



**CAC Report Item 5
Draft Staff Report Item**

TO: East Bay Community Energy Board of Directors

FROM: Dan Lieberman, Senior Manager of Account Services

SUBJECT: **Rate Setting Protocol**

DATE: September 26, 2018

Recommendation

Adopt a resolution providing:

- 1) Unless or until otherwise modified, EBCE's rates are defined by the value proposition that EBCE offers for each service level ("service level value propositions"). For example, if EBCE offers Bright Choice at a 1.5% discount to PG&E's generation rates, Brilliant 100 at price parity with PG&E, and Renewable 100 at a 1 cent/kWh premium to PG&E's rates, then any adjustments to EBCE's rate schedules to maintain that value proposition are not "rate changes" that require a public comment period nor Board approval. Revising the value proposition (e.g. offering a greater or lesser discount on Bright Choice) requires a Board discussion and approval, while adjusting the rates schedules to maintain the Board-approved value proposition does not.
- 2) EBCE is already serving customers in two different PCIA vintages. EBCE rates should now be set using the greatest PCIA vintage dollar amount by rate schedule, to ensure that our value proposition of 1.5% savings is accrued by all EBCE Bright Choice customers, and to ensure Brilliant 100 customers pay no more than PG&E rates.
- 3) EBCE staff shall work with the billing services vendor (currently SMUD) to implement rate schedule adjustments that will ensure that all customers receive the published value proposition (or better in the case of rate schedule with multiple PCIA vintages, for example) for the service level they receive, in as little time as is administratively feasible.

Background and Discussion

PG&E typically announces and implements their generation rates on January 1 each year. This is a challenge for CCAs that peg their rates against PG&E's rates, because it typically creates a period of time during which PG&E is charging the new year's rates, and the CCA is charging the prior year's rates. In the event that the PCIA goes up and/or PG&E's generation rates go down, the CCA may inadvertently be charging customers a premium during that transitional time. It is incumbent upon the CCA to minimize and/or mitigate this disconnect between the advertised value proposition and the effective value proposition.

When PG&E revises generation rates and/or the PCIA, the new generation rates and PCIA amounts are announced and go into effect on the consecutive days (typically published on December 31 and implemented on January 1) - there is little time between the announcement of the new rates and when they are effective. Implementing a change to EBCE's rate schedules requires rate analysis, quality assurance, and back-end work.

The definition of "rate change" is essential to our understanding of when public comment and Board approval is warranted. If a rate adjustment that maintains the existing value proposition (e.g. Bright Choice at 1.5% discount to PG&E's generation rate) is considered to be a "rate change", EBCE's administrative rate-setting process would require a 30-day public input and then Board approval, delaying the implementation of a rate schedule adjustment and possibly putting EBCE at risk of false advertising.

PG&E's annual Energy Resource Recovery Account (ERRA) filing provides increasing clarity about future rate adjustments as January 1 approaches, starting in June and with the last piece of information being filed by PG&E typically in November. The November filing contains enough detail to estimate percentage changes in overall generation rates and PCIA, but does not provide rate-schedule-specific change details. Therefore, in advance of PG&E's rate change, EBCE will have a sense of the direction PG&E's rates and the PCIA are moving, and the degree to which they will be changing.

EBCE will want to implement its rates for 2019 on or as close to January 1, 2019 as possible to maintain the same value proposition as the current 1.5% for Bright Choice and parity for Brilliant 100. This is particularly important for residential customers, who will join EBCE in November 2018 and will receive their first bill with EBCE charges in December 2018. Changing the value proposition for these customers in January 2019 may be viewed as a bait-and-switch.

Administrative options for EBCE to adjust rate schedules include (but are not limited to):

Approach	Pros	Cons
One and Done: Wait until January 1 to see PG&E's 2019 rates, then set rates in 2019.	Relies on perfect information for rate setting	Creates a time lag during which EBCE customers would pay 2018 rates in early 2019. Those rates may

		benefit or penalize the customer compared to our published value proposition.
Anticipate + Adjustment: Evaluate PG&E's November ERRRA filing to get a sense of rate changes and PCIA movement. Set 2019 rates in December 2018 based on that information. Then do a "clean up" rate adjustment in January only for rate schedules that offer less than 1.5% discount for Bright Choice or parity for Brilliant 100.	Avoids the time lag between when PG&E adjusts rates and when EBCE adjusts rates.	Bright Choice rates won't be exactly 1.5% below PG&E and Brilliant 100 won't be exactly at parity. Creates extra work for SMUD, possibly at additional cost. May result in the need to perform significant bill corrections if the initial rate was significantly off the mark.
Two-phase: Set all rates twice, first in December 2018 based on the approximation, then in January 19 based on actual PG&E rates.	Most accurately pegs EBCE rates with PG&E for most of the year.	Most complicated; SMUD may request additional payment for this scope of work. May result in the need to perform significant bill corrections if the initial rate was significantly off the mark

Recommendation

EBCE staff recommend the One and Done approach. This is the approach used by most California CCAs. By anticipating the timing of PG&E's rate change, EBCE staff can work with SMUD to prepare for EBCE's change in rate schedules by allocating staff resources dedicated to the task during the first week of January.

The table below gives a sense of the impact on an average residential and medium business customer bill of a week delay between a PG&E rate change on January 1 and when EBCE can implement the new rate. For an E1 residential customer using 377 kWh per month, this means that 88 kWh of usage (377 kWh per month * 7 days delay / 30 days in the bill cycle) will be billed at the old rate of \$0.10718 per kWh (Brilliant 100) for generation service while PG&E has new rates. An average A10 medium commercial account uses 17,906 kWh/month at \$0.11315. EBCE customers are only negatively impacted if the combination of the PG&E rate change and the PCIA change results in a net decrease in effective rates. The table shows the impact of various rate premiums (i.e. decreases in PG&E rates) on the EBCE customer bill for customers with a week of temporal misalignment:

EBCE Interim Rate Premium	Residential bill Impact (rate premium x rate x 88 kWh)	Medium commercial bill Impact (rate premium x rate x
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		4,178 kWh)
2%	\$0.19	\$9.45
4%	\$0.38	\$18.91
6%	\$0.57	\$28.36

Using the example above, a 4% premium on 7 days of service is only a 0.08% impact over a year, moving a 1.5% discount to 1.42% for the year.

Note that for this example, customers with a January meter read date before January 1 or after January 8 would have completely accurate billing. For meters read in January before the rate adjustment is implemented, they would be charged 2018 rates for all usage, including the January service dates.

Another implementation challenge is that during a rate change transitional month, PG&E applies the rates on a pro-rata basis. In other words, if PG&E's rates are changed effective January 1, 2019 and a customer's billing month is December 15 - January 15, then half of PG&E's charges will be at the 2018 rate and half at the 2019 rate. EBCE's billing system is not capable of pro-rata billing at this time. Therefore, in the month following a rate schedule adjustment, EBCE will need to decide whether to apply the rates effective at the beginning of the billing cycle or the end of the billing cycle. In order to minimize potential adverse impact on customers, EBCE staff recommend always applying the rates effective at the end of the billing cycle. However, in the case that EBCE implements a rate increase, EBCE will want to implement the change at the end of the transitional month, to ensure that customers are not adversely affected by paying the higher rates for days of service that occurred before the rate change.

	EBCE Rates Go Up	EBCE Rates Go Down
Apply Rates Effective at Start of Billing Cycle	Customer not adversely impacted, but EBCE would want to implement new rates quickly to avoid lost revenue.	EBCE would want to implement new rates quickly to protect customers from overpayment (i.e. we do not want to charge last year's higher rate for usage that occurred after the rate change).
Apply Rates Effective at End of Billing Cycle	EBCE should delay implementation of rate change to end of transitional month so customers do not pay new, higher rates for usage that occurred before the rate change was effective.	Customer not adversely impacted, but EBCE would want to implement new rates quickly to avoid lost revenue.

Additional Considerations for Rate Setting

1. All California CCAs will be engaging in a similar rate analysis at the same time. EBCE staff will investigate whether the process of pulling PG&E's tariff sheet components can be shared, and the QA process be shared, to hasten the process and improve quality control.
2. EBCE's Renewable 100 service will not need to change as it is priced as a floating 1 cent/kWh adder to whatever applicable rate schedule the account is on.
3. EBCE staff recommend that the Board consider evaluating the service level value propositions annually. This would best happen in the wake of PG&E's June ERRRA filing, which coincides with the end of EBCE's fiscal year. At that time the Board can discuss whether discounts should be revised, renewable content be adjusted, etc.

Fiscal Impact

None

ROUGH DRAFT OF RESOLUTION

WHEREAS EBCE wants to ensure that its effective rates are consistent with EBCE's published service level value propositions; and

WHEREAS the EBCE JPA Agreement states: "By establishing the Authority, the Parties seek to: (a) Provide electricity rates that are lower or competitive with those offered by PG&E for similar products;"; and

WHEREAS PG&E publishes and implements its adjusted rate schedules on consecutive days; and

WHEREAS PG&E publishes and implements its adjusted Power Charge Indifference Adjustment on consecutive days.

NOW THEREFORE, BE IT RESOLVED by the EBCE Board of Directors that changes to EBCE rate sheets conducted in order to continue EBCEs service level value propositions is not considered to be a rate change requiring Board approval.

BE IT FURTHER RESOLVED that the EBCE Board of Directors delegates authority to the CEO and staff to determine the most expedient means of implementing changes to the rate schedules to ensure consistency with the service level value propositions.

BE IT FURTHER RESOLVED that changes to the service level value propositions are best evaluated around informative events such as PG&E's ERRRA filing and/or the conclusion of EBCE's fiscal year.