Ava Community Energy

Renewable 100 Cost Allocation Methodology

July 10, 2024

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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

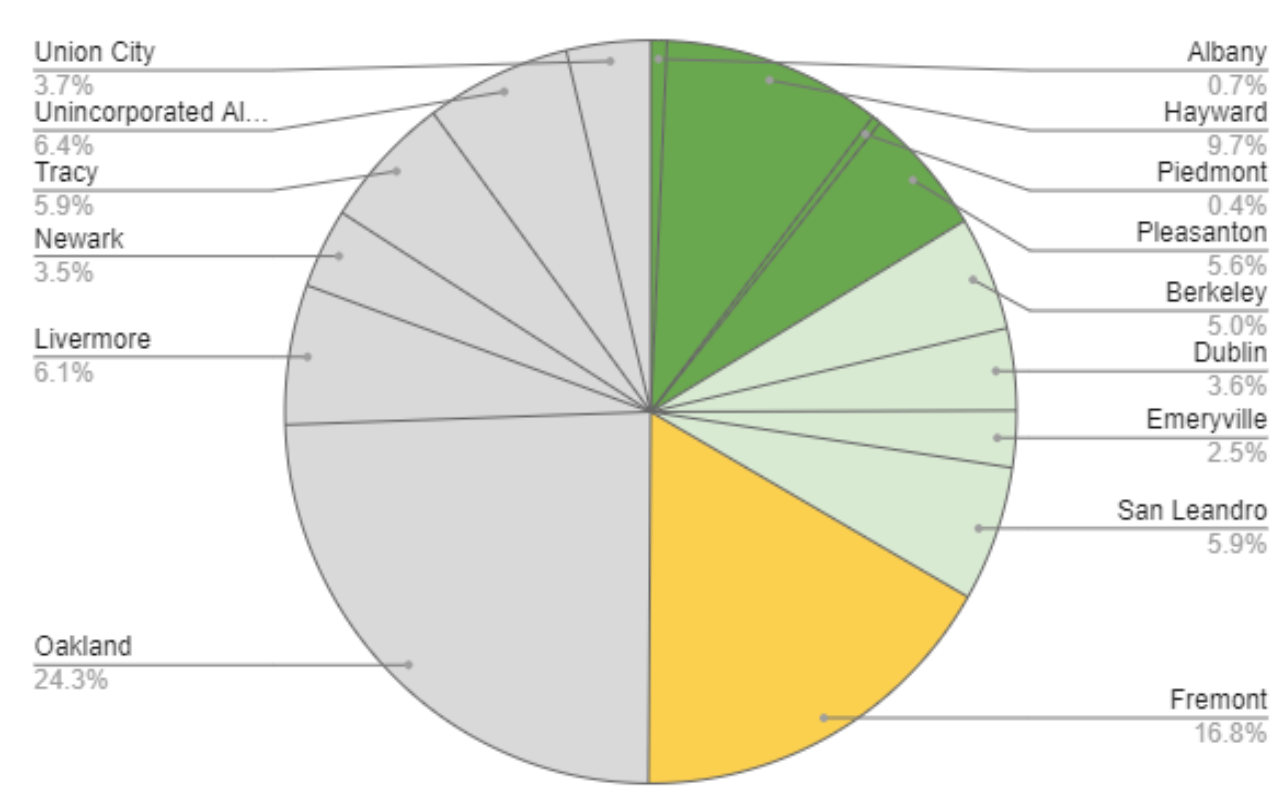
- The City of Fremont adopted an updated Climate Action Plan (CAP) in October 2023
- Transitioning Fremont residents and businesses from Ava's Bright Choice to Renewable 100 is identified as a key step in meeting the City's climate goals; a step to be taken in the first three years after plan adoption
- 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



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.

Next Steps

- Seeking feedback on the cost allocation methodology now
- Intend to bring the cost allocation methodology for board action July 17, 2024
- Intend to bring the Fremont city-wide R100 opt-up decision for board action July 17, 2024 to approve the R100 opt-up and the phasing timeframe
- Staff to use this methodology to set pricing for FY2025-2026

Thank you!

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