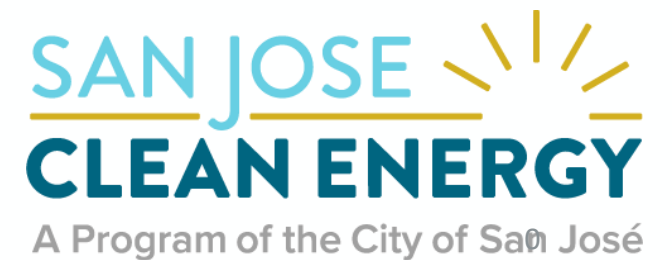


# SJCE COST OF SERVICE STUDY FOR 2023 RATES

Clean Energy Community Advisory Commission

November 3, 2022

Joe Flores, Deputy Director



# AGENDA

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- Strategic Plan Framework Recommendations
- SJCE Financial Update
- Cost of Service (COS)
  - Process
  - Results
- SJCE Rate Strategy
- Next steps

# STRATEGIC FRAMEWORK PLAN RECOMMENDATIONS

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*Commissioned Deloitte & Touche, LLP - Strategic Plan Framework for 2023 – 2025*

- Adopt cost of service model for setting rates
- Build reserves of 180 days' worth of operating expenses to strengthen financial resiliency

# SJCE FINANCIAL UPDATE

*Despite costs associated with extreme heat event in early September, SJCE continues to be on track to be able to begin repaying Commercial Paper in FY 22-23*

| Unrestricted Ending Fund Balance |                     |                     |                              |
|----------------------------------|---------------------|---------------------|------------------------------|
| 2019-2020<br>Actual              | 2020-2021<br>Actual | 2021-2022<br>Actual | 2022-2023<br>Modified Budget |
| \$23,519,000                     | \$8,124,000         | \$80,614,000        | \$170,986,000                |

Rate adjustments enacted by the City Council in December 2021 and lower PCIA charges beginning in early 2022 significantly improved the budgetary position of SJCE

# RATE SETTING IN THE PAST, FIX TO IOU STANDARD RATES

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*Common for Community Choice Aggregator (CCA) to fix rates to Investor-Owned Utility (IOU) standard rates*

## Benefits

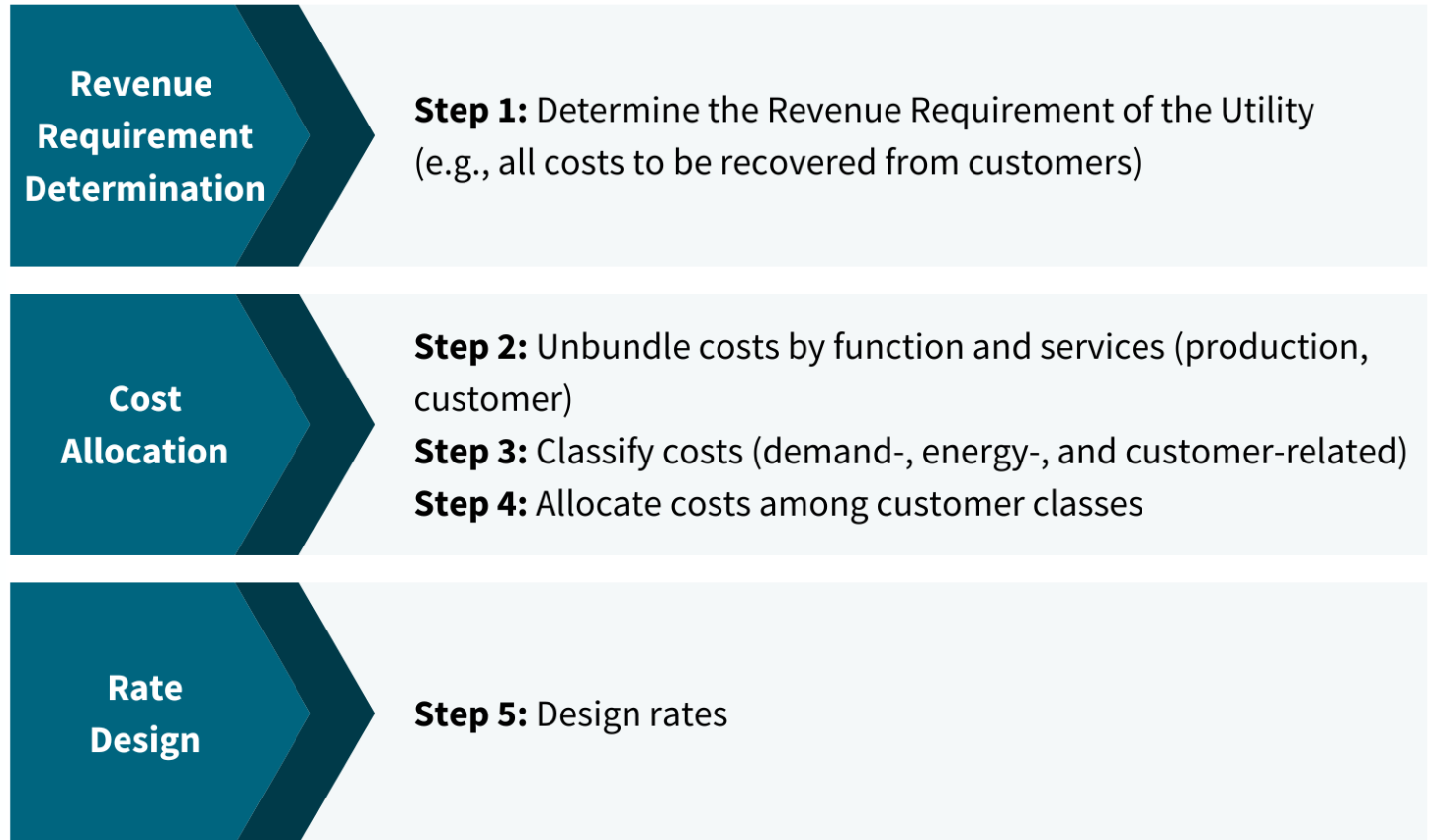
- CCA can start up operations quickly
- Easy for customers to understand rates under new service provider
- Establish customer confidence

## Challenges

- IOU rates rise and fall, so does CCA rates
- Volatile IOU added fees
- Limits ability to set rates that fully recover costs
- Impacts CCA ability to build reserves

# COST OF SERVICE PROCESS

- Industry-accepted framework for utility rate-setting
- Determines the total costs incurred by a utility in providing service to its customers and the allocation of those costs to customer classes

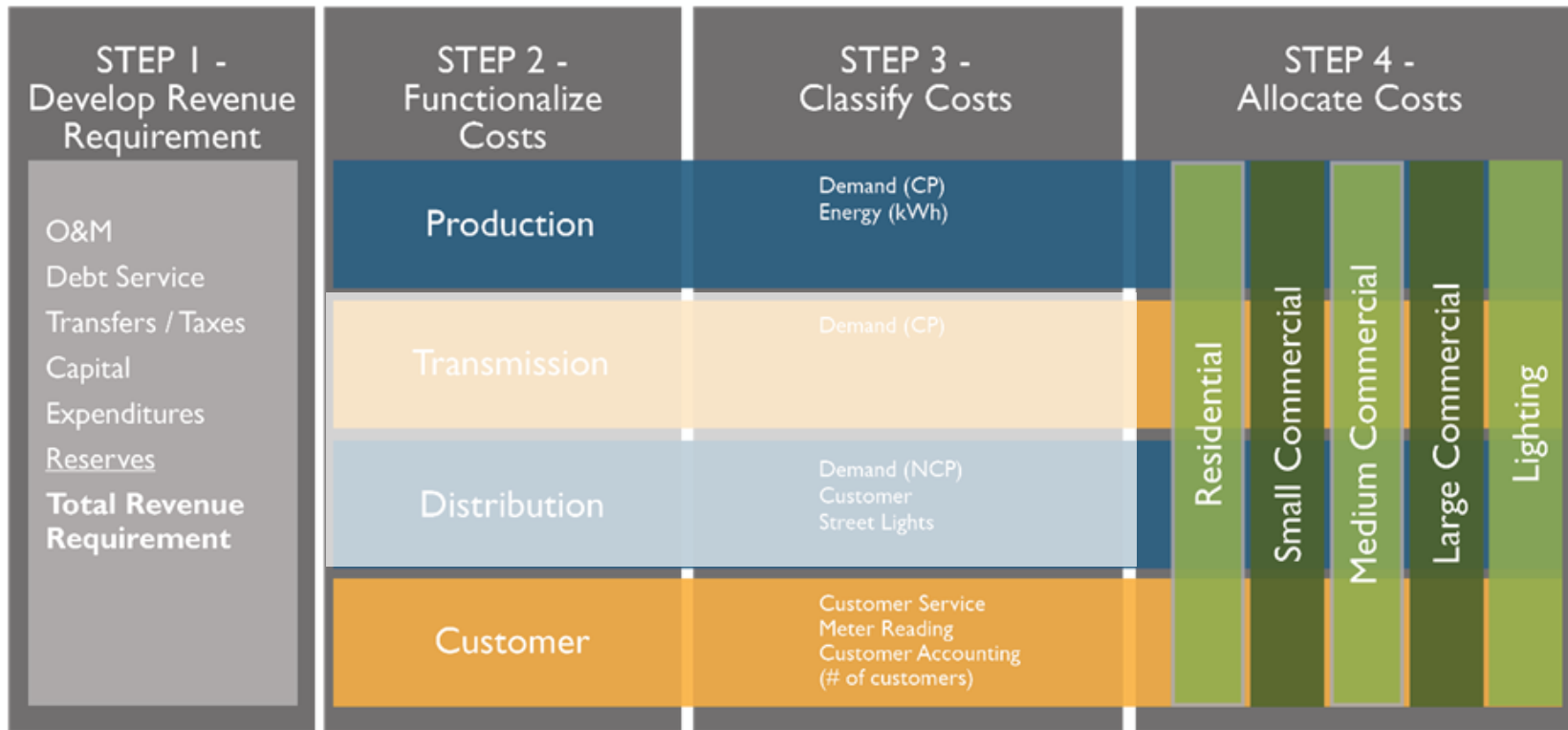


# REVENUE REQUIREMENT

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- Base Year/Test Year data comes from SJCE financial forecast of revenues and expenses
- Test Year data is a 3-year average (FY 2023–2025) to support longer term rate making where possible
- Current SCJE rates are applied to annual billing data to derive revenues to compare to Test Year Revenue Requirement
- ***Power supply costs are more than approximately 75% of operating expenses***; fluctuations in market costs and power supply will impact total Revenue Requirement

# COST ALLOCATION

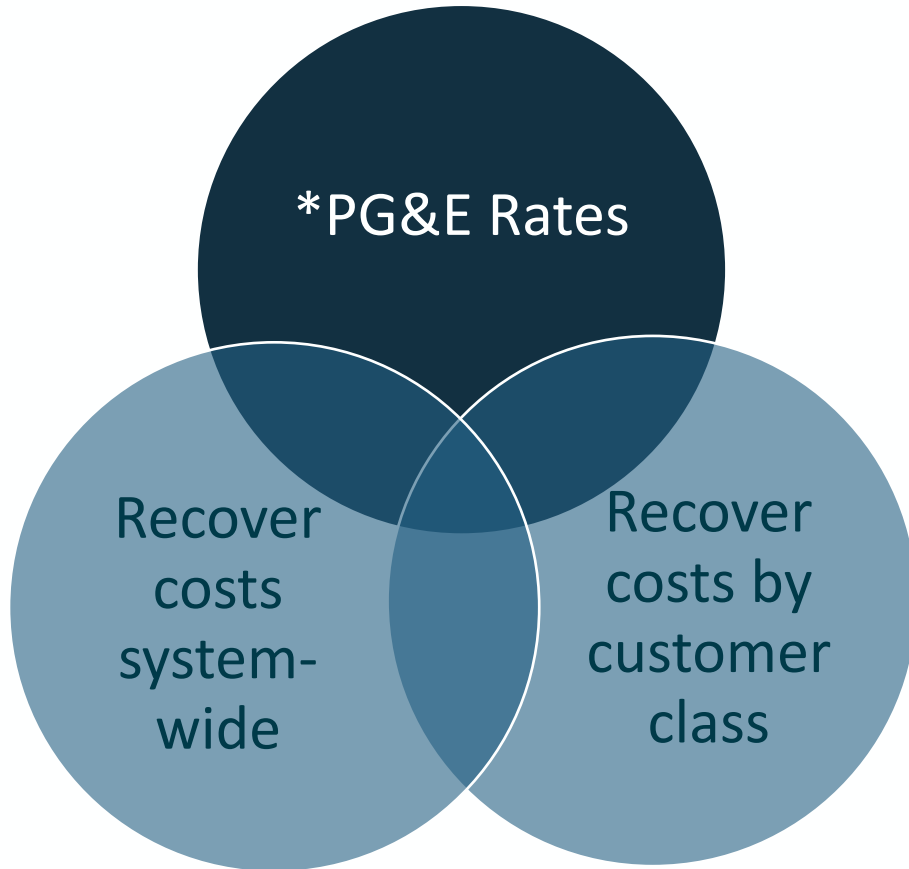


Conventional COS rate making takes COS results then designs rates to recover COS. The process is slightly different for a competitive market and offering....



# DESIGNING RATES IN COMPETITIVE MARKET

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- Complete cost of service study to ensure all costs are recovered and meet financial goals
- Review current rates to determine if they recover costs
- Consider all competitive service options (i.e., compare to PG&E)
- Design competitive rates

\*PG&E rates are not necessarily representative of SJCE's cost to serve.

# COST OF SERVICE RATE DESIGN BENEFITS

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**Local Control:** Enhances the City Council's discretion and autonomy to set rates that recover the full cost to provide service while achieving financial and clean energy goals

**Fairness:** Enables SJCE to design rates to recover the cost to serve customers fairly among rate classes

**Competitiveness:** Ensures that SJCE rates and service options remain competitive with investor-owned utility rates

**Predictability:** Provides the ability to decouple from investor-owned utility volatility in rate setting and provide customers more consistent and transparent rates

**Simplicity:** Avoids the tracking of complicated and sometimes illogical rate class structures and the rate setting processes of the investor-owned utility

PG&E rates will always be considered in SJCE's rate setting process to facilitate customer bill comparisons.



# **SJCE 2023 COST OF SERVICE RESULTS**

# 2023 SJCE REVENUE REQUIREMENT

All costs that need to be recovered from customers determines the projected SJCE revenue requirement

|   | Forecasted CY 2023 Total Revenue Requirement (Millions) |                 |              |
|---|---|-----------------|--------------|
|   | Better  | <i>Expected</i> | Worse        |
| Power Supply Payments                                     | \$343   | \$363           | \$390        |
| Operations, General, Administrative and Interest Payments | \$34  | \$34            | \$34         |
| Contribution to Reserve                                   | \$66  | \$66            | \$66         |
| <b><i>Total Revenue Requirement</i></b>                   | <b>\$443</b>  | <b>\$463</b>    | <b>\$490</b> |

# 2023 CONTRIBUTION TO OPERATING RESERVE

|   | Forecasted CY 2023 Contribution to Operating Reserve (Millions) |                     |                    |
|---|---|---------------------|--------------------|
|   | Better  | <i>Expected</i>     | Worse              |
| Total Revenue Requirement                                     | \$443   | \$463               | \$490              |
| Cash Collected from Energy Sales <u>IF</u> Current Rates      | \$504   | \$504               | \$504              |
| Potential Additional Contribution to Operating Reserves       | \$61  | \$41                | \$14               |
| Contribution to Operating Reserve from Revenue Requirement    | \$66  | \$66                | \$66               |
| <b><i>Total Contribution to Reserves at Current Rates</i></b> | <b><i>\$127</i></b>   | <b><i>\$107</i></b> | <b><i>\$80</i></b> |

# 2023 ENDING BALANCES

*The CY 2023 Unrestricted Cash is comprised of CY 2022 Unrestricted Cash, Contribution to Reserves in 2023, net of Commercial Paper loan repayment, and not inclusive of \$20 million Restricted Cash.*

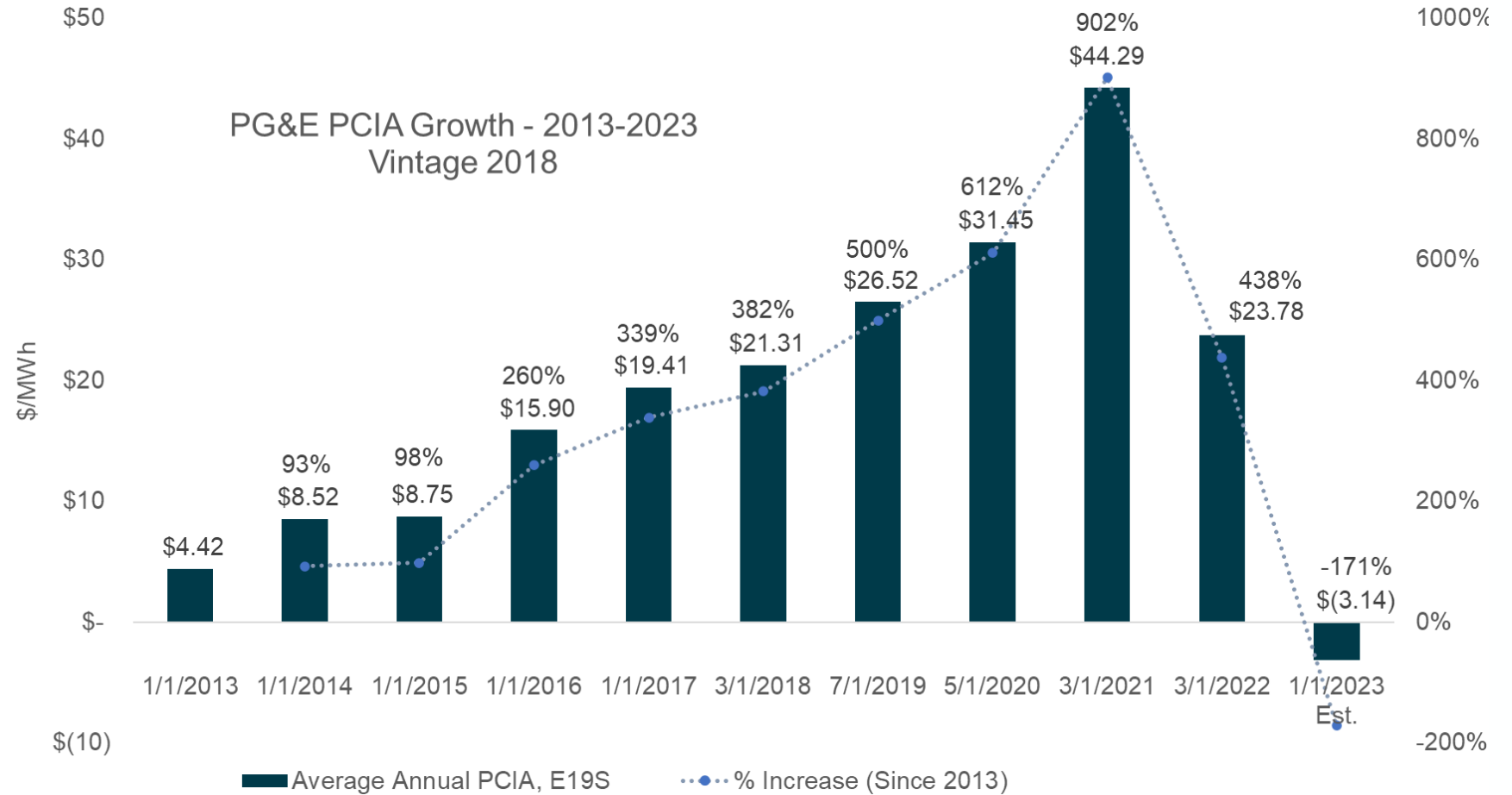
|  | Forecasted CY 2023 Ending Balances (Millions) |                 |              |
|--|---|-----------------|--------------|
|  | Better  | <i>Expected</i> | Worse        |
| <b>CY 2023 Unrestricted Cash</b>                         | <b>\$230</b>                                  | <b>\$185</b>    | <b>\$133</b> |
| <b>Operating Reserve in Days @\$1M per day, Dec 2023</b> | <b>230</b>                                    | <b>185</b>      | <b>133</b>   |



# **SJCE 2023 RATE STRATEGY**

# PCIA VOLATILITY

- In 2023, the PCIA is expected to be **-\$3.14/MWh**; SJCE will assume \$0
- Every \$0.005¢/kWh increase in the PCIA represents \$18 million in lower SJCE revenues



Note that the PCIA value is the average PCIA for the year. The date is when the PCIA changed to reflect the new rate for the rest of the calendar year.



# BUILD RESERVES, OFFER COMPETITIVE RATES

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*Use forecasted margin between the cost of service and expected PG&E generation rates and added fees applicable in 2023 to build operating reserve to provide ability to keep rates stable in the future*

- **GreenSource** – Charges lower than 2022, expected to be at small discount to PG&E
- **GreenValue** – Transition to GreenSource service
- **TotalGreen** – Maintain at \$0.005 or \$0.01 above GreenSource
- **SJ Cares** – Increase the discount from 5% to 10% below GreenSource, maintain the same power mix as GreenSource

SJCE customers expected to see a reduction in monthly generation charges

# NEXT STEPS

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- Staff will further evaluate the Cost of Service summary report and PG&E October filing to develop SJCE power mix and rates recommendations for consideration at the December 6, 2022 City Council meeting

# DISCUSSION AND DRAFT COMMISSION RECOMMENDATION

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The Clean Energy Community Advisory Commission (Commission) expresses appreciation for the work to conduct the SJCE cost of service study and findings that will allow SJCE to keep rates aligned to underlying costs, build operating reserves for resiliency, and set rates to address local goals.

The Commission agrees with staff recommendation to offer GreenSource at a lower-cost than 2022 and maintain renewable energy content at 60%; maintain TotalGreen's premium relative to GreenSource; and increase the discount for SJ Cares from 5% to 10% below GreenSource, maintain the same power mix as GreenSource.

The Commission appreciates that SJCE customers are expected to see a reduction in monthly generation charges.