TO: Valley Clean Energy Alliance Board of Directors
FROM: Mitch Sears, Interim General Manager
        Lisa Limcaco, Director of Finance & Internal Operations
SUBJECT: Approval of VCE’s New Rate Structure and Dividend Program Guidelines and
         Amendment 11 to Task Order 2 (Data Management and Call Center Services) of
         the SMUD Professional Services Agreement
DATE: June 17, 2019

RECOMMENDATION
Adopt a resolution:
   1. Approving the establishment and implementation of VCE’s New Rate Structure and
      Dividend Program Guidelines, effective July 1, 2019.
   2. Authorizing the Interim General Manager to sign Amendment 11 to Task Order 2
      (Data Management and Call Center Services) of the Sacramento Municipal Utility
      District Professional Services Agreement

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

Initially VCE’s rate structure provided customers with a pre-determined, up front rate discount
relative to PG&E service. An alternative presented by Staff to the Board in late 2018 was to
consider setting identical rates to that of PG&E and 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. This is a similar rate structure currently employed by
Monterey Bay Community Power (MBCP). The Board provided direction to staff to explore the
dividend rate structure alternative.

Community Advisory Committee Review/Recommendation
In January 2019, staff recommended that the Community Advisory Committee (CAC) create a
task group to collaborate with staff to develop a new rate structure and dividend program for
VCE’s 2020 fiscal year. The CAC created a Rates and Services Task Group that would review
rate, service and program projects that includes collaboration with staff in developing this Dividend program. Staff presented a draft Dividend program to the CAC for consideration at their February 28th meeting. The CAC provided their feedback and suggestions which were incorporated in the draft Dividend program presented to the Board of Directors at their March 14th meeting. At the April 25th CAC meeting, the Committee approved the Rates and Services Task Group recommendation to approve the Dividend Guidelines with the addition that dividends should not be paid out until the enrollment process for the legacy NEM accounts (accounts with solar installations prior to June 2018) in the VCE service area has begun.

ANALYSIS & DISCUSSION
Key considerations identified by staff in analyzing a move to a dividend rate structure included:

- Rate design impacts on customer opt-outs
- Trigger for payment of customer dividend – minimum net margin
- Impact on financial stability of VCE
- Allocation of revenue to reserves, dividends, and local program development/implementation
  - Short-term consideration of NEM Enrollment

Rate Design
During MBCP’s analysis, the direct correlation between rate structure (i.e. “dividend”) and opt-out rates were uncertain. MBCP concluded that rate structure factors were not the major driver of customer opt-outs based on feedback from customers who chose to opt out of the CCA. A super majority of MBCP’s customers who opted out cited dissatisfaction with being automatically switched from PG&E without their consent and that neither the lower price nor sourcing of cleaner energy seemed to affect that decision. Similarly, a majority of VCE customers that chose to opt out cited dislike of being automatically enrolled into VCE as the reason for their decision.

By setting rates that generally match PG&E, VCE can shift the focus from rate comparisons and rate design to the goals that define the reasons VCE was established in the first place. Namely, cleaner energy 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.

Financial Stability
Minimum Net Margin
Net margin is the percentage of revenue left after all expenses have been deducted from sales. The measurement reveals the amount of net income that a business can derive from its total sales and is intended to be a measure of the overall success of a business. Net margins vary greatly across different industries and sectors. Based on Staff research, the Electric Utility industry average net margin for 2017 ranged from 8%-10%. VCE is one of the smaller CCAs with a smaller customer base than other CCAs. Thus, VCE will require higher margins to cover its costs and still build reserves to offer local programs and customer incentives. Therefore, staff believes that VCE should maintain a minimum net margin (after any bank debt principal payment) of 5% before Board consideration of customer dividends.
Cash Reserves
VCE needs sufficient funds to provide for operating capital reserves, rate stabilization, and sufficient credit to support long-term investments in renewable resources. It is prudent business practice to build up reserves that target a level of 90 days cash. In November 2018, the Board approved a reserve policy to build toward a 90-day cash level reserve within the next 4 years.

The speed at which reserves are accumulated is very important. The Board has provided direction in the reserve policy that VCE should dedicate the majority of operating surplus in the early years to reserves. Under the Dividend program, gradually, the portion of the surplus dedicated to reserves should be reduced until the target reserve is met; then, the allocation of the surplus would be dedicated to custom local programs and customer dividends. In addition, staff is recommending that the portion of the surplus dedicated to cash reserves would be determined annually by the Board of Directors.

Local Programs
Consistent with VCE’s adopted Mission, VCE is working to establish its own portfolio of programs that will be designed specifically for local customers to help further reduce energy use and GHGs associated with transportation and other sectors of the local economy. Based on Board direction, VCE currently allocates a minimum of 1% of net margin to a local programs reserve. Under the dividend program, in lieu of this allocation, any surplus above the 5% minimum net margin would be allocated between the local programs reserve and customer dividends at a percentage determined annually by the Board of Directors.

Customer Dividends (Bill Credits)
CCA are community oriented public power programs and are 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 fiscal year as a bill credit if the organization is in a strong, stable financial position. Under the recommended VCE dividend program, any surplus above the 5% minimum annual net margin would be allocated between internal reserves, local program reserves and customer dividends at a percentage determined annually by the Board of Directors. As recommended, customer dividends would not be paid out until the enrollment process for the legacy NEM accounts (accounts with solar installations prior to June 2018) in the VCE service area has begun.

As the VCE fiscal year is July to June, the dividends would be calculated based on the audited financial statements and would be announced in September and credited annually in October. Customers will have an option to apply their dividend to the Local Program reserve. By allocating the dividend or credit annually, VCE would be able to pay out on a “performance basis,” and build customer satisfaction and loyalty as well. Note: non-residential customers would receive two installments of their dividend credit – once in October and once in April.

SMUD TASK PROPOSAL
SMUD’s Task Proposal - Amendment 11 to SMUD agreement Task Order 2 (data management and call center services) is for the development of the technology enhancement to support
VCE’s annual dividend program. With this enhancement, VCE will be able to provide residential customers their dividend payment on their October bill and non-residential customers 50% of their dividend payment in October, 50% the following April. The enhancement will be in place by the end of VCE’s fiscal year in 2020.

The fixed fee for this scope of work is $75,000 and is budgeted in the operating budget for fiscal year 2019/2020. The term of this task is estimated to be twelve (12) months to develop and implement the technical enhancement. The ongoing operation of the dividend program is included in the services defined in Task Order 2: Data Management and Customer Call Center Services.

**CONCLUSION**

Staff believes that a well-designed dividend rate structure can help VCE improve financial stability while building customer trust and loyalty. Based on Board feedback and direction, staff recommends that the Board approve the attached New Rate Structure and Dividend Program Guidelines and authorize the Interim General Manager to approve and sign Amendment 11 to Task Order 2 (Data Management and Call Center Services) in substantially the same form as attached.

**ATTACHMENTS**

1. VCE New Rate Structure and Dividend Program Guidelines
2. Amendment 11 to Task Order 2 (Data Management and Call Center Services)
Valley Clean Energy Alliance

New Rate Structure and Dividend Program Guidelines

**Purpose:** VCE is setting a new rate structure and dividend program to help VCE improve financial stability and maintain focus on its primary goals: a cleaner environment, meeting the members’ climate action goals, building agency reserves, offering custom tailored programs, and awarding customers for their loyalty and trust.

**Program Guidelines:**

- Match PG&E electric generation rates less PCIA exit fee
- Require a minimum 5% annual net margin (less principal debt payments) before any dividends are paid to VCE customers
- Require the enrollment process for the legacy NEM accounts (accounts with solar installation prior to June 2018) in the VCE service area has begun before any dividends are paid to VCE customers
- Annually based on the audited financial statements:
  - Calculate the Annual Net margin less principal debt payments
  - If Annual Net margin < 5% - no customer dividends and Board determine allocation of net margin to Cash reserves and Local Program reserves
  - If Annual Net margin > 5% - Board determine allocation of any surplus (over 5%) to Cash reserves, Local Program reserves and Customer Dividends

**Guidelines of Allocation of Annual Net Margin**

- **Annual Net Margin <= 5%**
  - Up to 95% to Cash Reserves (Until 90-days of cash reserves met)
  - At least 5% to Local Program Reserves
- **Annual Net Margin > 5%**
  - Follow guidelines for Annual Net Margin up to 5%
  - Annual Net margin in excess of 5%:
    - At least 50% to Cash Reserves (Until 90-days cash reserves met)
    - Remaining excess allocated between Cash Dividends and Local Programs Reserve at the discretion of the Board annually

Adopted: _____________________
• Board approves allocation of Annual Net Margin on or around the September Board meeting

• Any surplus allocation to customer dividends will appear as bill credits or the customer may have the option to apply their dividend to the Local Program Reserve. Any customer dividends will appear as bill credits as follows:

  • Residential customers – annually in October bill
  • Non-residential customers – bi-annually in October and April bills
AMENDMENT 11 TO EXHIBIT A: Scope of Services

A.4 Task Order 2 – Data Management and Customer Call Center Services

SMUD and VCEA agree to the following services, terms, and conditions described in this Amendment 11 to Exhibit A, Task Order No. 2 (Amendment 11), the provisions of which are subject to the terms and conditions of the Master Professional Services Agreement (Agreement) between the Parties. If any specific provisions of this Amendment 11 conflict with any general provisions in the Agreement or Task Order 2, the provisions of this Amendment 11, shall take precedence. Capitalized terms used in this Amendment which are not defined in this Amendment will have the respective meanings ascribed to them in the Agreement or a previous Amendment thereof.

The Effective Date of this Amendment 11 is the date of last signature below.

1. **Section 1, SCOPE OF WORK, is amended to include Sections 1.9 below:**

"1.9 ANNUAL DIVIDEND PROGRAM IMPLEMENTATION"

SMUD will implement a technology solution to support VCE’s dividend policy.

1.9.1 If a dividend is earned, a bill credit will be applied annually on the October bill for residential customers and applied in two payments of 50% each on the October and April bills for non-residential customers.

1.9.2 The bill line item will state “Your VCE dividend is $#.##”.

1.9.3 The dividend value will be provided by VCE to SMUD as percentage multiplier to apply to payments received during VCE’s fiscal year, defined as July 1 through June 30, regardless of the associated bill periods. VCE will provide the dividend percentage no later than September 20. The bill credit amounts will be calculated and staged in the billing system for application to the appropriate bills:

- 100% in October for residential customers
- 50% in October and 50% in April for non-residential customers.

1.9.4 Credits are only applied for DA_XREFs that are still active as of defined dividend month(s). Customers who move out or opt out prior to the dividend months will not receive that portion of their dividend payment.

1.9.5 The dividend floor will be configurable but set by default to $0.00. If VCE chooses to set a floor greater than $0.00, the floor value must be provided to SMUD no later than September 20. There will be no negative dividend for NEM customers.

1.9.6 The dividend amount will only be applied to the dividend payment month bills. A running balance will not be maintained for application to future bills if the dividend amount exceeds the bill amount.

1.9.7 Dividends will show in accounting reports when applied to the bill (when usage data is received from PG&E), not when they are staged in the billing system. Therefore, dividend amounts that are calculated but never applied, due to a move out or opt out, will not show on accounting reports.

1.9.8 Customers with no payment remitted to VCE will receive no dividend.

1.9.9 NEM customers receive no special treatment. Customers with an annual net payment
remitted to VCE will receive a dividend. Customers with no payment remitted will not receive a dividend. Their benefit will be from the retail and wholesale $0.01 adders.

Deliverables and Due Dates

The schedule for the implementation of the Annual Dividend Program is estimated to be twelve (12) months, and includes the following milestones and due dates:

<table>
<thead>
<tr>
<th>Milestone</th>
<th>Responsible Party</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development complete</td>
<td>SMUD</td>
<td>June 12, 2020</td>
</tr>
<tr>
<td>User testing complete</td>
<td>SMUD</td>
<td>June 26, 2020</td>
</tr>
<tr>
<td>Enhancement release date</td>
<td>SMUD</td>
<td>June 30, 2020</td>
</tr>
<tr>
<td>Provide dividend amount and floor to SMUD</td>
<td>VCE</td>
<td>September 20, 2020</td>
</tr>
<tr>
<td>Dividends begin appearing on customer bills</td>
<td>SMUD</td>
<td>October 1, 2020</td>
</tr>
</tbody>
</table>

Section 4, COMPENSATION FOR SERVICES is amended to add Section 4.5, *Annual Dividend Program Implementation*, as follows:

“The fixed fee for the Annual Dividend Program Implementation is $75,000. Ongoing support of the Annual Dividend Program is included in the fixed fee for Data Management and Call Center Services as described in Section 4.1 of this Task Order 2.”

Section 5, PAYMENT TERMS, is amended to add the following.

“SMUD will invoice the fixed fee for the Annual Dividend Program Implementation upon completion, and payment will be due net thirty (30) days from date of the invoice.”

[Signature Page follows]
SIGNATURES

The Parties have executed this Amendment 11, and it is effective as of the date of last signature below.

**Valley Clean Energy Alliance**

By: ________________________________

Name: ________________________________

Title: ________________________________

Date: ________________________________

**Sacramento Municipal Utility District**

By: ________________________________

Name: ________________________________

Title: ________________________________

Date: ________________________________

Approved as to Form: ________________________________
RESOLUTION NO. _______

A RESOLUTION OF THE VALLEY CLEAN ENERGY ALLIANCE ADOPTING A NEW RATE STRUCTURE AND DIVIDEND PROGRAM GUIDELINES AND APPROVING AMENDMENT 11 TO TASK ORDER 2 (DATA MANAGEMENT AND CALL CENTER SERVICES) TO THE SACRAMENTO MUNICIPAL UTILITIES DISTRICT PROFESSIONAL SERVICES AGREEMENT

WHEREAS, the Valley Clean Energy Alliance (“VCEA”) is a joint powers agency established under the Joint Exercise of Powers Act of the State of California (Government Code Section 6500 et seq.) (“Act”), and pursuant to a Joint Exercise of Powers Agreement Relating to and Creating the Valley Clean Energy Alliance between the County of Yolo (“County”), the City of Davis (“Davis”), and the City of Woodland (“City”) (the “JPA Agreement”), to collectively study, promote, develop, conduct, operate, and manage energy programs; and

WHEREAS, initially VCEA’s rate structure provided customers with a pre-determined, up front rate discount relative to PG&E service; and

WHEREAS, an alternative would be to generally match PG&E rates and move from a monthly fixed rate discount structure to an annual dividend rate structure; and

WHEREAS, the New Rate Structure and Dividend Program Guidelines will help VCEA improve financial stability and maintain focus on its primary goals: a cleaner environment, meeting the members’ climate action goals, building agency reserves, offering custom tailored programs and awarding customers for their loyalty and trust.

WHEREAS, on August 31, 2017, the VCEA Board considered a proposal by the Sacramento Municipal Utilities District (“SMUD”) to provide program launch and operational services and subsequently directed VCEA staff to negotiate a services agreement between VCEA and SMUD for consideration and action by the VCEA Board;

WHEREAS, on September 21, 2017, the SMUD Board of Directors authorized its CEO to enter into a contract with VCEA to provide CCA support services;

WHEREAS, on October 12, 2017 the VCEA Board approved the Master Professional Services Agreement and Task Order 1 and Task Order 2 to provide program launch and operational services consistent with the SMUD proposal and VCEA Board direction;

WHEREAS, on April 11, 2019 the VCEA Board approved Amendment 10 to Task Order 2 (data management and call center services) adding detail to SMUD’s invoicing methodologies in the Compensation for Services section; and,
NOW, THEREFORE, the Board of Directors of the Valley Clean Energy Alliance resolves as follows:

1. Adoption of the New Rate Structure and Dividend Program Guidelines, effective July 1, 2019 (Exhibit A).

2. Authorizes VCEA Interim General Manager to approve and execute Amendment 11 to Task Order 2 (Data Management and Call Center Services) for the development of the technology enhancement to support VCE’s annual dividend program.

PASSED, APPROVED AND ADOPTED at a regular meeting of the Valley Clean Energy Alliance, held on the ____ day of __________, 2019, by the following vote:

AYES: __________________________
NOES: __________________________
ABSENT: _________________________
ABSTAIN: _________________________

ATTEST: __________________________

Tom Stallard, VCEA Chair
Alisa M. Lembke, VCEA Secretary

EXHIBIT A – New Rate Structure and Dividend Program Guidelines
EXHIBIT B - Amendment 11 to SMUD Master Professional Services Agreement Task Order 2
EXHIBIT A

New Rate Structure and Dividend Program Guidelines
EXHIBIT B

Amendment 11 to SMUD Master Professional Services Agreement Task Order 2