

VALLEY CLEAN ENERGY ALLIANCE**Staff Report – Item 11**

TO: Community Advisory Committee

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

SUBJECT: Rate Adjustment System – Draft Policy

DATE: November 17, 2022

RECOMMENDATION

Recommend that the VCE Board of Directors approve the following:

1. Adopt the Draft - Rate Adjustment Policy including the following key elements:
 - a. Customer rate adjustments shall be calculated no more than once per month;
 - b. Such monthly adjustment shall not result in more than a 7.5% increase/decrease to VCE's weighted average total generation rate;
 - c. The net annual cumulative limit for within-year customer rate adjustments authorized under this policy is a total of 15% unless modified by the Board;
 - d. Rates are reviewed annually by VCE Board as part of the annual budget process.

OVERVIEW

The purpose of this report is to seek additional Community Advisory Committee (CAC) input and a recommendation to the Board on the draft rate adjustment policy. The draft policy provides a framework to make timely within-year customer rate changes, within Board approved parameters, to adjust to external cost factors outside VCE's direct control.

At the October 27, 2022, CAC meeting, Staff presented the draft rate adjustment policy following up from the initial introduction of the framework in September. For reference, please see the prior Staff reports to the CAC located here for [September](#) and [October](#).

BACKGROUND/ANALYSIS

As discussed in past staff reports, VCE has seen high volatility in the energy sector and overall economy, primarily driven by the uncertainty during the COVID-19 pandemic, international energy market turmoil, and weather impacts. As part of evaluating options to address external cost factors outside VCE's direct control related to energy cost adjustments and regulatory adjustments, VCE Staff has drafted a Rate Adjustment Policy similar to other Load Serving Entities (LSEs). The draft policy is designed to help address factors influencing reserves accumulation, rate stability, establishing a credit rating, and expanding longer-term power purchase agreements.

Over the past four years, VCE has analyzed policy options and implemented strategies to stabilize customer rates, reduce/control costs, and manage reserves while continuing to offer customer choice, competitive pricing, and establishment of local programs. The impact of external events (e.g. Ukraine conflict, droughts, heat waves/storms) causing power cost increases have unfortunately, in some cases, outpaced VCE's cost containment efforts. These recent events and factors have reinforced the value of having a rate adjustment policy to modify rates within a budget year to adjust to external conditions. These general categories of impacts that might trigger consideration of a rate adjustment (up or down), include:

- Price shocks are quite common in the power business (e.g. September Heat Storm presented in [Item 16](#) to the Board on October 13, 2022); ability of VCE to utilize reserves to absorb these types of impacts.
- VCE has an obligation to serve and obligation to pay such added cost for heat waves/storms, drought years, system failures, etc.
- Aligning more closely the "cost event(s)" with the customer's consumption of energy.
- Unlike IOUs, VCE does not have guaranteed "cost recovery" with associated balancing accounts to deposit/collect added costs in the following year.
- PG&E rates / PCIA / regulatory mandates are generally unpredictable in magnitude and timing.
- Rate Adjustment System tempers the annual rate adjustment requirements (e.g. less of a one-time price shock at a single point in the year).

Note: This type of rate adjustment system is a recommended standard from lending institutions and credit rating agencies and is consistent within the utility industry, including CCAs.

Draft Rate Adjustment Policy Summary

As presented in October to the CAC, the attached draft Rate Adjustment Policy provides a framework to make within-year customer rate modifications in a timely manner and accurately reflect external cost factors outside VCE's direct control. Specifically, mid-year rate adjustments that may be made under this draft policy would be limited to material financial changes related to the following:

- Market energy supply costs, and/or
- Regulatory decisions that impact VCE's costs or revenues.

Key policy features include:

- Rates are **reviewed annually** by the VCE Board as part of the annual budget Adoption.
- Board **approved parameters** set the total rate adjustments that can be implemented, including an annual limit.
- Within-Year Rate **adjustments are limited** to Energy Cost Adjustments and Regulatory Adjustments.
- Rate Adjustments are not automatic and **require approval** by VCE's Energy Risk Oversight Committee (EROC) before implementation within the Board defined parameters.
- **Accountability and reporting** to the Board describing any implemented rate adjustment would be provided to the Board at its next regularly scheduled meeting.

Draft Rate Adjustment Policy Authorizations include the following:

Type of Rate Adjustment	Authorized Adjustments
Energy Cost Adjustments	Energy Cost related rate adjustments under this policy may be implemented throughout the year but 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>Regulatory cost related rate adjustments under this policy may be implemented throughout the year as warranted following actions by regulatory bodies and/or PG&E, which result in material changes to VCE Board authorized rate discounts/premiums or VCE revenue levels. Such individual rate adjustments shall be limited to no more than one per month. Such individual adjustment shall not result in more than a 7.5% increase/decrease to VCE's weighted average total generation rate.</p> <p>VCE intends to calculate and implement any such Regulatory Adjustment within 90 days following PG&E's implementation of such actions. The timing, frequency, and financial impact of regulatory body (e.g. CPUC) and PG&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.

CAC Consideration

The attached draft rate adjustment policy incorporates feedback from the CAC received in October. Key modifications include:

- Replacing the use of “mid-year” adjustments to “within year” – Rate Adjustments shall be no more than once per month
- Removed the reference related net impact to income or cash reserves.
- Cost basis for adjustments are amortized over a rolling 12 month basis.

Staff understand the significant importance of rate adjustments for customers and customer participation. If the Board ultimately approves the Rate Adjustment Policy, staff will develop and maintain an associated internal procedure that incorporates a communications and outreach strategy pre and post implementation that would include feedback from the CAC marketing and outreach task group. VCE would survey other CCA's with similar rate adjustment policies to help guide development of its own approach to outreach.

Staff is seeking additional feedback and recommendation from the CAC on the attached Draft Rate Adjustment policy. As shown in the proposed timeline below, CAC feedback will help inform the final draft rate adjustment policy that will be presented to the Board for consideration/adoption in December.

Updated timeline

The Board approved the basic timeline below at its September meeting:

- November 2022 – Return to the CAC for recommendation on the proposed Rate Adjustment System policy (**CURRENT**)
- 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

Staff will be providing additional detail in its informational presentation at the meeting, including several scenarios of rate impacts based on the draft Rate Adjustment System policy.

CONCLUSION/NEXT STEPS

Overall, based on the best available information, staff believes its recommendation for VCE's Rate Adjustment Policy is fiscally prudent and connects key fundamentals from VCE's Budget Policy, Rates policy, Reserve policy, and 2021-2023 Strategic Plan. If adopted by the Board, the draft policy would go into effect in early 2023.

ATTACHMENT

1. Draft - VCE Rate Adjustment Policy (Redlined)



VALLEY
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Valley Clean Energy Alliance
Rate Adjustment Policy

DRAFT

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A. PURPOSE

The Board of Directors of Valley Clean Energy Alliance (VCE) is responsible for setting customer rates to collect sufficient revenue from participating customers to fully fund VCE's budget and establish sufficient operating reserve funds as defined in the VCE Rate Policy. The Board typically considers customer rate setting at the beginning of each [budget](#) year. Due to volatility in energy markets and the unpredictability of regulatory actions, additional flexibility to make limited adjustments to customer rates on a more frequent basis to recover costs is a sound business practice – one adopted by many Load Serving Entities (LSEs).

The Rate Adjustment Policy provides a framework to make timely [midwithin budget](#) year customer rate changes, within Board approved parameters, to adjust to external cost factors outside VCE's direct control. Specifically, [midwithin budget](#) year rate adjustments made under this policy are limited to material financial changes resulting from either (1) market energy costs or (2) regulatory decisions that impact VCE's costs or revenues. Under this policy, all [midwithin budget](#) year customer rate changes are vetted through VCE's Enterprise Risk Oversight Committee (EROC) [prior to implementation](#) and reported to the Board at the next meeting following implementation.

B. PRINCIPLES

The following principles guide customer rate adjustment decisions under this policy:

1. [Link to annual budget and multi-year forecast](#) - Customer rates shall be set to fully fund operating costs and cash reserve fund targets consistent with multi-year forecasts.
2. [Regularly examine Financial Operating Results](#) - Budget variances will be monitored throughout the fiscal year for impacts on annual budgets and multi-year forecast results.
3. [Reserves](#) - Customer Rates shall fund reserves consistent with VCE's Financial Reserve Policy and budgeted targets.

C. PROCESS

The Director of Finance and Internal Operations ([Director](#)) will monitor and review unaudited operating budget variances and decisions/proposed decisions by California Public Utilities Commission (CPUC) and other regulatory bodies for impacts [greater than 5%](#) to net income or cash reserves compared to the adopted budget. If a [5% or greater](#) net impact to income or cash reserves is observed or forecast, the Director will initiate a [midwithin budget](#) year rate adjustment assessment based on the following factors:

1. Unless otherwise directed by the Board, [midwithin Budget](#) year rate adjustments will only be considered to address two categories of external cost factors outside VCE's direct control: (1) Energy Cost Adjustments and (2) Regulatory Adjustments, where:
 - a. Energy Cost Adjustments – These adjustments are intended to recover the power costs, including renewable resources, energy and energy hedges, resource adequacy and capacity products, and demand side management (DSM) costs, including revenue losses,

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not otherwise included in VCE's retail generation rates.

- b. 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.
2. Customer rate adjustments shall be consistent with the Authorizations in Section D below. The cumulative mid-within budget year customer rate adjustments approved under this Policy in any fiscal year may not exceed the Authorizations in Section D below.
 3. Any given adjustment may result in an upward or downward impact on VCE generation rates given the particular impacts of any one or combination of factors related to Energy Cost Adjustments and/or Regulatory Adjustments.
 4. Implementation of a mid-within budget year rate adjustment will maintain the current Base Green product discount and the relative revenue requirement contributions of VCE's Standard Green and Ultra Green customer classes.
 5. CARE/FERA and other eligible VCE low-income customers subscribing to VCE's Base Green product shall be charged the lower of VCE's Standard Green and-or Base Green generation rate, in the instance when VCE's Standard Green generation rate may be less than VCE's Base Green generation rate following a given rate adjustment.
 6. The particulars of rate design, existing PG&E rate schedules, and customer class and consumption characteristics, actual discounts / premiums / rates experienced by any particular customer or customer class may vary from overall weighted averages.

Approval/Oversight

7. Director of Finance and Internal Operations shall provide timely reporting and analysis to the Executive Officer and EROC analysis of all revenue and energy cost projections for accuracy, content, and compliance with the previously determined priorities and policies.
8. Mid-Within budget year customer rate adjustments shall be reviewed and approved by the EROC.
9. The Director shall prepare an informational report to the board of any mid-within budget year rate adjustments at the next scheduled Board meeting. The cumulative mid-within budget year customer rate adjustments shall be reported as part of the Board's annual operating budget and rates adoption process.
10. Staff shall develop and maintain procedures for internal control and accountability of the Rate Adjustment Policy.

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D. AUTHORIZATIONS

VCE Customer rates adopted by the Board of Directors may be amended during the [budget](#) year within the parameters listed below:

Type of Rate Adjustment	Authorized Adjustments
Energy Cost Adjustments	Energy Cost related rate adjustments under this policy may be implemented throughout the year but 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>Regulatory cost related rate adjustments under this policy may be implemented throughout the year as warranted following actions by regulatory bodies and/or PG&E, which result in material changes to VCE Board authorized rate discounts/premiums or VCE revenue levels. Such individual rate adjustments shall be limited to no more than one per month. Such individual adjustment shall not result in more than a 7.5% increase/decrease to VCE's weighted average total generation rate.</p> <p>VCE intends to calculate and implement any such Regulatory Adjustment within 90 days following PG&E's implementation of such actions. The timing, frequency, and financial impact of regulatory body (e.g. CPUC) and PG&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.

E. CONTROL & ACCOUNTABILITY

An information report describing any implemented [mid-within budget](#) year rate adjustment authorized under this policy will be provided to the Board at the next regularly scheduled Board Meeting following implementation of the rate adjustment.

F. POLICY ADMINISTRATION

The Board must approve amendments to this Policy.