CLEAN POWER ALLIANCE
Locally powered energy innovation.

Item 5
2021 Rate Setting Approach Options

Thursday, April 22, 2021

Rates Recap

- CPA must adopt new rates in June in concert with the FY 2021/22 budget. Rates will need to go up to cover CPA's rising energy costs
- At the May 6 Board meeting, staff will request formal adoption of a "rate-setting approach" so that final rates which meet CPA's FY 2021/22 revenue requirement can be prepared
- At the April 1 Board meeting, three possible rate setting approach options were presented to the Board, followed by a robust discussion
- Based on Board feedback, staff refined some options, discarded others, and developed new ones
- On April 21, the Executive Committee endorsed a modified Cost of Service option
- **Today we seek feedback from the CAC on the options, including specific principles the committee may wish to support and/or concurrence with the Executive Committee endorsement**

Summary of Energy Cost Drivers

- A number of factors are placing upward pressure on CPA's costs and/or downward pressure on revenue:

	Dollar Impact from Previous Year	Ability to Change (Short-Term)	Ability to Change (Long-Term)
Resource Adequacy prices	+$73 million	None	Medium
Energy market prices	+$187 million	None	Medium
Bad debt expense	+$1.7 million	Low	Medium
Congestion costs and CRR market values	+$11 million	None	Low

- Renewable costs continue to fall, though not enough to make up for the increase in other areas
- On April 1, the Board took additional steps to realize ~$16.7m in annual savings in purchases of renewable energy for 2021 and 2022 by reducing the renewable energy content in the Lean and Clean power products

Rate Setting Timing Considerations

- The timing of SCE’s rate setting process mean SCE’s rates do not fully reflect current energy market conditions
  - SCE’s generation rates were set based on forecasts of energy and capacity prices in Fall 2020
  - Since then, energy forwards and capacity prices have risen significantly
  - These impacts are not reflected in the rates SCE implemented in February nor will they be reflected in the expected summer rate change

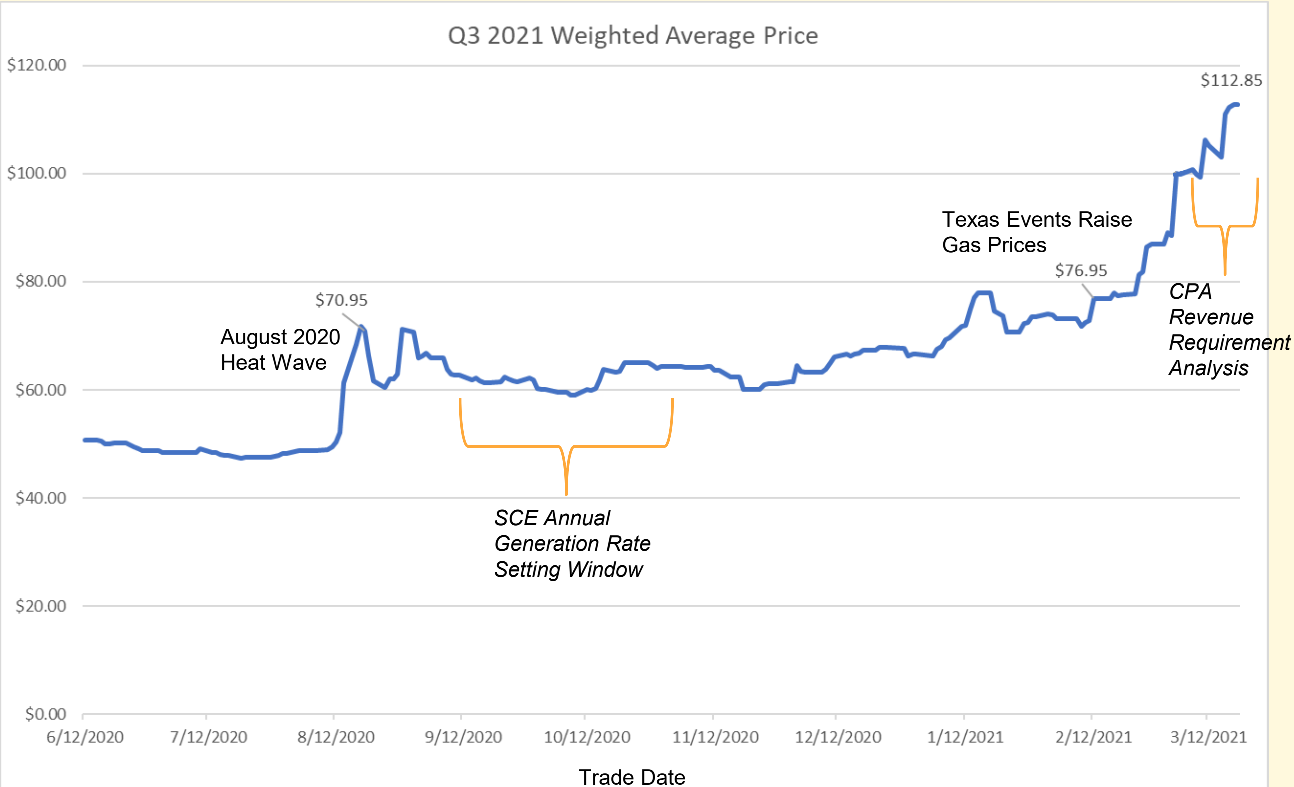
- If SCE’s rates do not cover costs in 2021, they will raise rates in Q1 2022 to make up the difference

- CPA must set rates to cover its current cost forecast

- CPA may adjust rates again in Q1 2022 when SCE’s new generation rates and PCIA go into effect, particularly if CPA is running ahead of budget

Rate Setting Timing and Market Fluctuations

Q3 2021 “On-Peak” Pricing Trends



Initial Scenarios

- Four options were presented to the Board for feedback on April 1:
  1) Average Percentage Change (APC): All rate classes have an equal percentage increase.
     a) Without low-income subsidy
     b) With low-income subsidy, keeping CARE rates flat
  2) Cost of Service Informed: Rates for Lean, Clean, and 100% Green are set to cover their cost of service
  3) Residential Subsidy: Domestic rates are held at current levels and commercial customers get large increases to meet total revenue requirement
- Each of these scenarios would have met CPA’s revenue requirement

Board Feedback

- Strong support for CARE customer protection
  - Important as 29% of CPA residential customers are CARE customers, including 34% in Lean/Clean jurisdictions where rate increases could be largest
- Significant opposition to weighting increases toward commercial customers
  - Risk of opt-outs and revenue deficiency very high
- No consensus on APC vs. COS
- Concern for 100% Green going into double-digit premium
  - Particular concern for new cities that decided to opt-up to 100% Green this year – repercussions there and elsewhere
- General philosophical support for COS – but maybe not so abruptly
- Requests for a middle path, tweaks, or compromise scenarios

Scenario Development Work

- Updated load forecast and cost projections – no significant changes
- Eliminated Residential Subsidy scenario (Option 3) from consideration
- Maintained APC with CARE protection as baseline APC scenario
- Developed new COS-informed scenario that incorporated CARE customer protection and attempted to moderate increases on Lean/Clean customers by adjusting 100% Green rates to top of the 7% - 9% range
- Developed a hybrid scenario that implements both APR and COS scenarios at different times of the year based on unique 2021 circumstances
- **Important Caveat:** Rate premiums for all scenarios are based on estimates of future SCE rate changes; staff estimates are based on the best available information about timing and magnitude of the changes; CPA could decide to change rates later in the year in response to SCE rate changes

Option 1: Average Percentage Change with CARE Subsidy

	Lean	Clean	100% Green
Residential	4.1%	4.9%	11.8%
Residential-CARE	1.8%	2.8%	2.8%
Small/Medium Business	4.6%	5.5%	13.4%

Key Considerations

- CARE customer rates are held at current levels
- Increase spread equally across most products and customer groups is a simple approach and easy to communicate to customers
- Does not address any current imbalances in COS

Average monthly bill premiums

	Lean	Clean	100% Green
Residential	$6.96	$8.24	$19.76
Residential-CARE	$1.94	$3.08	$3.08
Small Business	$10.20	$12.17	$29.94

Note: each table shows total bill premiums between CPA rates and SCE's base rate based on estimated summer SCE rate change.

Option 2: Cost of Service with CARE + 100% Green Target

	Lean	Clean	100% Green
Residential	5.4%	6.2%	8.8%
Residential-CARE	1.8%	2.8%	2.8%
Small/Medium Business	6.1%	7.0%	9.5%

Key Considerations

- CARE customer rates are held at current levels – all other rates go up between 0.4% and 1.4% compared to previous COS w/o CARE subsidy
- 100% Green residential still had room to move up to ~9% target; adjusted those rates up to help moderate Lean/Clean increases
- Significant impact on Lean/Clean, though 34% of customers in those communities would see no rate increase (via CARE)

Average monthly bill premiums

	Lean	Clean	100% Green
Residential	$9.00	$10.34	$14.81
Residential-CARE	$1.94	$3.08	$3.08
Small Business	$13.57	$15.64	$21.07

Note: each table shows total bill premiums between CPA rates and SCE's base rate based on estimated summer SCE rate change.

Option 3: Hybrid – Different Approaches at Different Times

- Under this option, CPA would adopt APC for the summer months (July through September) and then transition to COS-informed in October
- Revenue requirement still met

Key Considerations

- Summer months are when cost pressures are most acute across all rates; APC deals with those pressures equally
- Transition from APC to COS makes rate increases on non-CARE Lean/Clean customers a more gradual, two-step process
- Change to COS in October bringing 100% Green to within 9% target allows for default changes to proceed on schedule
- Change in approach after summer allows for tweaks to rates in fall if appropriate based on SCE rates and summer financial results
- Customer communications will be challenging but manageable

Executive Committee Discussion and Action

- Reiterated support for CARE customer protection (29% of CPA residential customers, 34% in Lean/Clean jurisdictions)
- Recognition that both APC and COS approaches have “fairness” merits
- Broad philosophical support for using Cost of Service as a starting point
- Some support for hybrid approach – two-step rate increase for Lean and Clean plus setting conditions for new default changes to go forward
- More support, and ultimate endorsement of, modified COS approach – concern that hybrid scenario would be difficult to communicate, implies two rate increases and that 100% Green up and down would be ineffective and could backfire
- Going forward, need to use SCE rates as reference point, not target
- **REQUEST OF CAC: Feedback on principles, potential approaches, and possible recommendation to the Board.**