VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 8

TO:	VCE Community Advisory Committee
FROM:	Mitch Sears, Interim General Manager
SUBJECT:	Reassessment of Solar Residential and Commercial (Net Energy Metering) Enrollment Date
DATE:	April 25, 2019

Recommendation

Staff recommends that the Community Advisory Committee:

1. Continue to support the VCE Board objective of enrolling Net Energy Metering (NEM) customers as soon as possible.
2. Continue to work with Staff to develop plans for enrollment that address the long-term benefits and costs associated with enrolling NEM customers in VCE.

Background/Analysis

In 2018 two regulatory actions by the State reduced VCE's projected revenue by more than 10%: (1) increase of the Power Charge Indifference Adjustment (PCIA) by the California Public Utilities Commission which is an exit fee from PG&E service, and (2) a forecast error by the California Energy Commission for Resource Adequacy (RA) that increased VCE's obligation to purchase this type of power by approximately 20%. Though VCE and other CCA's worked hard to address these impacts within the regulatory process, the magnitude, volatility and uncertainty associated with these costs forced the VCE Board to respond to secure VCE's financial position. In December 2018 the VCE Board made a difficult decision to eliminate rate discounts and to postpone enrollment of existing NEM customers that were scheduled to be rolled into VCE service beginning in January 2019.

As part of its discussion over several meetings leading up to and including the December 2018 meeting, the VCE Board expressed strong interest in enrolling NEM customers as soon as possible but no later than 2021. The 2021 date served as a "back stop" since that was when long-term renewable contracts would begin delivering higher renewable energy levels at lower cost than the current short-term contracts. The Board directed staff to bring the NEM enrollment strategy back for consideration in June 2019 to see if it would be possible to begin enrollment in 2020. Staff is on schedule to bring back updated financials and analysis of NEM enrollment options for Board consideration in June.

Task Group Report

In early 2019 the Committee's Task Group on Rates and Services began analyzing several rate related issues including the NEM policy. Over the past several weeks Staff has worked with the

Task Group to provide financial and general background information that helped inform the Task Group's report (Attachment 1). Following it's analysis found in the report, the Task Group offered the following recommendation for consideration by the Committee:

The Rates and Services Task Group recommends that VCE staff and the Board:

1. Recognize and acknowledge that:
   a) VCE's financial outlook has improved since the second solar enrollment deferral decision was made;
   b) VCE has financial flexibility and budgeting options to mitigate any negative financial impacts of policy changes and cost increases;
   c) Enrolling and collaborating with these future customers would enhance existing strategic benefits of local solar deployment to VCE and its member communities.

2. Take immediate steps to enroll the solar residential and commercial accounts in its service area.

Following review of the report, staff and the Task Group discussed the report. In this discussion, staff indicated that it had identified several areas of the report that it believed could benefit from additional clarification or information. It was agreed that staff would offer these comments as part of the staff report on the agenda item. The section below provides this additional information and staff perspective on the background and key points sections of the Task Group report that may be helpful as the Committee considers the Task Group and Staff recommendations. Note: Staff offers these comments not as a critique but in recognition that Staff has access to more information and resources than available to the Task Group. Additionally, many of the Staff comments below may be fully or partially acceptable to the Task Group but report deadlines prevented full consideration in advance of distribution to the Advisory Committee.

- Staff comments on the Task Group Report Background Section.
  - NEM penetration rate. Staff believes the report could expand on the opportunities and challenges associated with the current 11% NEM penetration rate in the VCE service territory and the projected growth of 1,000 new systems per year. From a NEM perspective, VCE would have one of, if not the highest adoption rates in California and is already where the rest of the state is headed in terms of NEM adoption. The enrollment of NEM customers provides VCE an opportunity to develop ways to value the GHG savings NEM customers produce while simultaneously addressing the sustainability of the current rate incentives associated with the NEM customer class. Staff believes these implications for VCE should be more fully addressed in the report and recommendations.

  - NEM enrollment delay. Staff believes that it would be helpful to clarify that the original NEM delay was based on concerns expressed by a local solar provider and solar customers that enrollment would create one-time costs for NEM customers. The VCE Board subsequently adopted a revised NEM policy that addressed this issue. Staff believes it is important to note that VCE was prepared to enroll NEM customers beginning in June 2018 but postponed the enrollment to address the potential negative financial impacts to NEM customers.

  - Elimination of rate discounts. The Background section does not reference the Board decision to also eliminate rate discounts which impacted all VCE customers. While NEM customer enrollment was delayed, all VCE customers contributed to the measures needed to strengthen VCE's financial position. Staff believes it is important for readers of the report to understand this context.

  - Additional clarification on the timing of NEM enrollment. The Background section could also offer additional clarification on the timing of when NEM customers may be enrolled. As the report notes, the second delay of NEM customer enrollment was impacted by regulatory decisions outside the control of VCE. It further notes that no specific enrollment date has been provided to existing NEM customers. Staff believes it is important to clarify that two primary drivers led the VCE Board to identify a date range for NEM enrollment (not earlier than 2020 but not later than 2021), rather than a specific date: (1) regulatory/2019 rate uncertainty and (2) cost savings associated with the delivery of long-term renewable contracts beginning in 2021. While it was not practical to provide an exact date in December 2018, VCE did send a letter to all existing NEM customers (and post to the web site), explaining that their enrollment would be delayed for at least one year. The letter further explained that the VCE Board would review the NEM policy in mid-2019 at which time the VCE Board would have more and better information to set a target enrollment date.

- Key Points to Consider Section.
  - Connection of NEM enrollment with long-term renewable contracting. The Key Points section does not include reference to a primary reason VCE established 2021 as the latest NEM customers would be enrolled. Consistent with its Integrated Resource Plan (IRP), VCE is in the process of negotiating for long-term renewable energy contracts that will replace the relatively expensive short-term renewable contracts that currently provide energy to VCE customers. The lead-time associated with these long-term renewable contracts (i.e. solicitation process, contract negotiation, and project construction and grid interconnection), has these projects expected to come on-line in 2021. This will enable VCE to meet regulatory requirements for long-term renewable contracting and begin to see cost savings in 2021 as these contracts replace existing short-term renewable contracts. The VCE Board's decision on the timing of NEM customer enrollment (no later than 2021) was related, in part, to the timing of when these long-term renewable contracts would be in place. The assumption is that VCE will be in a stronger financial position at that time and in a better position to offer incentive programs like NEM. Staff believes it is important for readers of the report to understand this context.

- Service to customers. Key Point 1 of the report states that VCE needs to serve all its customers regardless of the uncertainty of the fiscal circumstances. It could be helpful to clarify that VCE must offer service to potential customers and can address fiscal uncertainty by setting rates to recover costs or taking other actions to ensure it is in a fiscally sound position. With its decision, after careful consideration, the Board chose to both raise rates and phase in a customer class that had not yet been enrolled. It would also be helpful to note that in its desire to offer service to all potential VCE customers as soon as possible, the VCE Board provided direction that NEM customers should be enrolled in 2020 if financial and regulatory volatility and uncertainty abated.

- VCE financial position. VCE Staff assisted in running various fiscal scenarios that are attached to the Task Group report. The preliminary projections provided by Staff do show an improved financial position as generally referenced in Key Point 2 of the report. Staff believes it is important to note that while the delay in implementing the 2019 PCIA and rates temporarily improves VCE's fiscal position, prudent fiscal management dictates that savings associated with this PCIA and rate delay should be reserved to soften anticipated rate volatility for customers as the new PCIA and PG&E rates are implemented in the second half of 2019 into 2020.

  The Task Group report is accurate that projections have improved based on updated forecasts of the 2019 PCIA and PG&E rates. These projections will remain projections until actual PCIA and PG&E rates are approved by the CPUC (now delayed until May). Staff believes the Task Group recommendations calling for the Board and staff to recognize and acknowledge that VCE has financial flexibility and budgeting options to mitigate any negative financial impacts of policy changes and cost increases is premature. Additionally, it is not clear to Staff if this conclusion reached by the Task Group includes consideration of long-term fiscal implications associated with current NEM rate structures (i.e. Resource Adequacy requirements of NEM customers that are not currently accounted for in VCE rates).

- Customer enrollment. As noted above in comments on Key Point 1, it would be helpful to clarify in Key Point 4 of the report that VCE must offer service to potential customers and can do so by phasing enrollment. Additionally, it should be noted that VCE legal counsel previously reviewed the phasing plan and found that it is consistent with applicable governing statutes for CCA's.

Conclusion

Staff believes that the Task Group work and report is important and provides the Committee and staff with background and carefully considered findings that should factor into future analysis of the issues identified. Staff supports the overall objectives it draws from the report to establish a specific plan for when and how NEM customers will be enrolled and to begin executing that plan as soon as possible. However, Staff does not reach the same conclusion that VCE has all the information it needs to accelerate the enrollment plan without having the ability to incorporate the actual 2019 PCIA/PG&E rates into the analysis or a plan to address the Resource Adequacy requirements of NEM customers that are not currently accounted for in VCE rates. Staff does believe that it is likely that these factors can be incorporated into the analysis for the June Board consideration but not before.

Based on these factors and the comments on the Task Group report, Staff is recommending that the Advisory Committee support the objective of enrolling NEM customers as soon as possible consistent with the previous Board direction and comments. Staff further suggests that the Committee continue to work with Staff to prepare alternatives for NEM enrollment for consideration by the Board in June as originally scheduled. This has the advantage of having the 2019 PCIA and PG&E rates in hand so that better informed decisions can be made regarding the timing of NEM enrollment.

Attachment

1. Rates and Services Task Group NEM Enrollment Reassessment Report and Recommendation.

NEM Enrollment Reassessment Report and Recommendation
Rates and Services Task Group
4/25/19 CAC Meeting

Background:
There are approximately 7,000 residential and commercial solar accounts in the VCE service area with installations prior to VCE's launch in June 2018. These future VCE customers will represent 11% of VCE's 65,000 customers. The enrollment of these legacy solar accounts has been delayed twice by VCE. First, in May 2018 solar enrollment was delayed from June 2018 to January 2019 in order to develop a revised NEM policy to incorporate some of the benefits of PG&E's NEM policy. Second, in December 2018 solar enrollment was further delayed. The current NEM postponement was a financially-based decision made in November 2018 intended to mitigate the budgetary impacts of the expected increase in PCIA costs, increased power costs and increased RA requirements. No date has been communicated to these solar residential and commercial accounts for when they will be enrolled as VCE customers. In December 2018 they received a letter stating their enrollment would be delayed for at least one year. The letter further stated that the policy would be reviewed in mid-2019 at which time the VCE Board would decide whether to end or extend the deferral.

Key Points to Consider:

1. Financial uncertainty will continue with the PG&E bankruptcy. PG&E has asked for numerous delays in calculating the revised PCIA costs and PG&E rates for 2019, which has made financial planning difficult. VCE needs to serve all of its customers regardless of the volatility and uncertainty in the business. All customers are affected by the increase in PCIA costs, the increase in power costs and the increase in RA (resource adequacy) requirements, yet solar accounts are being singled out as causing VCE financial strain and are being told to wait. While there are some carry costs associated with the annual true-ups in the current NEM policy, this should not be a reason to delay their enrollment further.
2. Due to the continued delays by the CPUC and PG&E in finalizing the PCIA costs for 2019, VCE's financial outlook for FY18/19 is better than previously estimated. The operating budget provided at the March 2019 Board meeting showed an estimated Net Income of $5,101 for FY18/19 vs $3,821 estimated in November 2018. VCE is building reserves in FY18/19, with the Net Margin currently estimated to be 10% (well above the target 5%). (See Tables 1 & 2). The outlook for FY19/20 and FY20/21 is also currently estimated to be better than the financials presented in November 2018 as the estimated increase in PCIA costs is lower.
   VCE Staff has prepared three scenarios with preliminary forecasts for FY19/20 and FY20/21, and looked at the effects of NEM enrollment starting in January 2020 or January 2021. (See Table 3)
   Current expectation is that the CPUC will determine 2019 PCIA costs and PG&E rates in early May. These would go into effect July 1st or possibly September 1st.
   Note: The task group also considered a number of potential changes to the NEM policy, such as removing the additional one cent per kWh for excess generation, and bringing in residential customers first, then commercial. The financial impact of these potential changes was minimal (see Table 4).

3. Solar customers are natural partners for VCE. They bring zero carbon energy to the grid and to their community. Solar residential and commercial accounts in Yolo County generated an estimated 160 GWh in 2018, or 9 percent of Yolo County electricity usage. This percentage will increase as more and more residential and commercial VCE customers add solar. As the number of solar customers increase, VCE can partner with them in the development of more local programs such as local storage. Solar customer investment and decisions should be recognized and acknowledged by VCE as a major, quantifiable economic and decarbonization benefit to Yolo County and the VCE member communities. A new proposed bill AB-961 directs the CPUC to define and prioritize non-energy benefits in clean energy and energy efficiency programs. Enrolling the legacy solar customers and partnering with them on initiatives will provide such benefits while also benefitting VCE.
4. VCE has a legal obligation to serve all the accounts in its service area, though it has leeway in staging enrollment. The Rates and Services Task Group has not evaluated any potential litigation or other risks associated with enrollment deferrals.

<u>Recommendation</u>:

The Rates and Services Task Group recommends that VCE Staff and the Board:

1. Recognize and acknowledge that: a) VCE's financial outlook has improved since the second solar enrollment deferral decision was made, b) VCE has financial flexibility and budgeting options to mitigate any negative financial impacts of policy changes and cost increases, and c) enrolling and collaborating with these future customers would enhance existing strategic benefits of local solar deployment to VCE and its member communities.

2. Take immediate steps to enroll the solar residential and commercial accounts in its service area.

Table 1. Financial Impacts of PCIA and Policy Modifications (Presented to Board November 15, 2018)

	Fiscal Impact ($1,000's)	
Policy Modification Action	**FY 2018/19**	**FY 2019/20**
Net income before policy modifications	**$2,259**	**$(911)**
Postpone NEM enrollment	$779	$1,767
Match PG&E generation rate	$783	$1,744
Net income after policy modifications	**$3,821**	**$2,600**

Table 2. VCE Preliminary Operating Budget (Presented to Board March 14, 2019)

VALLEY CLEAN ENERGY
PRELIMINARY OPERATING BUDGET
FY 2019/2020

	APPROVED BUDGET FY2018/2019	**ACTUAL YTD JAN 31, 2019 (7 MO) + FORECAST (5 MO) FY 2018/2019**	**PRELIMINARY BUDGET FY 2019/2020**
OPERATING REVENUE	$ 54,314	$ 49,526	$ 47,260
OPERATING EXPENSES:			
Cost of Electricity	41,103	40,207	40,144
Contract Services	2,719	2,444	2,599
Staff Compensation	1,358	1,047	1,200
General, Administration and other	1,094	554	620
TOTAL OPERATING EXPENSES	46,274	44,252	44,563
TOTAL OPERATING INCOME	8,040	5,274	2,697
NONOPERATING REVENUES(EXPENSES)			
Interest income	89	25	54
Interest expense	(590)	(194)	(175)
TOTAL NONOPERATING REVENUE (EXPENSES)	(501)	(169)	(121)
NET MARGIN	$ 7,539	$ 5,105	$ 2,576
NET MARGIN %	13.88%	10.31%	5.45%

Table 3. Three Scenarios: Preliminary Forecasts prepared by VCE Staff

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	Current Forecast		**Brown Power True-up**		**PCIA - inc 5% in 2020**	
ROLL IN 2020	**2019/2020**	**2020/2021**	**2019/2020**	**2020/2021**	**2019/2020**	**2020/2021**
Revenue	47,147	52,801	48,833	54,003	46,612	51,508
Power Costs	40,997	45,933	40,997	45,933	40,997	45,933
Gross Margin	6,150	6,868	7,836	8,070	5,615	5,575
Operating costs	4,497	4,740	4,489	4,719	4,498	4,750
Net income	1,653	2,128	3,347	3,351	1,117	825
Net Margin %	3.5%	4.0%	6.9%	6.2%	2.4%	1.6%
ROLL IN 2021						
Revenue	47,098	48,174	48,795	49,266	46,551	47,001
Power Costs	40,407	41,657	40,407	41,657	40,407	41,657
Gross Margin	6,691	6,517	8,388	7,609	6,144	5,344
Operating costs	4,438	4,554	4,430	4,534	4,438	4,564
Net income	2,253	1,963	3,958	3,075	1,706	780
Net Margin %	4.8%	4.1%	8.1%	6.2%	3.7%	1.7%
DIFFERENCE						
Revenue	49	4,627	38	4,737	61	4,507
Power Costs	590	4,276	590	4,276	590	4,276
Gross Margin	-541	351	-552	461	-529	231
Operating costs	59	186	59	185	60	186
Net income	-600	165	-611	276	-589	45
Forecast Assumptions:						
	Current Forecast		**Brown Power True-up**		**PCIA - inc 5% in 2020**	
PCIA Fee	2019	17%	2019	5%	2019	17%
	2020	-0.5%	2020	5%	2020	5%
	2021	-1%	2021	-1%	2021	-1%
PG&E rates	2019	-2%	2019	-2%	2019	-2%
(same for all 3	2020	0%	2020	0%	2020	0%
scenarios)	2021	3%	2021	3%	2021	3%

Table 4. Financial impact of removing the additional one cent for excess solar production. The task group also considered enrolling residential accounts, then commercial but Staff did not have time to prepare the financials for this report. However, a previous analysis showed minimal impact.

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	Current Forecast			**Current Forecast elim $.01**	
ROLL IN 2020	**2019/2020**	**2020/2021**		**2019/2020**	**2020/2021**
Revenue	47,147	52,801		47,172	52,881
Power Costs	40,997	45,933		40,997	45,933
Gross Margin	6,150	6,868		6,175	6,948
Operating costs	4,497	4,740		4,497	4,740
Net income	1,653	2,128		1,678	2,208
Net Margin %	3.5%	4.0%		3.6%	4.2%
ROLL IN 2021					
Revenue	47,098	48,174		47,098	48,200
Power Costs	40,407	41,657		40,407	41,657
Gross Margin	6,691	6,517		6,691	6,543
Operating costs	4,438	4,554		4,438	4,554
Net income	2,253	1,963		2,253	1,989
Net Margin %	4.8%	4.1%		4.8%	4.1%
DIFFERENCE					
Revenue	49	4,627		74	4,681
Power Costs	590	4,276		590	4,276
Gross Margin	-541	351		-516	405
Operating costs	59	186		59	186
Net income	-600	165		-575	219
Forecast Assumptions:					
	Current Forecast			**Current Forecast elim $.01**	
PCIA Fee	2019	17%		2019	17%
	2020	-0.5%		2020	-0.5%
	2021	-1%		2021	-1%
PG&E rates	2019	-2%		2019	-2%
(same for all 3	2020	0%		2020	0%
scenarios)	2021	3%		2021	3%