Rate Setting Methodology

Community Advisory Committee Meeting

March 14, 2024

Background

- 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
  - 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 on results of NewGen analysis, PCE's strong financial position, and customers' focus on costs

NewGen Analysis

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

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

Rate Setting Options

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

- 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	Considerations
• Positive, easily understandable and consistent public relations message • Avoids potential arguments/debates on cost allocation (uses PG&E allocation) • Easy to implement	• Revenues (and rates) set completely independent of costs • At times, may not be able to generate enough revenue to cover costs • At times, rates potentially higher than necessary, resulting in financial reserves greater than target

Cost of Service Including PCE Cost Allocation

- 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	Considerations
• 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	• 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 resulting in incremental administrative/consulting costs

Hybrid Approach

- Description: Revenue determined by cost of providing service as an Agency; customer rates based on PG&E cost allocation methodology resulting in consistent 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
- 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 and easy to compare rates to PG&E

Considerations

- Could be a years when PCE rates higher than PG&E

same as Cost of Service

CCA Benchmarking

"PG&E Minus"	Cost of Service	"Hybrid Approach"
Ava Community Energy	Clean Power Alliance	Sonoma Clean Power
Orange County Power Authority	Central Coast Community Energy	MCE
		Silicon Valley Clean Energy

Recommendation and Next Steps

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

- Utilize budget process to estimate forecasted costs; continue to invest in customer programs
- Pending Board approval of the recommended rate setting methodology, calculate revenue and maximum discount possible while maintaining appropriate financial reserve
- Board approval of budget in June, including PCE rates and resulting discount to PG&E
- Update PCE rates on August 1
- Monitor costs and PG&E rate actions throughout year and adjust rates "mid-cycle" only if needed