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:	May 23, 2019

Recommendation

1. Receive the Rates and Services Task Group's updated NEM Enrollment Reassessment Report.

Background/Analysis

This staff report transmits the May 23, 2019 Rates and Services Task Group's updated NEM Enrollment Reassessment Report. As discussed at the April CAC meeting, based on revised financial projections for 2019 and 2020 staff is supportive of the overall conclusion of the Task Group report to enroll NEM customers beginning in 2020. This conclusion is consistent with previous Board objectives regarding NEM enrollment.

Note: Because the CPUC's final action on the 2019 PCIA and 2019 PG&E rates is still pending, staff is not in a position to make a final recommendation on NEM enrollment until the June Board meeting. However, if the 2019 PCIA and 2019 PG&E rates are consistent with the Advice Letters submitted to the CPUC by PG&E, staff believes that the Board objective of enrolling NEM customers as soon as possible and the CAC's recommendation of enrolling NEM customers beginning in January 2020 are achievable. The 2019 PCIA and 2019 PG&E rates are anticipated to be finalized (or will be adequately clear), in advance of the Board's June meeting.

Attachment

1. Rates and Services Task Group NEM Enrollment Reassessment Report and Recommendation (5/23/19).

NEM Enrollment Reassessment Report and Recommendation
Rates and Services Task Group
5/23/19 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 the 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 aspects of PG&E's NEM policy. VCE originally prepared a NEM policy that was similar to other CCAs' policies, with all NEM accounts having a true-up in April and all having monthly billing. This was different from what NEM customers experience with PG&E, which has an annual true-up date based on the date of solar installation and annual billing. After VCE was approached by a local solar provider as well as some solar accounts and shown that VCE's NEM policy would create one-time costs for many of the legacy NEM customers, causing them to potentially opt-out of VCE's service, VCE decided to revise its NEM policy to keep existing true-up dates for accounts and offering annual billing for most.

In December 2018 solar enrollment was further delayed. The second NEM postponement was a financially-based decision intended to mitigate the budgetary impacts of the expected increase in PCIA exit fees, increased power costs and increased resource adequacy (RA) requirements. Already enrolled VCE customers were also affected by the budget impacts as VCE decided to remove the 2.5% discount to PG&E's rates. In December 2018 the legacy solar residential and commercial accounts 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.

This report covers thoughts and considerations prepared by the Rates and Services task group of the Community Advisory Committee and is intended to provide input to VCE Staff and Board on the issue as they review and make a decision as to whether to end or extend the deferral of NEM enrollment.

Key Points to Consider:

1. Financial uncertainty related to PCIA exit fees, power costs, resource adequacy (RA), and PG&E's rates will continue, especially with the PG&E bankruptcy. PG&E has asked for numerous delays in calculating the revised PCIA exit fees and PG&E rates for 2019, which has made financial planning difficult. Additionally, the range of fees and rates presented to the CPUC has varied widely. For example, PCIA exit fees have varied from a 30% increase to no increase for 2019. While the planning context is challenging, VCE needs to develop financial strategies that will allow it to offer service to all of its customers regardless of the volatility and uncertainty in the business. One such strategy that is currently being considered by VCE is the Dividend Program. VCE originally offered a discount to PG&E's rates, but due the budgetary impacts of the expected increase in PCIA exit fees announced in November 2018 as well as increases in power costs, VCE decided to remove the discount and match PG&E rates. The Dividend Program allows VCE to give back to customers only after the financials are known which will allow more financial security and flexibility. Another

strategy that could assist VCE with the volatility, is to prepare alternative financial scenarios outlining the various assumptions used so that alternate planning can be done in advance rather than last minute. What the task group feels is not productive in times of uncertainty is to focus mitigation on a customer type thought to be more costly to serve and causing VCE financial strain, as was done with the legacy NEM accounts.

2. Due to the delays by the CPUC and PG&E in finalizing the PCIA exit fees and PG&E rates for 2019, VCE's financial outlook for FY18/19 is much better than previously estimated. The current operating budget shows an estimated Net Income of $8,231 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 16%, well above the target 5%. (See Tables 1 & 2). The outlook for FY19/20 and FY20/21 is also currently estimated to be much better than the financials presented in November 2018 as it is now expected that there will be no increase in PCIA exit fees for 2019.
   VCE Staff has prepared two scenarios with preliminary forecasts for FY19/20 and FY20/21, and looked at the effects of NEM enrollment starting in January 2020. (See Table 3) The first scenario's assumptions are what is currently expected to be approved by the CPUC. Staff also created a "worst case" scenario to show effects on financials with less favorable assumptions in future years. In both scenarios, the financials are strong with NEM enrollment beginning January 2020.
   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 implementation of 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 accounts and partnering with them on initiatives will provide such benefits while also benefitting VCE.
4. While the task group is aware of the financial advantages of long-term contracts that begin in 2021 and the additional financial security these will provide VCE, we don't think the average customer will factor that into his/her opinion of VCE. We believe an extension of the deferral for another year will have a negative impact on VCE's public image and will bring negative criticism to VCE at a time when the marketing team is working to build the VCE brand. There has already been criticism of VCE with respect to the current NEM enrollment deferral in Sacramento.

<u>Recommendation</u>:

The Rates and Services Task Group recommends that VCE Staff and the Board initiate steps as needed to begin enrolling legacy NEM customers starting in January 2020, and if NEM enrollment is perceived to create negative financial impacts to find alternatives rather than postponing legacy NEM enrollment.

Note: Additional issues that have been identified by staff during this process will be discussed as a separate agenda item with the CAC.

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

VALLEY CLEAN ENERGY PRELIMINARY OPERATING BUDGET FY 2019/2020	**APPROVED BUDGET FY 2018/2019**	**ACTUAL YTD MAR 31, 2019 (9 MO) + FORECAST (3 MO) FY 2018/2019**	**PRELIMINARY BUDGET FY 2019/2020**
OPERATING REVENUE	$ 54,314	$ 51,253	$ 54,047
OPERATING EXPENSES:			
Cost of Electricity	41,103	39,083	41,797
Contract Services	2,719	2,318	2,826
Staff Compensation	1,358	1,018	1,200
General, Administration and other	1,094	448	655
TOTAL OPERATING EXPENSES	46,274	42,867	46,478
TOTAL OPERATING INCOME	8,040	8,386	7,569
NONOPERATING REVENUES (EXPENSES)			
Interest income	89	41	120
Interest expense	(590)	(196)	(155)
TOTAL NONOPERATING REVENUE (EXPENSES)	(500)	(155)	(35)
NET MARGIN	$ 7,539	$ 8,231	$ 7,534
NET MARGIN %	13.88%	16.06%	13.94%

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

Scenario 1: Expected Forecast

Wholesale Power	NP-15 04/05/19
Rate Disc (entry on Ann Summ sht)	0.00%
Resource Portfolio	E-Alt
PG&E Scenario	ERRA/-3/3
PCIA Scenario	ERRA/9%/-9%

Roll- In 2020

			7/17-6/18	**7/18-6/19**	**7/19-6/20**	**7/20-6/21**	**7/21-6/22**
			2018	2019	2020	2021	2022
Accounts		-	54,099	54,267	57,861	61,479	61,889
Retail Load (MWh)		-	34,882	699,314	690,231	710,528	718,162
(Thousands of Dollars)							
Revenue (net uncollectible)	$	-	$ 3,311	$ 51,253	$ 54,047	$ 55,144	$ 58,673
Power Costs	$	-	$ 2,305	$ 39,083	$ 41,797	$ 45,358	$ 46,542
Gross Margin	**$**	-	**$ 1,006**	**$ 12,171**	**$ 12,250**	**$ 9,786**	**$ 12,132**
Operating Costs	$	-	$ 2,143	$ 3,785	$ 4,682	$ 4,889	$ 5,004
Operating Income	**$**	-	**$ [1,137]**	**$ 8,386**	**$ 7,569**	**$ 4,897**	**$ 7,127**
Interest Income [Expense]	$	-	$ (33)	$ [155]	$ [35]	$ 14	$ 81
Net Income	**$**	-	**$ [1,170]**	**$ 8,231**	**$ 7,534**	**$ 4,911**	**$ 7,209**
DSCR (1.25:1)					**26.74**	**10.51**	**15.90**
Gross Margin			30.4%	23.7%	22.7%	17.7%	20.7%
Net Income (after principal repayments)			$ (1,170)	$ 7,061	$ 7,336	$ 4,516	$ 6,813
Net Margin (after principal repayments)	%		-35.34%	13.78%	13.57%	8.19%	11.61%
Net Margin				16.1%	13.9%	8.9%	12.3%
Minimum Net Income (5% Net Margin)				$ 2,563	$ 2,702	$ 2,757	$ 2,934

Assumptions:

PG&E Rates:

2019 – ERRA – 5.68%

2020 - -3%

2021 - + 3%

PCIA Exit Fee:

2019 – ERRA – 0%

2020 – +9%

2021 - -9%

Scenario 2: "Worst case" Forecast

Wholesale Power	NP-15 04/05/19
Rate Disc (entry on Ann Summ sht)	0.00%
Resource Portfolio	E-Alt
PG&E Scenario	ERRA/-3/0
PCIA Scenario	ERRA/18%/-9%

Roll- In 2020

DRAFT VCEA Pro Forma

			7/17-6/18	**7/18-6/19**	**7/19-6/20**	**7/20-6/21**	**7/21-6/22**
			2018	2019	2020	2021	2022
Accounts		-	54,099	54,267	57,861	61,479	61,889
Retail Load (MWh)		-	34,882	699,314	690,231	710,528	718,162
(Thousands of Dollars)							
Revenue (net uncollectible)	$	-	$ 3,311	$ 51,253	$ 53,261	$ 52,464	$ 54,767
Power Costs	$	-	$ 2,305	$ 39,083	$ 41,797	$ 45,358	$ 46,542
Gross Margin	**$**	**-**	**$ 1,006**	**$ 12,171**	**$ 11,464**	**$ 7,106**	**$ 8,225**
Operating Costs	$	-	$ 2,143	$ 3,785	$ 4,682	$ 4,889	$ 5,004
Operating Income	**$**	**-**	**$ [1,137]**	**$ 8,386**	**$ 6,783**	**$ 2,218**	**$ 3,221**
Interest Income [Expense]	$	-	$ (33)	$ [155]	$ [35]	$ [1]	$ 33
Net Income	**$**	**-**	**$ [1,170]**	**$ 8,231**	**$ 6,747**	**$ 2,216**	**$ 3,254**
DSCR (1.25:1)					**23.97**	**4.76**	**7.18**
Gross Margin			30.4%	23.7%	21.5%	13.5%	15.0%
Net Income (after principal repayments)			$ (1,170)	$ 7,061	$ 6,550	$ 1,821	$ 2,858
Net Margin (after principal repayments)	%		-35.34%	13.78%	12.30%	3.47%	5.22%
Net Margin				16.1%	12.7%	4.2%	5.9%
Minimum Net Income (5% Net Margin)				$ 2,563	$ 2,663	$ 2,623	$ 2,738

Assumptions:

PG&E Rates:

2019 – ERRA – 5.68%

2020 - -3%

2021 - 0%

PCIA Exit Fee:

2019 – ERRA

2020 – +18% (Cap)

2021 - -9%

Table 4. Sample analysis of financial impact of potential change to NEM policy of removing the additional one cent for excess solar production, using previous forecast data. The task group also considered enrolling residential accounts, then commercial which also showed minimal financial impact.

Valley Clean Energy					
	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%