



Staff Report Item 15

TO: Ava Community Energy Authority Board of Directors

FROM: Howard Chang, Chief Executive Officer

SUBJECT: Review and Discuss Renewable 100 and Bright Choice Cost Allocation Methodology (Information Item)

DATE: July 17, 2024

Recommendation

Receive a presentation and discuss a Renewable 100 and Bright Choice Cost Allocation Methodology for proposed Board action in September

Background

Ava Community Energy (“Ava”) provides our customers with a choice of service plan. Bright Choice is priced at 5% below PG&E with a power content that includes about 50% renewables. Renewable 100 is priced at ¼ of a cent per kWh above PG&E, comprised of 100% California wind and solar energy.

Historically, Renewable 100 pricing has been set at a premium to PG&E rates. The premium is based on the differential cost to serve Renewable 100 customers relative to Bright Choice customers. Ava’s power procurement strategy includes both contracts and open positions – the open position being filled by market power, including the cost of renewable energy. Current renewable energy market prices have increased significantly. Previously, market prices were not as substantially different from our contracted price for renewable energy power. Therefore, any additional need for renewable energy to serve new Renewable 100 load is exposed to the high marginal cost of renewable energy power on the current market.

The current market cost of renewable energy has led to the question of how to allocate different costs of renewable energy across the Renewable 100 and Bright Choice products. In order to allocate costs between Renewable 100 and Bright Choice products through a transparent and consistent process, staff recommends adopting a Cost Allocation Methodology, to become effective in Fiscal Year 2025-2026, subsequent to this initial review and discussion by the board.

Additional information on cost allocation methodologies is included in the attached presentation. Staff aims to bring an action item to adopt a Cost Allocation Methodology to the September board meeting.

Fiscal Impact

This information item will have no fiscal impact.

It is anticipated that the Cost Allocation Methodology selected at a future Board meeting will not have a fiscal impact on the wholesale energy expenditures of Ava. However, the methodology selected will impact the retail price paid by Bright Choice and Renewable 100 customers.

- Option A maintains the current methodology and differential in price between the two products.
- Option B will increase the price paid by Renewable 100 customers and increase the discount to Bright Choice customers – increasing the differential in price.
- Option C will impact customers in the same way as Option B but with a greater differential in price between the two products.

Regardless of which option is eventually adopted by the Board, Ava will recover the expense for power purchases through its retail rates to customers.

Attachment

- A. Presentation

Renewable 100 Cost Allocation Methodology

July 10, 2024



1. Background
2. Renewable Cost Allocation
Methodology Options
3. Rate Implications
4. Feedback & Next Steps



Background

- Ava Community Energy provides our customers with a choice of service plan
 - Bright Choice: 50-60% renewables, priced at 5% below PG&E
 - Renewable 100: 100% renewables, priced at ¼ cent per kWh above PG&E
- Historically, Renewable 100 pricing is set at a premium to PG&E rates. This premium is set based on the differential cost to serve R100 customers relative to Bright Choice customers.
 - Certain components of the rates are rising
 - Historically Ava has blended all renewable energy costs uniformly across Bright Choice and R100 with the cost differential based on the increased % of renewable energy in R100.
 - Our historical method of allocating costs associated with energy components may not be the best option for our customers and our agency moving forward due to rising renewable energy costs and large changes to R100 city-wide opt-ups.

Ava requires a Cost Allocation Method to formally allocate procurement costs from renewables to develop our Renewable 100 and Bright Choice rates



Ava Service Plans: Renewable 100 and Bright Choice



Renewable 100 is 100% renewable energy



Bright Choice's power mix includes renewables and carbon-free energy

Reminder: renewable energy is tracked via Renewable Energy Certificates (RECs), which may be priced separately from energy



City of Fremont Renewable 100 Transition

- The City of Fremont adopted an updated Climate Action Plan (CAP) in October 2023
- Transitioning Fremont residents and businesses from Ava's Bright Choice to Renewable 100 is identified as a key step in meeting the City's climate goals; a step to be taken in the first three years after plan adoption
- Fremont and Ava staff started to collaborate on a plan to bring Council and Board items forward in time to meet Ava's May 2024 deadline for a transition in March 2025
 - Ava staff required additional time to forecast potential price impacts due to Fremont's default product change
- Ava will honor the intention of Fremont to begin to transition their constituents to Renewable 100 in 2025, despite the delay
 - Fremont Council approved either a Citywide transition in 2025 or a phased approach – residential in 2025 and non-residential in 2026, pending Ava's Board approval

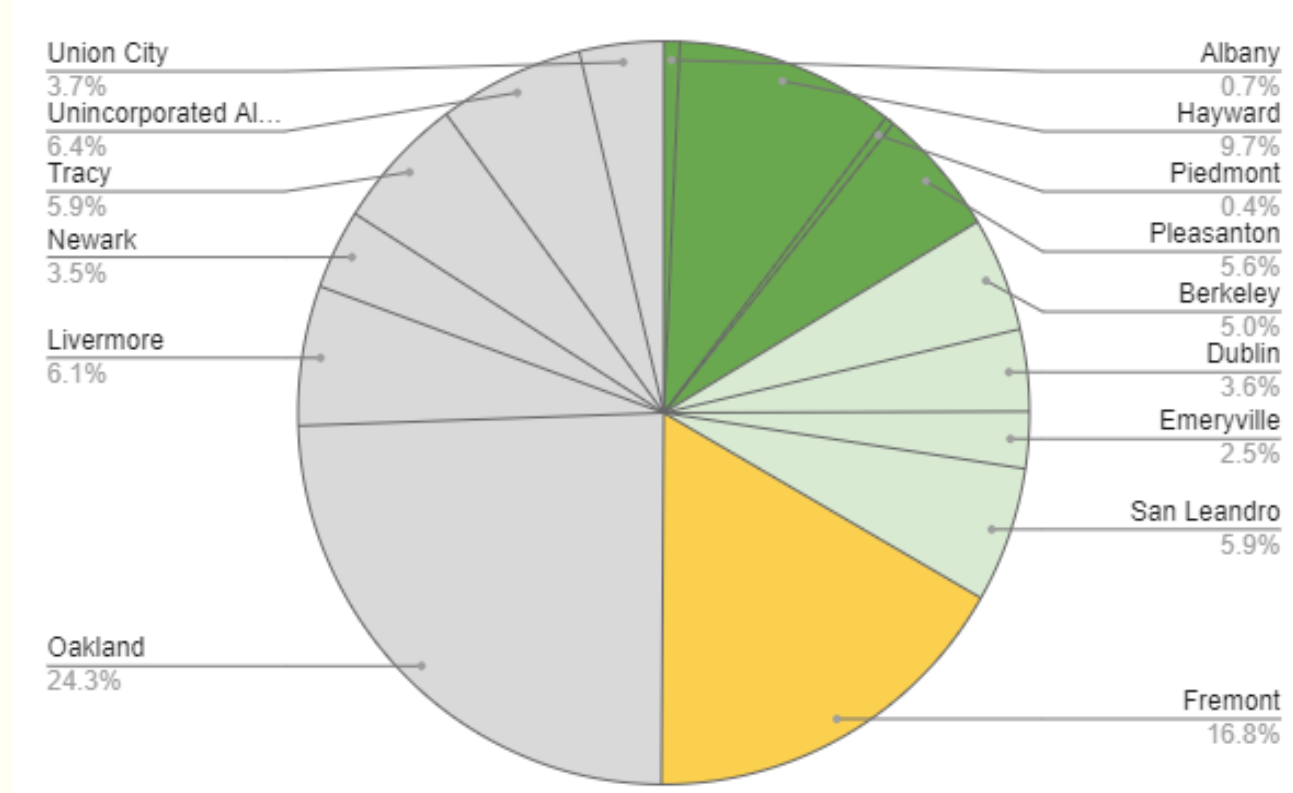


Why is there a Price Impact for a Fremont Opt-up, but not Historically?

1. Historical market prices for RECs were much more stable in 2021-2022 when other cities transitioned to Renewable 100 and the price for spot market RECs and long-term contracts was much tighter
2. Fremont's total load is greater than other cities that have previously changed their default service plan

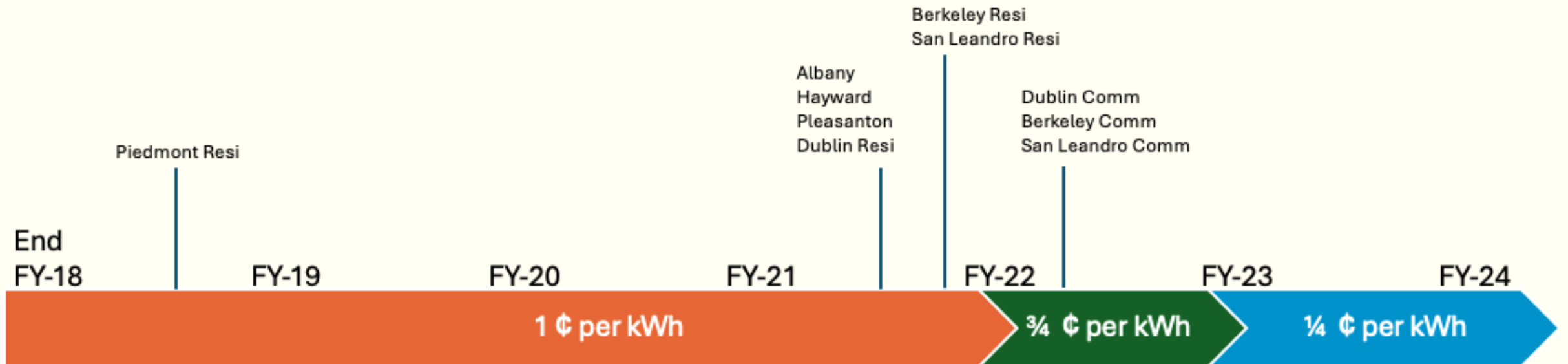
First tranche to default to R100

Second tranche to default to R100



Renewable 100 Premium over time

And city enrollment or transition timing



Cost Allocation Methodology Options



Options: How to Blend Renewable Energy Components into a Rate

Option	Description	Methodology
A	Blended REC cost	REC price is averaged across entire portfolio at the same cost/MWh for Bright Choice and R100
B	Proportional allocation of historical recs	The historical REC portfolio blended cost is allocated proportionately to the current load across BC and R100. Incremental renewable purchases are allocated to the open positions. With new R100 opt-ups a larger proportion of marginal procurements is allocated to R100. This widens the cost differential.
C	Bright Choice target hedge levels prioritized first	The historical REC portfolio blended cost is prioritized towards Bright Choice targets first and then allocated to R100. This further widens the cost differential in the current high priced environment.



Energy Prices

- In today's energy market environment, renewable energy prices have increased significantly from the historical range of \$10-15/MWh to \$70-80/MWh on a current year basis
- This is driven by a wide variety of market dynamics, which include increased demand for renewable energy, increased load and weather extremes, renewable energy supply chain disruptions, interconnection challenges, out of state energy demand, etc.
- While there are opportunities to reduce this cost with new build and longer-term contracts, incremental renewable energy procurement is anticipated to be at elevated prices for the near term



Rate Implications



Cost Allocation Methodology Scenarios

- 2024-2025 fiscal year rates are not currently under discussion as procurements are set with no material impacts to costs because Fremont opt-up will be in April 2025 and likely phased
- Calendar year 2025 Bright Choice to R100 rate differential is ~0.75 cents/KWh
 - Bright Choice at 5% discount to PG&E; R100 at 0.25 cent/KWh premium to PG&E

Renewable 100 to Bright Choice Cost Differential

	Option A	Option B	Option C
2025-2026 Cost Differential	Differential maintained	Option A + 0.25 cents	Option A + 0.5 cents
2025-2026 Value Proposition	BC: 4% discount R100: 0.30 cents	BC: 5% discount R100: 0.45 cents	BC: 5.5% R100: 0.65 cents
2026-2027 (Assume continued elevated prices and potential additional R100 opt-ups)	Costs will likely continue to increase and further widen, which puts pressure on the BC discount to decrease and R100 premium to increase.		



Considerations

- Increased renewable energy demand at higher prices will increase Ava procurement costs and put increased pressure to reduce the value proposition in future years
- Options B and C allow the BC discount to be maintained in the face of rising costs
- Operationally, options B and C would increase complexity from a cost accounting perspective, requiring specific contract allocations by product and perhaps R100 vintage year
- It is important for staff to receive direction from the board in order to allow for time to implement systems and processes if the cost allocation methodology is to change and to properly inform cities with R100 opt-up interest on cost/rate forecasts
- The impacts of the increased marginal costs of incremental renewables procurement can be muted by signing longer term contracts, but this also increases risk in future years as long-term contracts are at elevated levels relative to recent past and compliance requirements and emissions accounting methodology are expected to change.



Policy Considerations

- A choice for Option A may seek to keep Bright Choice and R100 pricing closer as these products converge in future years as Bright Choice approaches its goal of 100% clean by 2030
 - It may also seek to incentivize greater participation in R100
- A choice of Option C may seek to minimize the costs of Bright Choice to address affordability concerns for our most vulnerable customers
 - There may also be other ways to adjust Bright Choice if cost minimization is the goal
- Historically Ava has never vintaged different rates based on timing of Bright Choice or R100 decisions or based on timing of city expansion/enrollments



Estimated Impact of Different CAM Options and Future Renewable 100 Load

- It is difficult to predict future Bright Choice and R100 rates given the uncertainty of future market conditions and renewable energy costs
- It is likely that the elevated pricing environment will persist and the overall rate impacts provided on slide 12 will remain consistent even if the levels change
- It is expected that the emissions accounting methodology will change in the future to account for emissions on a 24x7 basis, which may have a significant impact on how we procure for R100 and Bright Choice. This could lead to a more complicated cost accounting system and PPA allocation by product
- Intend to bring forward additional analysis of potential pricing impacts with future additional city opt-ups



Feedback from the Finance, Administrative and Procurement Committee

- The committee asked many questions but primarily focused on:
 - Impact to existing Renewable 100 customers
 - Impact and possible precedent for future requests to transition a community's default product to Renewable 100
- While a couple members of the committee supported option C, it was generally agreed that this topic would need more time for socialization amongst other board members.



Next Steps

- Seeking feedback on the cost allocation methodology now
- Intend to bring the cost allocation methodology for board action September 18, 2024 and consider additional sub-committee review
- Staff to use this methodology to set pricing for FY2025-2026



Thank you!



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