VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 7

TO:	Community Advisory Committee
FROM:	Mitch Sears, Interim General Manager Edward Burnham, Director of Finance & Internal Operations
SUBJECT:	Updated Cost-Based Rate Setting for 2022
DATE:	January 20, 2022

RECOMMENDATIONS

Revise the November 2021 CAC recommendation to recommend that the VCE Board of Directors approve the following:

1. Adopt customer rates for 2022 to match PG&E 2022 generation rates for all customer classes to cover VCE's FY 2022 budget expenditures and to achieve between 80-90 days cash reserves by the end of 2022;

2. Provide a 2.5% rate credit for CARE and FERA customers in 2022;

3. Conduct a mid-year rates review in Q2 2022 to assess rates forecast and determine the feasibility of providing additional rate credits for all customer classes during peak summer months in 2022 (June – September.)

OVERVIEW

In November the Community Advisory Committee (CAC) approved a recommendation to the VCE Board regarding 2022 customer rates. The recommendation was based on the best available information for PCIA and PG&E rates for 2022 which projected a $30M+ net position for VCE by the end of 2022. In late December updated information was provided in the CPUC proceeding that determines the 2022 PCIA and PG&E rates which results in a projected $14M net position for VCE by the end of 2022. Note: since the CPUC is likely to order PG&E to amortize its rate increase over more than one year, part of the revenue projected in November is being deferred to 2023 resulting in lower projected revenue in 2022 but somewhat greater financial stability for VCE in 2023.

The purpose of this report is to update the CAC and allow for consideration of its November recommendation in light of the new information. Note: the CPUC is scheduled to make a final decision on January 27th, and as of the writing of this report, the proposed decision has not been released by the Commission. Although it is considered highly unlikely by CalCCA and VCE staff, It is possible that the CPUC will delay its decision further into 2022.

BACKGROUND
At its November 2021 meeting the CAC considered a staff recommendation for 2022 VCE customer rates. The recommendation was based on PG&E's November update for its 2022 Power Charge Indifference Adjustment (PCIA) and Generation Rates. The PG&E filing was anticipated to be the final one before its 2022 PCIA and rates were finalized and implemented in January 2022.

In mid-December, in an unusual move, the California Public Utilities Commission (CPUC) asked PG&E to submit options to spread its 2022 rate increase of over 30% over more than the normal 12-month period. PG&E filed these options in late December resulting in a range of a 27% rate increase over 24-months to a 33% increase over the normal 12-month period. In addition, the PCIA decrease for 2022 was revised from a -75% to a -59% based on incorporation of actual vs. projected value of PG&E's energy portfolio for October and November 2021.

On November 10, 2021 the Board adopted the following update to the VCE rates policy:

> Cost-Based Rate 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.

ANALYSIS
The CPUC is scheduled to finalize 2022 bundled rates inclusive of setting PCIA and Generation rates PG&E PCIA and rates at its January 27th meeting. The updated analysis and Staff recommendation shown above is based on the adopted rate policy and the best available information as of the writing of this report. Based on information from VCE and CalCCA's Analysts, VCE has incorporated the following assumptions in its updated financial forecasts for 2022 (assuming 2022 PG&E rates/PCIA are implemented on March 1, 2022):

- PCIA: 59% reduction over 2021 PCIA
    - Nov. projection: 75% reduction
- Generation rates: 27% increase in PG&E rates (note: the full 33% rate increase will be amortized over 24 months)
    - Nov. projection: 36% increase

Staff has updated VCE's financial model with these base assumptions for 2022. Based on previous discussions with the Board and CAC, Staff has run three scenarios to help inform the CAC's consideration of rate options for 2022, including:

1. Scenario 1 (Base Case): no modifications; all revenues directed to reserves.
2. Scenario 2 (Low Income/At-Risk* Credit): 2.5% rate credit for CARE/FERA customers; all other revenues directed to reserves.
3. Scenario 3 (Low Income/At-Risk* + Credit): 3.5% rate credit for CARE/FERA customers plus 1% rate credit for other customers; all other revenues directed to reserves.

*Includes CARE/FERA and Medical Baseline customers

Table 1 below shows the results of these three scenarios. Consistent with the adopted rate policy, staff is recommending that VCE set rates for 2022 at a level that will fully fund the 2022 budget, build back reserves that have been used over the past 18 months to stabilize customer rates, and provide a level of financial relief to VCE's low-income customers. Based on the updated information, Staff is recommending that VCE establish a target of 80-90 days cash reserve by the end of 2022. This would provide two key benefits: (1) increased financial stability while taking a significant step toward establishing an investment grade credit rating, and (2) preparing for future PCIA and power market volatility.

Table 1 – January 2022 Cost/Revenue Update

	Actuals			Actual YTD Oct. 31 (4 MO) + Forecast (2	Budget Scenarios	Preliminary Forecast*		
Scenario 1	FY2019	FY2020	FY2021	FY2022	CY2022	CY2023	CY2024	CY2025
Revenue	51,035	55,249	54,657	29,136	86,050	82,150	78,150	78,550
Power Cost	38,540	41,538	54,234	29,746	66,990	52,400	47,100	48,400
Other Expenses	3,850	4,346	4,267	2,350	5,105	5,140	5,269	5,400
Net Income	8,646	9,365	(3,844)	(2,961)	13,955	24,610	25,782	24,750
Scenario 2	FY2019	FY2020	FY2021	FY2022	CY2022	CY2023	CY2024	CY2025
Revenue	51,035	55,249	54,657	29,136	85,300	81,400	77,400	77,800
Power Cost	38,540	41,538	54,234	29,746	66,990	52,400	47,100	48,400
Other Expenses	3,850	4,346	4,267	2,350	5,105	5,140	5,269	5,400
Net Income	8,646	9,365	(3,844)	(2,961)	13,205	23,860	25,032	24,000
Scenario 3	FY2019	FY2020	FY2021	FY2022	CY2022	CY2023	CY2024	CY2025
Revenue	51,035	55,249	54,657	29,136	84,925	81,025	77,025	77,425
Power Cost	38,540	41,538	54,234	29,746	66,990	52,400	47,100	48,400
Other Expenses	3,850	4,346	4,267	2,350	5,105	5,140	5,269	5,400
Net Income	8,646	9,365	(3,844)	(2,961)	12,830	23,485	24,657	23,625

* Notes: Revenues are highly subject to PG&E filings that impact generation rates and PCIA. Power costs are based of current forward market pricing that impact PPA values (cost reductions) and unhedged load costs. Red outline shows staff recommendation.

<u>CAC November Recommendation</u>

As noted, the November staff and CAC recommendations were based on information that changed. Staff is therefore recommending that the CAC revisit its November recommendation based on the updated information. For reference, the CAC November recommendation is shown below:

- *Adopt customer rates for 2022 to match PG&E 2022 generation rates for all customer classes except CARE and FERA customers to cover VCE's FY 2022 budget expenditures and to achieve 120-150 days cash reserves by the end of 2022;*
- *Adopt a 2022 rates implementing procedure including the following:*
    - a. *Provide a 5% rate discount for CARE and FERA customers in 2022;*
    - b. *Direct staff to prepare an analysis of budget including an increase to 2022 renewable portfolio content percentage and return to CAC and Board in Q1/2 2022 with recommendations.*
    - c. *Direct staff to conduct a review of the VCE Dividend Policy and potential rate discounts including but not limited to:*

i. Providing a 5% rate discount for all customer classes during peak summer months in 2022 (June – September.);
ii. Providing an additional 5% rate discount for CARE and FERA customers during peak summer months (June – September.);
iii. Allocating additional funds for community program implementation; and,

d. Return to CAC and Board in Q1/2 2022 with recommendations.

CONCLUSION
Overall, based on the best available information, staff believes its recommendation for VCE's 2022 customer rates is fiscally cautious and consistent with VCE's updated rates policy. The recommendation is designed to begin recovering reserves in 2022 with a built-in mid-year performance assessment to determine if costs/revenues are tracking with projections. Based on this mid-year assessment and financial performance, additional revenues could be allocated for customer credits.