



# Executive Committee Meeting

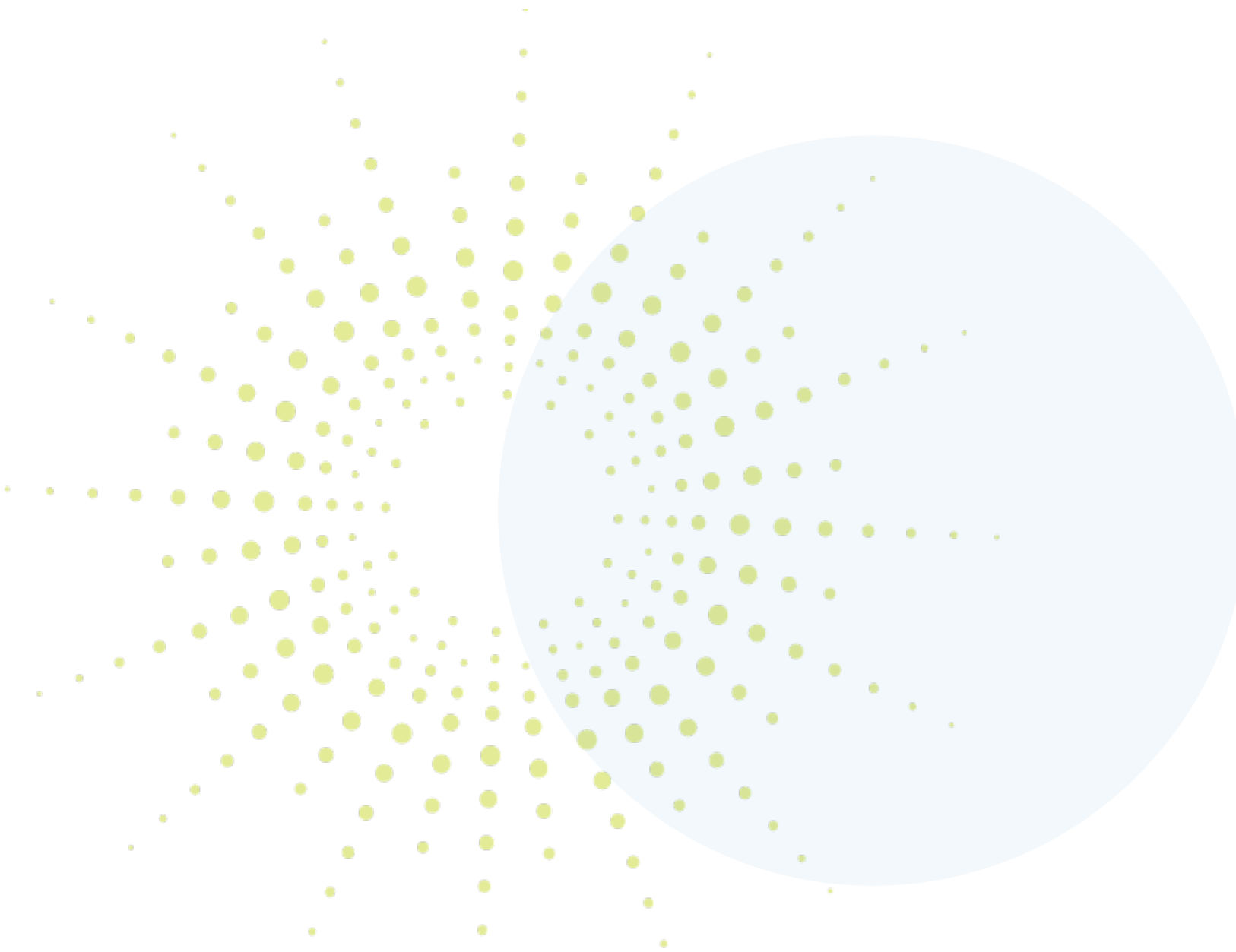
March 11, 2024

# Agenda

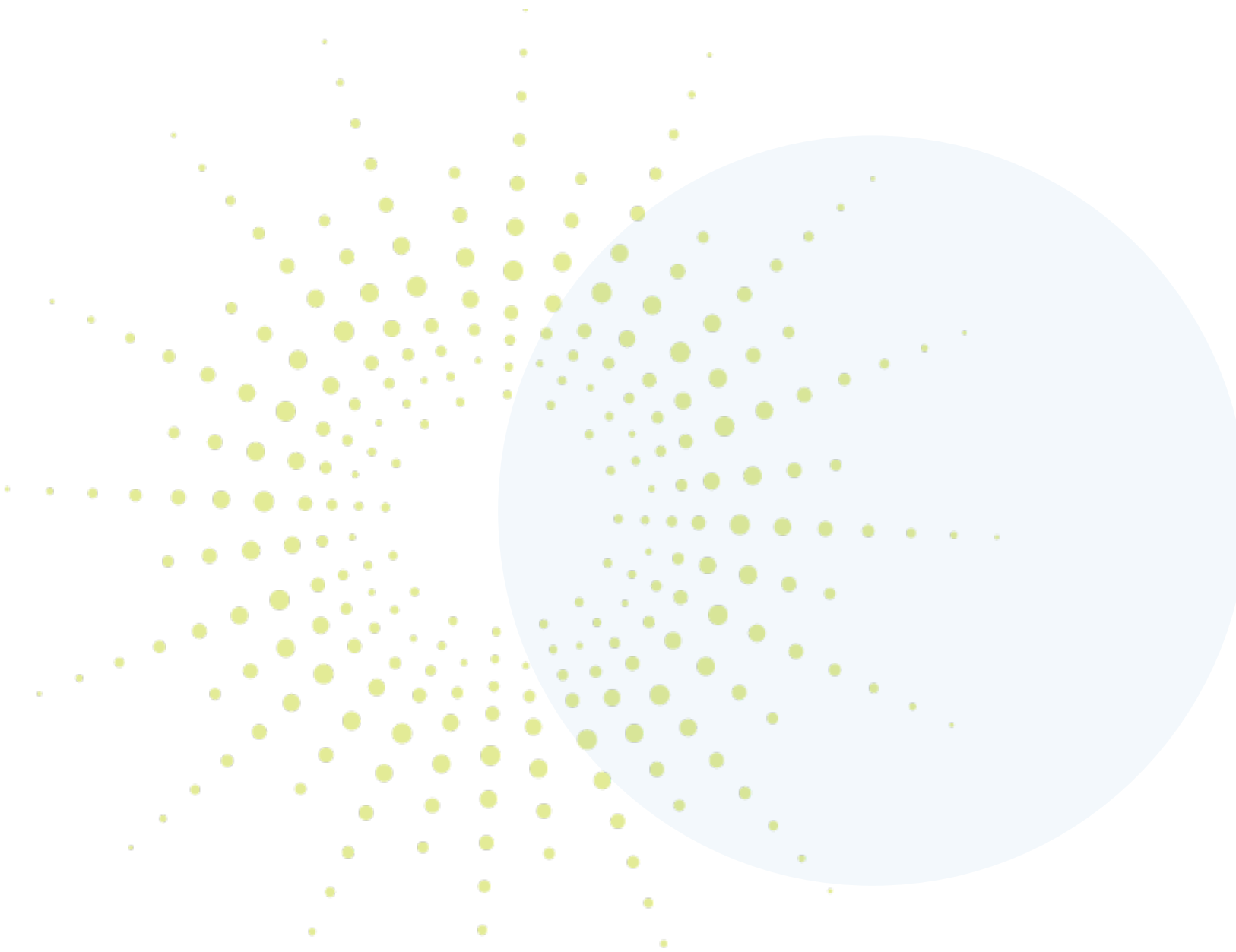
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- Call to Order / Roll Call
- Public Comment (for items not on the Agenda)
- Action to set the Agenda and Approve Consent Item 1
  - Public Comment
- Regular Agenda
- Committee Members Reports
- Adjourn

# Chair Report



# CEO Report



# CEO Report

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- Federal Funding Effort and Washington DC Lobby Days
  - \$2M earmark application to support additional low-income home upgrades (Senator Butler's office; cc'd to Senators Padilla, Duarte, Mullin, Eshoo)
  - Washington DC Lobby Days - March 20-22 (PCE, Ava, MCE, CPA, OCPA, SDCP and Cal-CCA)
    - Representative Mullin, Representative Duarte, Representative Eshoo
    - Senator Butler, Senator Padilla (plus leg staff)
    - DOE and administration officials
- HCD/EV L1 proposed amendment to building code
- Reach Codes- Status Update

# CEO Report

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## Upcoming

- Power Resources Discussions (March/April)
- Pre-Pay Bond Discussion (April)
- JPA Amendments/Policy 16 (May)
- Customer Service Center (May)
- Budget Season (March – June)
- Set Rates for Q3/Q4 2024 (June)
- New Strategic Plan (kick off in summer/fall 2024)
- May consider cancelling July meeting (tbd)

## Council Briefings:

**Brisbane** February 15  
**Los Banos** March 6  
**Hillsborough** March 11  
**Burlingame** April 1  
**Pacifica** April 8  
**San Bruno** April 23  
**Menlo Park** May 7  
**San Carlos** May 13  
**Atherton** May 15  
**East Palo Alto** June 4  
**County of San Mateo** August 27  
**Millbrae** September 10  
**Portola Valley** September 25



# Rate Setting Methodology

Executive Committee Meeting

March 11, 2024



# Background

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- PCE has historically provided customers a 5% discount to PG&E's generation rates, net of the PCIA
  - Easily understandable by customers and stakeholders
  - Consistent and meaningful savings
- For the first time ever, PCE elected not to adjust rates in February 2024 and rates were maintained at 2023 levels
  - Analysis based on recently adopted liquidity reserve target (upper end of 250 DCOH)
  - Discount to PG&E greater than 10% for most customers
- PCE is considering adjusting its rate setting methodology to be more closely aligned with costs
- Engaged NewGen to analyze Cost of Service ratemaking
- Recommendation based in part of PCE's financial position, customers' focus on costs, and results of the NewGen analysis



# NewGen Analysis

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- NewGen worked with staff to develop a financial model to calculate contribution margins by customer class
- Allocated PCE costs (fixed and variable) among customer classes based on agreed-upon methodologies
- Illustrative and based on test years 2024 and 2025
- Model, once finalized, could be used to set rates by customer class



Indicative  
Results

Significant subjectivity to  
unbundle, classify and allocate  
costs among customers

PCE rates exceed costs  
across most customer classes

Contribution margins vary  
widely by customer class  
(-3% - 46%)

# Rate Setting Options

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1. Current Methodology – maintain net 5% discount to PG&E generation rates
2. Cost of Service rate setting, including PCE cost allocation
3. Hybrid Approach

# Current Methodology – Net 5% Discount

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- Description: Maintain 5% discount to PG&E generation rates, net of the PCIA
- Implementation: Adjust PCE rates soon after PG&E updates rates and/or the PCIA changes so that PCE customers maintain 5% discount to PG&E

## Pros

- Positive, easily understandable and consistent public relations message
- Avoids potential arguments/debates on cost allocation
- Easy to implement

## Considerations

- Revenues (and rates) set with no connection to costs
- May not be able to generate enough revenue to cover costs
- Rates potentially higher than necessary, resulting in increased financial reserves and lost savings for customers

# Cost of Service Including PCE Cost Allocation

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- Description: Rates set based on forecasted cost of service by customer class
- Implementation: Estimate cost of providing service to each customer class and set rates to recover costs by customer class; adjust rates mid-year if needed based on observed costs

## Pros

- Rates set to recover costs on a forecasted basis
- Financial stability and credit positive
- Could be years when PCE rates significantly less than PG&E (>5% discount)
- Theoretically equitable rate setting across customers, assuming proper cost allocation methodology
- Not beholden to PG&E rate changes

## Considerations

- A lot of subjectivity allocating costs by customer class and could be contentious
- Could be years when PCE rates higher than PG&E
- Discount or premium to PG&E will vary by customer class
- Requires detailed rates analysis

# Hybrid Approach

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- Description: Revenue determined by cost of providing service; customer rates based on PG&E cost allocation methodology resulting in constant discount across all customers
- Implementation: Estimate cost of providing service and calculate discount/premium needed to achieve desired revenues; adjust rates mid-year if needed based on actual costs

## Pros

- PCE rates set to recover costs on a forecasted basis
- Financial stability and credit positive
- Could be years when PCE rates significantly less than PG&E (>5% discount)
- Avoids potential contention on cost allocation and easier to implement than cost of service ratemaking
- Consistent message across customers

## Considerations

- Could be years when PCE rates higher than PG&E
- Cost allocation based on PG&E methodology

same as Cost of Service

# CCA Benchmarking

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## “PG&E Minus”



## Cost of Service



## “Hybrid Approach”



# Recommendation and Next Steps

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## Recommendation

- Adopt “hybrid” approach that includes elements of current “PG&E minus” and cost of service ratemaking methodologies
- Better ensures financial stability while maximizing discount provided to customers; also avoids subjectivity and possible contention of allocating costs among customers

## Next Steps

- Continue with budget process to estimate forecasted costs over 5-year period
- Pending Board approval of the recommended rate setting methodology, calculate revenue and maximum discount possible while maintaining 180-250 DCOH
- Board approval of budget in June, including PCE rates and resulting discount to PG&E
- Update PCE rates on August 1 (June Board meeting)
- Monitor costs and PG&E rate actions throughout year and adjust rates “mid-cycle” only if needed



# Annual NEM Cash Out Proposed Revisions

Connor Prince

Executive Committee Meeting

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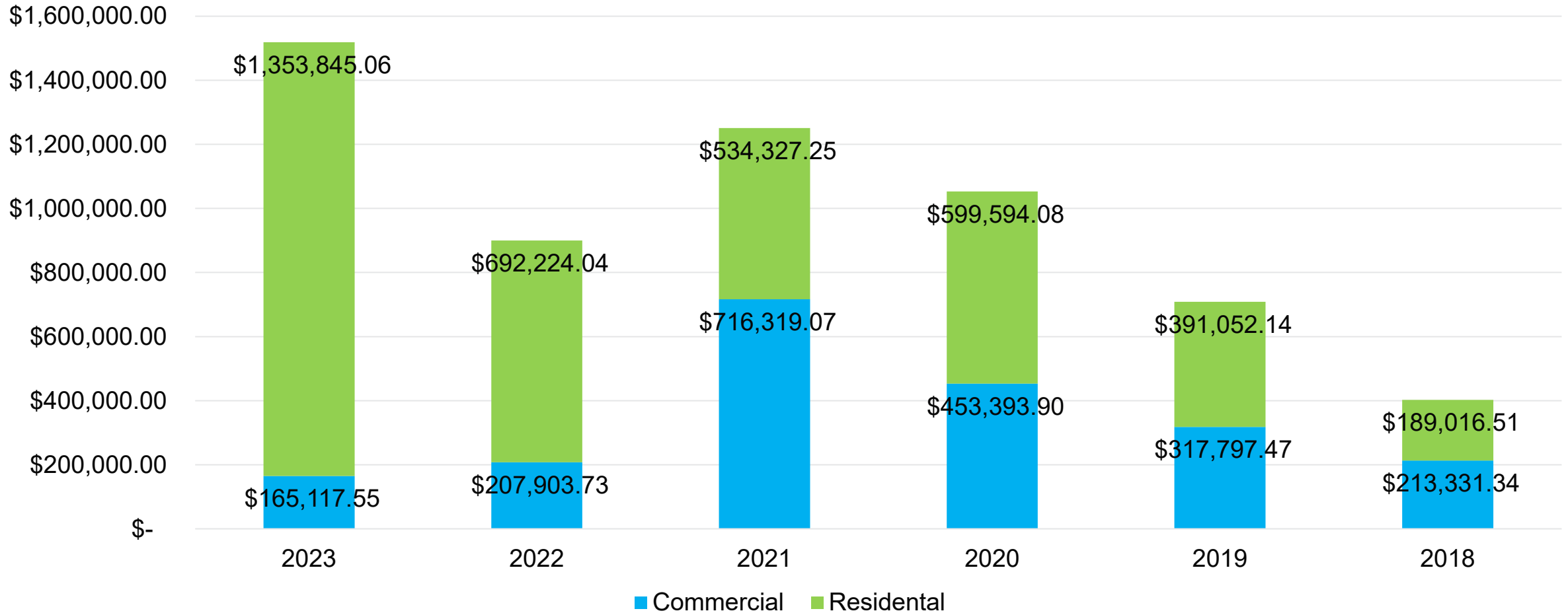
# Background

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- Net Energy Metering customers (1.0 & 2.0) are cashed out once per year after their April billing cycle, having earned credits monthly at the retail rate.
  - Applicable to NEM 1 and NEM 2 customers.
  - \$100 or more is issued as a check.
  - \$100 or less is retained in customer's credit escrow.
  - Current cash out cap is \$20,000.

# Fiscal History

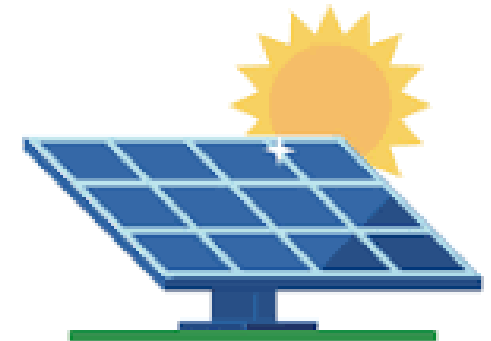
## NEM Annual Cash Outs



# Considerations and Challenges

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- 2% of checks have never been deposited.
- It costs \$25 to reissue an expired check.
- On average 3-8 customers exceed the \$20,000 cap each year.
  - Large commercial, school district, and municipal accounts.
  - Repeat customers
- All other CCAs have caps of \$10,000 or less.
  - Net Surplus Compensation (NSC) is the dominant program.
  - RCEA is only other CCA that still credits at retail, \$5,000 cap



# Proposed Revisions

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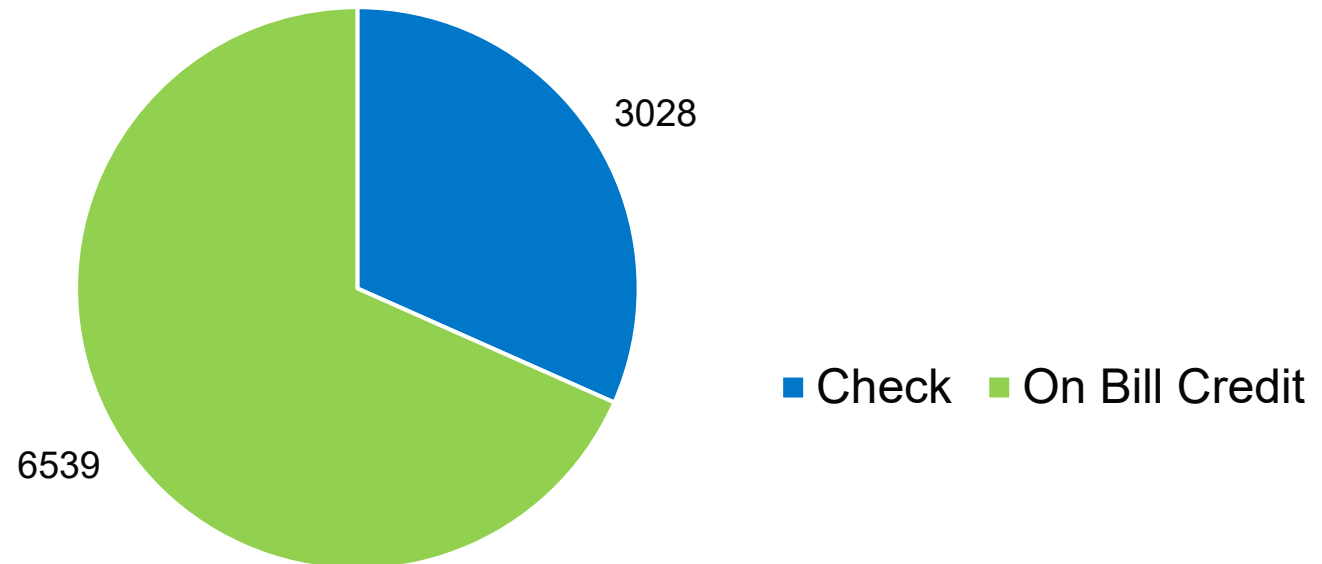
- NEM escrow balance of \$300 or more receives a check, beginning with the 2024 annual cash out.
  - Reduction of checks by more than 50% each year.
- NEM escrow balance under \$300 will be issued as an on-bill credit.
- Lower the cap to \$10,000, starting in April 2025.
  - Staff will analyze the impact in 2025 and may recommend lowering it to \$5,000 in 2026.

# Effect on Customers

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- About 6,539 customers would be affected for 2024.
  - 2,702 receive a bill credit instead of a rollover credit. (\$0.01 to \$99)
  - 3,837 receive a bill credit instead of a check. (\$100 to \$299)
  - About \$725,000 applied as a bill credit rather than a check.

**Cash Out Credit Type Differential**

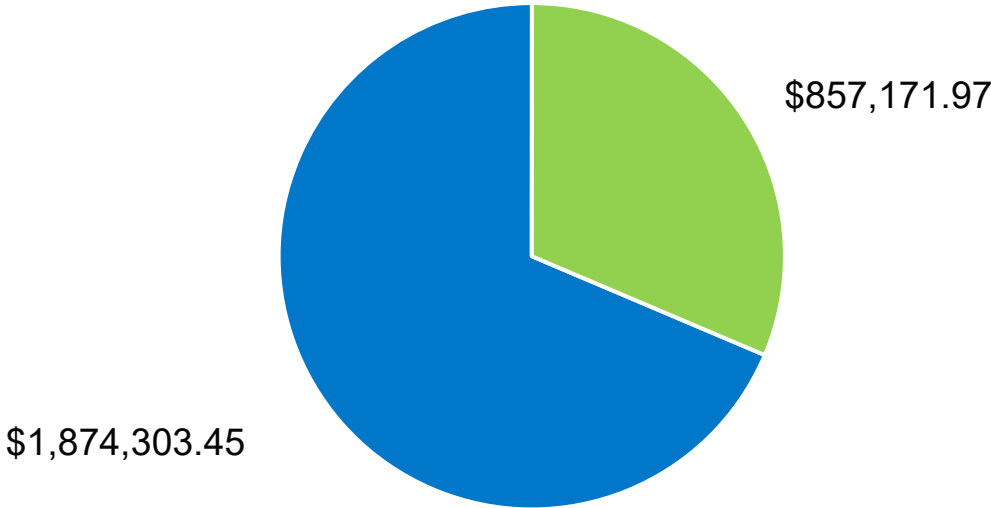


# Effect on Customers (continued)

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- If the \$10,000 cap was put into effect in 2024:
  - 1 additional customer affected, bringing the total to 5.
  - An additional \$42,000 would be forfeited.

**2024 Annual Cash Out Amounts**



# Customer Notification

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- These updates will be implemented with appropriate communication to all our solar customers.
  - Email
  - Letter mailed to customers without an email address.
  - Direct outreach to customers affected by the lower cap.



# Recommendation

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- Our ask to the Executive Committee is to provide a recommendation of approval of the proposed updates to the Board of Directors:
  - Raising the annual cash out check threshold from \$100 to \$300 beginning in April 2024.
  - Lowering of the annual cash out cap from \$20,000 to \$10,000 beginning in April 2025.



# Adjournment

