CLEAN POWER ALLIANCE

Locally powered energy innovation.

Item 6
2021 Rates Update & Potential Cost Reduction Actions

Thursday, February 18, 2021

Summary

- SCE's 2021 rates and PCIA are placing downward pressure on CPA revenues

- A number of factors are placing upward pressure on CPA's costs, although detailed dollar impacts are still being refined
  - Resource Adequacy prices
  - Energy market prices
  - Bad debt expense
  - Congestion costs and CRR market values

- Staff has begun to evaluate options for reducing costs
  - Product content adjustments
  - Reductions in operating expenses

- Analysis is ongoing and staff will present cost of service model results and more detailed financial analysis to Executive Committee in March

2021 Rates Recap

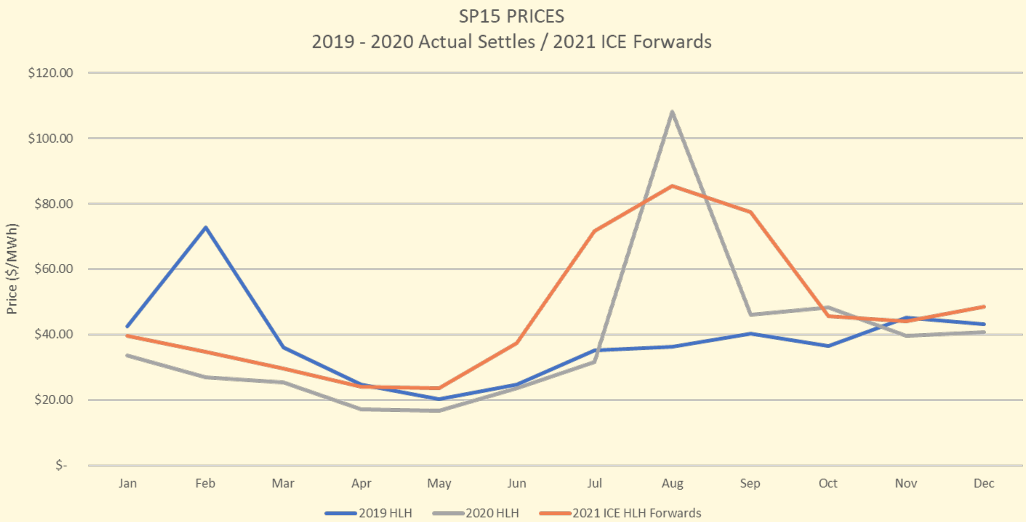
- As discussed at the last Board meeting, SCE changed rates on Feb. 1, 2021
  - SCE Delivery charges up ~14% for all customers
  - PCIA up 27% for CPA customers
  - SCE generation rates flat
- SCE is expected to change rates again June 2021
  - SCE Delivery will increase again for all customers; likely more than 10%
  - PCIA for CPA customers stay flat
  - SCE generation rates increase ~1.5%-3%
- Full year impact of adjusting CPA rates downward based on February rates would have resulted in a revenue reduction of 8% or ~$65 million
- Delaying a rate change until after SCE's June rate change saved ~$44 million and allows staff to conduct an analysis of options

2021 Cost Considerations: Resource Adequacy and Congestion

- **Resource Adequacy (RA)** costs have sharply increased in 2021 due to tight supply conditions exacerbated by more restrictive regulations
    - RA contracts for 2021 were substantially more expensive than 2020
    - CPA forecasts FY21/22 RA costs to be **35% higher** than FY20/21, with the greatest increases in calendar Q4
- **Congestion Revenue Right** (CRR) net revenues are expected to decline due to lower CRR allocations by the CAISO, leading to increased cost to procure CRRs to hedge congestion

2021 Cost Considerations: Energy Market Prices

- CAISO market **energy prices** are forecast to increase due to concerns of tight supply during the evening ramp and the risk of summer heat events like those that occurred in August and September 2020



2021 Cost Considerations: Bad Debt Expense

- **Bad debt expense** has trended sharply upward since 2020 as a result of COVID-related economic impacts and the suspension of disconnections
  - 2020 bad debt expense was 3.5 times baseline levels
  - With the moratorium on disconnections ending sometime in 2021, bad debt may decline, but could still remain as high as 3 times baseline levels

- CPA will be encouraging customers to participate in the CPUC-directed Arrearage Management Plan (AMP) administered by SCE
  - Under the plan, past due balances are forgiven if customers adhere to a payment plan for a year
  - CPA is compensated for its portion of forgiven balances as part of the CPUC program

Cost Reduction Opportunities: Lean Power Content

- The Lean Power product is currently targeting 40% renewables, made up primarily of PCC2 resources (out of state renewables)

Lean Power Option	FY 2021/2022 Savings	Considerations
1. Meet 40% renewables target with unbundled RECs (PCC3)	~$4.6 million	• Maintains current renewable content target • JPA discourages use of unbundled RECs • Results in higher GHG emissions profile
2. Change target to 40% carbon-free energy (large hydro) **STAFF RECOMMENDATION**	~$7.2 million	• Lower GHG emissions profile than current Lean Power target or Option 1 above • Reduces overall CPA renewables portfolio • Move from renewables to carbon-free highlights the value tradeoff for the Lean Power product

- Product content is measured for the calendar year, so each of these scenarios would also yield savings in FY 20/21 and FY 22/23

Cost Reduction Opportunities: Clean Power Content

- The Clean Power product is currently targeting 50% renewables, made up of a mix of PCC1 (in-state) and PCC2 (out-of-state) resources

Clean Power Option	**FY 2021/2022 Savings**	**Considerations**
1. Shift from 50% renewables target to 50% clean energy target (45% RPS, 5% carbon free)	~$5.4 million	• Renewables continue to surpass SCE • Reduces overall CPA renewables portfolio • GHG emissions profile continues to be lower than SCE
2. Shift from 50% renewables target to 50% clean energy target (40% RPS, 10% carbon free) **STAFF RECOMMENDATION**	~$9.3 million	

Cost Reduction Opportunities: 100% Green Power Content

- The 100% Green Power product is currently 100% renewables, made up of solely PCC1 resources

100% Green Power Option	FY 2021/2022 Savings	Considerations
1. Shift from 100% PCC1 target to 90% and 10% PCC2	~$0.5 million	• The value proposition of 100% Green Power is based around a “Gold Standard” 100% PCC1 renewable portfolio • PCC2 renewables are close in price to PCC1, resulting in minimal cost savings
2. Shift from 100% PCC1 target to 80% and 20% PCC2	~$1.0 million	
STAFF RECOMMENDS NO CHANGES TO THE 100% GREEN POWER PRODUCT		

Power Content Emissions Impacts

- The following table shows the impact of the individual product content options from the previous slides on CPA's overall energy portfolio
- The 100% Green Options would not change total renewable and carbon free content and are not shown

	Year	Portfolio Renewable	Portfolio Carbon Free	Total Portfolio GHG Free
Current Portfolio (baseline)	2020	**60.9%**	**6.6%**	**56.8%**
Lean Power with Carbon Free*	2021	-8.8%	4.6%	6.5%
Lean Power with PCC3	2021	0.0%	-3.9%	-2.1%
Clean Power 40% RPS/10% Carbon Free*	2021	-5.6%	-1.3%	-4.7%
Clean Power 45% RPS/5% Carbon Free	2021	-2.9%	-3.9%	-4.7%

	Year	Portfolio Renewable	Portfolio Carbon Free	Total Portfolio GHG Free
Total Portfolio with Staff Recommendations	2021	**46.5%**	**9.9%**	**58.5%**

*Staff recommendation

Next Steps

- Bring portfolio content changes for 2021 and 2022 to the Board in April
- Refinement of cost and revenue forecasts ongoing
- Staff will return to Executive Committee in March with the following
    - Detailed costs of service analysis
    - Financial model highlights with detailed revenue and cost estimates
    - Options for further mitigating cost and revenue impacts with a focus on maintaining competitive rates for most customers