occur multiple times during any given year.</p>
Annual Cumulative Limit	The net annual cumulative limit for within-year customer rate adjustments authorized under this policy is a total of 15%. The Board may modify this limit.

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## Rate Adjustment Policy – Energy Cost Adjustment (ECA) Example

### Power Cost Increase by \$5M

- Wholesale power supply costs increase by \$5.0 million (\$90.0 million to \$95.0 million)
- VCE's pre-adjustment total average generation rate was \$0.13109 / kWh.

#### ECA Calculation:

$$\text{ECA} = \frac{(\$5,000,000) + (0) + (0) + (0)}{(686,550,000 \text{ kWh})} = \$0.00800 / \text{kWh}$$

Test 1: Is the ECA  $\geq$  2% of VCE's average generation rate? Yes, + 6.1% change.

Test 2: Is the ECA  $<$  10.0% of VCE's average generation rate? Yes, + 6.1% change.

Note: in this instance the Base Green product average generation rate and monthly bills do not change for either conventional or CARE/FERA Base Green customers due to the Base Green's fixed (0.5%) discount to PG&E on compared average total bill basis.

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## Rate Adjustment Policy – Energy Cost Adjustment (ECA) Example

### Pre- and Post Load Share, Generation Rate, Total Bill and Revenue Share

Customer Product Class	Pre&Post ECA Load (MWh)	Pre ECA Genr. Rate \$/kWh	Pre ECA Rev Share \$	Post ECA Genr. Rate \$/kWh	Post ECA Rev Share \$	Pre ECA Average Mo Bill	Post ECA Average Mo Bill	Change in Mo Bill	% Change Mo Bill
Base Green	34,328	\$0.12851	\$4,411,334	\$0.12851	\$4,411,334	\$174.84	\$174.84	\$0.00	0.0%
Base Green, CARE/FERA	27,462	\$0.12851	\$3,529,067	\$0.12851	\$3,529,067	\$174.84	\$174.84	\$0.00	0.0%
Standard Green	583,568	\$0.13090	\$76,071,921	\$0.13836	\$80,742,250	\$176.07	\$179.90	\$3.83	2.2%
Ultra Green	41,193	\$0.14590	\$5,987,678	\$0.15336	\$6,317,348	\$183.77	\$187.59	\$3.83	2.1%
Total or Avg	686,550	\$0.13109	\$90,000,000	\$0.13837	\$95,000,000	\$176.42	\$179.91	\$3.48	2.0%

- The ECA is applied to Standard and Ultra Green customer generation charges only
- ~2% increase to average total monthly bills.
- VCE's average generation rate increases from \$0.13109 to \$0.13837 per kWh
- overall average customer monthly bill increases by \$3.48

# Item 11 – Rate Adjustment System – Introduction

## Updated Schedule

- October 2022 – Receive additional CAC feedback on the Draft Customer Rate Adjustment System policy (**CURRENT**)
- November 2022 – Return to the CAC for recommendation on the proposed Rate Adjustment System policy
- December 2022 – Rate Adjustment System for 2023
  - Present Draft Proposed Customer Rate Adjustment System policy for consideration (2023 Implementation)
  - If approved, consolidate with 2023 Budget & Rates Adoption

## Summary & Discussion

Staff is seeking additional feedback from the CAC on the draft Rate Adjustment System policy.

Next Update in November will include:

- Incorporate initial feedback from our discussion
- Proposed Rate Adjustment System Policy for recommendation