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## Silicon Valley Clean Energy Executive Committee Special Meeting

Tuesday, December 4, 2018  
11:30 am

Silicon Valley Clean Energy Office  
Conference Room  
333 W El Camino Real, Suite 290  
Sunnyvale, CA

### AGENDA

#### Call to Order

#### Roll Call

#### Public Comment on Matters Not Listed on the Agenda

*The public may provide comments on any item not on the Agenda. Speakers are limited to 3 minutes each.*

#### Regular Calendar

- 1) SVCE 2019 Electric Rates – Outlook and Rate Setting Process (Discussion)

#### Committee/Staff Remarks

#### Adjourn

[svcleanenergy.org](http://svcleanenergy.org)

333 W El Camino Real  
Suite 290  
Sunnyvale, CA 94087



## Staff Report – Item 1

To: Silicon Valley Clean Energy Executive Committee

From: Girish Balachandran, CEO

**Item 3: SVCE 2019 Electric Rates – Outlook and Rate Setting Process**

Date: 12/4/2018

### **RECOMMENDATION**

Receive staff report on current outlook for SVCE 2019 rates, and rate setting process.

### **BACKGROUND**

In June 2016, the SVCE Board approved a policy to set initial electric rates, inclusive of the power charge indifference adjustment (PCIA) and franchise fee, at 1% below the comparable generation rates offered by PG&E. On January 11, 2017, the SVCE Board approved a full set of detailed SVCE generation rates, effective as of SVCE's launch on April 1, 2017. These rates remained in effect through March of 2018.

In late February 2018, PG&E published new rates effective as of March 1<sup>st</sup>, 2018. Relative to PG&E's 2017 rates, PG&E 2018 generation rates increased by an average of 9%, and the PCIA in the range of 11-14%. In response, at its March 2018 meeting, the SVCE Board approved updates to all SVCE generation rates, effective April 1, 2018. Updates reflected several key criteria balancing customer savings, cost recovery, risk mitigation, and rate stability:

- o meet original SVCE target for contribution to reserves
- o provide additional revenue to offset new RA, Bucket 1 cost impacts
- o minimize number of rate increases
- o avoid price 'gouging'
- o increase savings vs PG&E for all SVCE customers
- o balance savings and overall cost impact across rate classes

SVCE's approved rates for 2018 were set at 6% below PG&E's comparable rates. This 6% discount relative to PG&E's 2018 rates applied evenly to all SVCE rate schedules (e.g. residential, commercial) and all billing determinants.

PG&E's June 2018 Energy Resource Recovery Account (ERRA) filing and Annual Electric True-Up (AET) filing in August of 2018 provided information for estimating changes to PG&E generation rates in 2019. Based on these inputs, SVCE projected an 8% decrease in generation rates, and a 21% increase in the Power Charge Indifference Adjustment (PCIA), effective January 1, 2019.

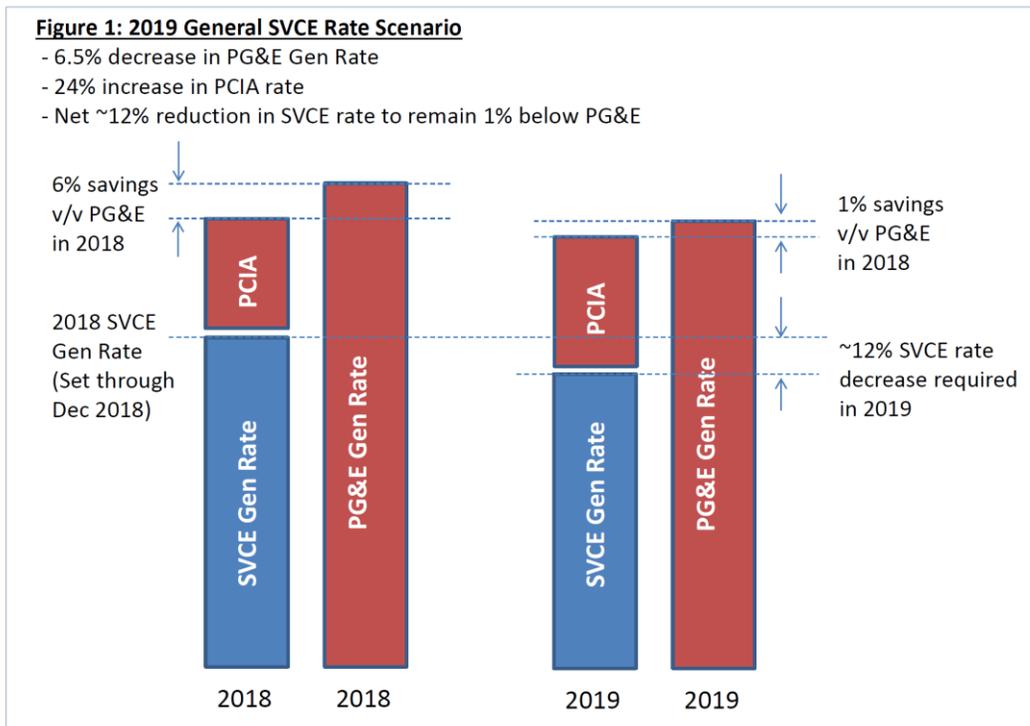
Assuming these changes, significant reductions to SVCE's 2018 rates will be required to stay competitively priced with PG&E. In SVCE's Fiscal Year 2019 budget approved by the Board in September 2018, it was assumed that SVCE 2019 rates would be returned to 1% below comparable PG&E rates – the discount originally offered by SVCE during 2017. As a result of lowered rates, SVCE's 2019 budget assumes an annualized contribution to reserves of \$29.5M, versus a contribution of \$50.3M in fiscal 2018.

Based upon PG&E's most recent ERRA filing in November 2018, PG&E's 2019 generation rates are now projected to decrease by 6.5% (versus 8% estimated in August). In addition, the PCIA is now projected to increase by a weighted average of approximately 24%, versus 21% anticipated in August. The net effect of these updated projections are neutral to slightly positive relative to SVCE's 2019 budget. A smaller decrease than anticipated in PG&E's 2019 generation rate is offset by the larger-than-anticipated increase in the PCIA.

Note that as of November 2018, these are estimated projections only. Finalized PG&E rates for 2019 are currently scheduled to be published on January 1, 2019 and could vary from SVCE’s current projections. Also, it is possible that publication of PG&E’s 2019 rates will be delayed until March of 2019, if PG&E’s next ERRA filing in early December is delayed. This filing contains finalized PCIA rates.

**ANALYSIS & DISCUSSION**

Based upon the most recent projections described above, SVCE’s current 2018 rates will be higher than PG&E’s 2019 generation rates, inclusive of the increased PCIA for 2019. To remain competitively priced, SVCE will need to lower its 2019 generation rate to absorb the reduction in PG&E rates, and increased PCIA. As shown in Figure 1 below, SVCE 2019 generation rates will need to be lowered by approximately 12%, on average, from 2018 rates.



It is important to note that rate changes will vary significantly by rate class, and there will be variations to the general case described above. For example, the 2019 PCIA for residential rate classes is currently expected to be reduced by 2% (e.g. \$0.034 to \$0.033/kWh), whereas PCIA for large commercial rate classes are expected to increase significantly, on the order of 48% (e.g. \$0.022 to \$0.032).

**Rate Design and Update Methodology**

For 2019, SVCE currently anticipates lowering all GreenStart generation rates to be exactly 1% below PG&E’s corresponding generation rate, including surcharges (PCIA and Franchise Fee). This rate design approach has the advantages of comparability and ease of customer communications in that the generation cost savings will be set at 1% for all customers, rates and rate determinants.

To illustrate the rate design approach underlying proposed changes to 2018 rates for 2019, Table 1 below (using hypothetical rates) shows how each rate determinant was originally designed for the E-19 rate schedule for large commercial customers. The PCIA and FFS surcharges are applied on a per kWh basis and the SVCE energy charges are reduced to offset these charges. No additional PG&E surcharges apply to demand charges, so no adjustment is necessary for SVCE’s demand charges.

**Agenda Item: 1****Agenda Date: 12/4/2018**

Table 1: Rate Design Example, Schedule E-19S

Rate Determinant		PG&E Generation			PCIA		FFS		SVCE GreenStart Generation
ENERGY CHARGE (\$/kWh)	<u>Summer</u>								
	Peak	\$0.12552	*0.99	-	\$0.01889	-	\$0.00064	=	\$0.10473
	Part-Peak	\$0.08501	*0.99	-	\$0.01889	-	\$0.00064	=	\$0.06463
	Off-Peak	\$0.05819	*0.99	-	\$0.01889	-	\$0.00064	=	\$0.03808
	<u>Winter</u>								
	Part-Peak	\$0.07871	*0.99	-	\$0.01889	-	\$0.00064	=	\$0.05915
	Off-Peak	\$0.06423	*0.99	-	\$0.01889	-	\$0.00064	=	\$0.04467
DEMAND CHARGE (\$/kW)	<u>Summer</u>								
	Peak	\$12.63	*0.99		N/A		N/A	=	\$12.50
	Part-Peak	\$3.12	*0.99		N/A		N/a	=	\$3.09

**100% Renewable Energy Option**

The GreenPrime rate premium for 2019, SVCE's 100% renewable energy option, will remain unchanged from 2018. The charge is equivalent to the per unit cost difference between the default energy mix of 50% eligible renewable/carbon free energy and the 100% eligible renewable energy mix. This premium is calculated to be \$0.008 per kWh, which is added to the otherwise applicable rate for the default GreenStart service offering.

**Planned Timing and Approach for 2019 Rate Updates**

Assuming PG&E's 2019 rates are published by January 1, 2019, the SVCE Board will approve a new SVCE rate schedule at the January 9, 2019 Board Meeting, effective February 1, 2019. Staff will present a the proposed rate schedule based on the 1% discount to PG&E rates planned in the 2019 SVCE budget.

Depending upon how PG&E's actual 2019 rates compare with SVCE's current projections and operating assumptions, SVCE staff may present additional alternatives, e.g. rates established at discount levels other than 1% relative to PG&E, and their relative impacts on SVCE's budgeted 2019 contribution to operating reserves.

Staff will then work with SVCE's contracted data services provider (Calpine) to implement the approved 2019 rates in the billing system. These rates will be effective as of February 1<sup>st</sup>, one calendar month after PG&E's 2019 rates are effective.

If publication of PG&E's 2019 rates is delayed (e.g. March 2019), the timeline for SVCE 2019 rates will be pushed out by a similar length of time (e.g. April 2019).

**STRATEGIC PLAN**

Rate setting is directly supported by SVCE Strategic Plan Goal 2 – maintain competitive rates to acquire and retain customers.

**FISCAL IMPACT**

The fiscal impact of SVCE's 2019 Rates will be evaluated and presented at the January 9<sup>th</sup>, 2019 Board Meeting. Based upon current projections for PG&E generation rate and PCIA changes, SVCE 2019 Rates based on the 1% discount assumption will not materially affect SVCE's current 2019 operating budget.