



March 19, 2020

TO: MCE Board of Directors

FROM: Justin Kudo, Strategic Analysis and Rates Manager

RE: Dynamic Rates for Upcoming Solano Inclusion (Agenda Item #13)

Dear Board Members:

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### **SUMMARY:**

Staff has examined potential rate scenarios during the inclusion period for unincorporated Solano County customers and identified the potential for PG&E rates to have multiple changes during the first year of service. To ensure that the cost differential for these new customers is closely aligned with enrollment notices and communications, staff recommends that the Board consider directing staff to create rates which allow these customers to have costs that are at or below PG&E customer costs for the first year of service in unincorporated Solano County.

MCE's rates for its other customers would be unaffected by this proposal, and potential changes to MCE's standard rates will be assessed at a future date when PG&E's rates and PCIA charges become known. The financial impacts to MCE of this proposal, discussed later in this report, are limited due to the relatively small number of affected customers.

The Executive Committee reviewed and discussed the proposed Dynamic Rates for upcoming Solano County inclusion at its March 6, 2020 meeting, and voted unanimously to recommended approval to the full Board.

### **Background**

Due to delays in PG&E's 2019 and 2020 rate implementation, PG&E rate adjustments are expected to result in two (or more) off-cycle rate changes later in 2020. The impact and timing of these adjustments are still subject to change, but staff currently anticipates that PG&E's Power Charge Indifference Adjustment (PCIA) charges could increase and generation rates could decrease, which could push PG&E's customer's comparable costs below MCE's.

Much of the anticipated increase in PCIA for 2020 is due to a true-up for PG&E's under-recovery of PCIA costs during 2019. Since the Unincorporated Solano County customers were served by PG&E during 2019 and did not contribute to the under-collection, MCE believes these customers should not be subject to higher PCIA costs related to recovery of the under-collected 2019 PCIA costs.

Typically, MCE inclusion periods have occurred after MCE and PG&E's annual rate changes, facilitating clear forecasting and communication of near-term costs to pending customers. In this inclusion period, PG&E rate changes are likely to begin on May 1<sup>st</sup>, following the unincorporated Solano County inclusion month (April), making communication with customers on cost differences challenging. Current marketing language has therefore been general in describing MCE service as "cost competitive" with PG&E service.

To address these issues, staff examined the feasibility of setting dynamic rates for customers in the upcoming enrollment. Unlike current rates which are typically established once annually and then left unchanged, dynamic rates would be adjusted to mitigate the impacts of each change to PG&E rates, which would effectively provide bill protection to MCE's new customers for a period of one year. Dynamic rates could be applied for the first year of service (April, 2020 – March, 2021) in unincorporated Solano County, to allow clear customer communications about costs and avoid potential confusion. what happens second year? Issue bonds?

### Comparative Costs

One of the key ways that MCE communicates costs to customers is by their relative total MCE cost compared to what the total cost would otherwise be assessed by PG&E. MCE currently operates with a slight savings in cost for customers compared with PG&E, communicated on MCE's website, notifications, and marketing materials. These are updated with most PG&E rate changes, except those that do not affect MCE's comparative costs.

Comparisons between MCE and PG&E costs are calculated by comparing PG&E's and MCE's generation rate, plus applicable Power Charge Indifference Adjustment (PCIA) and Franchise Fee Surcharge (FFS) rates. Upcoming expected changes to PG&E generation and PCIA rates will directly impact comparative costs between MCE and PG&E service.

### Projected PG&E Rate Changes

PG&E generation and PCIA rates will be affected to some degree by several pending or approved decisions at the California Public Utilities Commission:

- The Annual Electric True-Up for 2020, expected to result in a **1% generation rate increase** (PG&E AL-5661-E)
- The Tax Cuts and Jobs Act of 2017 reduced PG&E costs and therefore resulted in their rates being set too high; this correction will be refunded and result in an approximately **2% generation rate reduction** (D.19-08-023)
- An update to PG&E's fuel and purchased power cost forecast, resulting in an approximately **5% generation rate reduction and annual PCIA change** (A.19-16-001)
- Implementation of PG&E's 2020 General Rate Case Phase 1, resulting in an approximately **3% generation rate increase** (A. 18-12-009)
- Implementation of PG&E's 2020 General Rate Case Phase 2, resulting in an approximately **5% generation rate reduction** (A.16-06-013)
- The Annual Electric True-Up for 2021, expected to result in a **3% generation rate increase**.

Overall, these changes suggest that PG&E's generation rates should decrease, but subsequent market or regulatory changes could cause them to be either higher or lower than expected. The PCIA is expected to increase by about \$0.005 to \$0.006/kWh (about \$2.75 on the typical household monthly bill), subject to the current cap on PCIA rate changes. The scope of these changes varies based on customer class (e.g. residential, small commercial, agricultural, etc.) and the year they moved to MCE service.

Staff also notes the potential for a second PCIA rate change in 2020 if any changes are made to the PCIA cap. It is currently unknown if PG&E would apply for such changes in the upcoming year, or how they would be resolved; figures in this report assume our current best estimates.

### Dynamic Rate Structure

To protect Solano County customers from having volatile cost comparisons between MCE and PG&E during the first year of their upcoming enrollment, staff recommends adjusting applicable rates for these customers with each PG&E rate change. Staff could account for PG&E changes to the PCIA and generation rates, and set new rates which achieve a customer cost that is at or below the PG&E customer cost.

This proposal would apply to rates for Light Green service. Deep Green customers would also benefit from these rates, because Deep Green is a flat \$0.01/kWh adder on the Light Green rate. Local Sol service is directly tied to resource costs and would remain at its normal rate.

Adjusting MCE rates typically takes between two and three weeks of development time. In the event that we are provided short notice on a PG&E rate change, Solano County customer rates would be updated as soon as possible given the lead time needed to calculate and implement an appropriate rate. This may result in brief gaps in adjustment to the dynamic rate, but should have minimal impact.

### Fiscal Impacts

Staff analyzed costs based on unincorporated Solano County's 2018 usage, assuming an opt-out rate of 7% of total load and a wide range of possible PG&E rate changes. Setting dynamic rates for the 12-month period is expected to cost approximately \$1,986,382, depending on the final PG&E rates and implementation timing. Additionally, development costs to implement rate changes are expected to total \$12,000. These costs represent approximately 0.5% of MCE's projected revenues for FY 2020/21.

Several factors could reduce or increase these costs, including but not limited to: enrollment rate, PCIA cap removal, direct access enrollments, load changes, or PG&E actual rates.

### Recommendations:

Direct staff to implement dynamic rates for new customers in Solano County by adjusting rates for these customers as necessary to maintain cost parity or cost savings compared to PG&E customer costs.