



Staff Report Item 13

TO: East Bay Community Energy Board of Directors

FROM: Dan Lieberman, Senior Manager of Account Services

SUBJECT: Rate Setting Protocol (Action Item)

DATE: September 26, 2018

Recommendation

Authorize EBCE staff to ministerially modify EBCE rate schedules as needed to be consistent with the rate objectives established by the Board in setting rates, and work with the billing services vendor to implement any rate adjustments so that all EBCE customers receive the published value proposition for the service level they receive. Staff will report to the Board in advance of, and at the Board meeting immediately following, any adjustments to the rate schedules.

The Board should set rates annually, preferably in the summer months following PG&E's June ERRR filing and around the closing of the fiscal year, when there is not an immediate time pressure to match PG&E's rate changes. EBCE staff will prepare and present a recommendation for that process at a future Board meeting.

Background on the Administration of Rate Changes

PG&E typically announces and implements its generation rates on January 1 each year. This is a challenge for all 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 (relative to the published value proposition) during that transitional time. It is incumbent upon EBCE to minimize and/or mitigate this disconnect between the published 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) - leaving 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.

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. This can be reported to the Board.

Issue 1: Changing Rates vs. Changing the Value Proposition

EBCE's Joint Powers Authority Agreement states: "EBCE will review its rates at a minimum once a year. EBCE will employ a robust and highly transparent rate setting process for all rate changes that will include both a public hearing and a written public comment period." The definition of "rate change" is essential to understanding when public comment and Board approval is warranted.

EBCE staff wish to clarify that the JPA language considers the "rate change" to mean a change to the service level value propositions, and that when EBCE makes rate adjustments that maintain the existing value propositions (e.g. in response to PG&E changing its generation rates, EBCE adjusts Bright Choice rates to maintain the published 1.5% discount), that is not a "rate change" that warrants a rate setting process involving a public hearing, written comment, and Board approval.

If adjustments to rates schedules that continue the current value proposition are considered to be "rate setting", then a robust process involving a public hearing and public comment period must be held whenever rates are adjusted, even in the event of minor tweaks to rate schedules in the wake of PG&E rate changes. That public process might delay the

implementation of a rate schedule adjustment and possibly put EBCE at risk of false advertising (i.e. having effective rates that do not match the published value proposition) for extended periods of time.

Issue 2: Serving Multiple PCIA Vintages

PCIA is a vintaged fee; every year PG&E introduces a new PCIA vintage year that applies to customers who depart PG&E during that year. PG&E also re-calculates each PCIA vintage annually. Further, PCIA rates vary by customer rate schedule. And finally, it is worth noting that the PCIA vintage year runs July - June (e.g. the 2017 PCIA vintage is for customers who departed PG&E between July 1, 2017 - June 30, 2018). This creates a growing table of PCIA charges that must be managed in EBCE's billing system. EBCE is already serving customers in two different PCIA vintages. For example, MCE's PCIA rates for commercial accounts appears below as a reference; every year a new column is added and all of the figures are re-calculated.

PCIA Vintage <input type="text"/>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Rate Schedule <input type="text"/>										
A1, A1X, A6, TC1	\$0.02053	\$0.02335	\$0.02423	\$0.02491	\$0.02497	\$0.02472	\$0.02460	\$0.02466	\$0.02466	\$0.02466
A10, A10X	\$0.02082	\$0.02368	\$0.02457	\$0.02526	\$0.02533	\$0.02508	\$0.02496	\$0.02501	\$0.02502	\$0.02502
E19	\$0.01752	\$0.01992	\$0.02067	\$0.02125	\$0.02131	\$0.02109	\$0.02099	\$0.02104	\$0.02104	\$0.02104
E20T (Transmission)	\$0.01445	\$0.01643	\$0.01704	\$0.01752	\$0.01757	\$0.01740	\$0.01731	\$0.01735	\$0.01735	\$0.01735
E20P (Primary)	\$0.01572	\$0.01787	\$0.01854	\$0.01906	\$0.01911	\$0.01892	\$0.01883	\$0.01887	\$0.01888	\$0.01888
E20S (Secondary)	\$0.01686	\$0.01916	\$0.01989	\$0.02045	\$0.02050	\$0.02030	\$0.02020	\$0.02024	\$0.02025	\$0.02025
Agriculture	\$0.02051	\$0.02332	\$0.0242	\$0.02488	\$0.02494	\$0.02470	\$0.02457	\$0.02463	\$0.02463	\$0.02463
LS1, LS2, LS3, OL1	\$0.00491	\$0.00558	\$0.00579	\$0.00595	\$0.00597	\$0.00591	\$0.00588	\$0.00589	\$0.00589	\$0.00589

Because each rate schedule has sub-populations of customers on various PCIA vintages, not every customer will receive the same value proposition. If the PCIA increases in 2019 as currently forecast, then new departing load in 2019 will pay a higher PCIA than customers who enrolled in EBCE in Phase 1. Therefore, for example, an A1 customer enrolled during EBCE's Phase 1 enrollment would realize more savings per kWh than an A1 customer enrolled after Phase 1.

Issue 3: When and How to Adjust Rates and the Value Proposition

EBCE will want to implement changes to rate schedules 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 poorly received, prompting customer dissatisfaction and opt outs.

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 ERRA 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 2019 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

Recommendations

Issue 1: Changing Rates vs. Changing the Value Proposition

EBCE staff recommend that adjustments to EBCE’s rate schedules to maintain that value proposition should be considered ministerial and not be considered “rate changes” that require a public comment period and Board approval. Revising the service level value propositions (e.g. offering a greater or lesser discount on Bright Choice) are rate changes triggering Board review and approval, whereas adjusting the rates schedules to maintain the Board-approved value proposition is not.

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 ERRA 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. This is consistent with the EBCE Implementation Plan.

EBCE’s Renewable 100 service likely will not need to change in response to PG&E generation rates adjustments, as it is priced as a floating 1 cent/kWh adder to whatever applicable rate schedule the account is on. EBCE’s Renewable 100 rates shall be evaluated when all EBCE rates are evaluated annually.

Issue 2: Serving Multiple PCIA Vintages

When adjusting rates, EBCE staff recommend using the greatest PCIA vintage by rate schedule, to ensure that the value proposition (e.g. 1.5% savings for Bright Choice and price parity for Brilliant 100) is achieved for all customers, regardless of their PCIA vintage.

Issue 3: When and How to Adjust Rates and the Value Proposition

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 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.

Note: an initial draft of this memo was presented to the Community Advisory Committee and feedback was provided.

Fiscal Impact

None