


SJCE COST OF SERVICE STUDY

Transportation and Environment Committee

November 7, 2022



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SAN JOSE 
CLEAN ENERGY
A Program of the City of San José

AGENDA

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

STRATEGIC FRAMEWORK PLAN RECOMMENDATIONS

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 Actual	2020-2021 Actual	2021-2022 Actual	2022-2023 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

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

Benefits

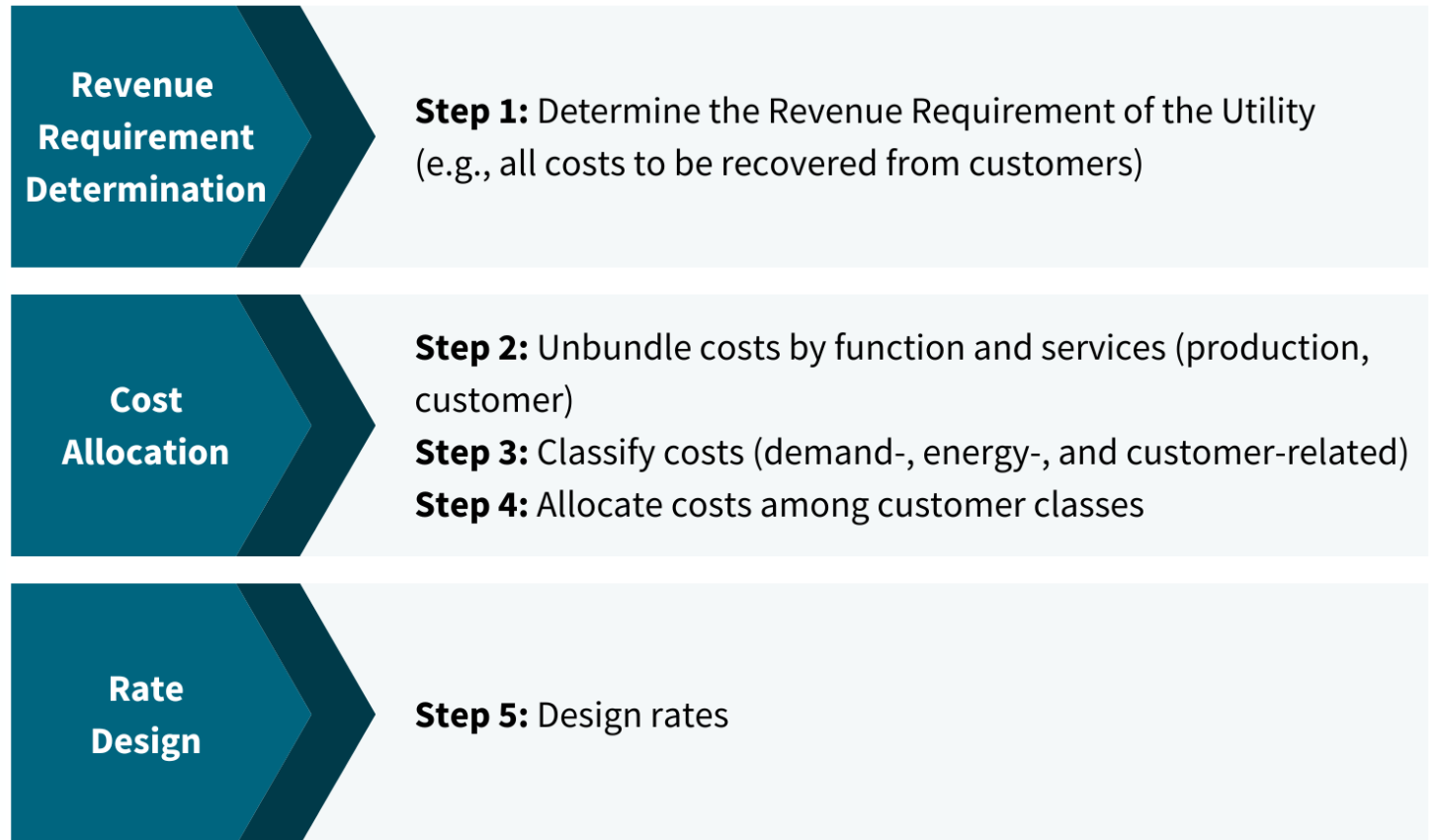
- CCA can start up operations quickly
- Easy for customers to understand rates under new service provider
- Establish customer confidence

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

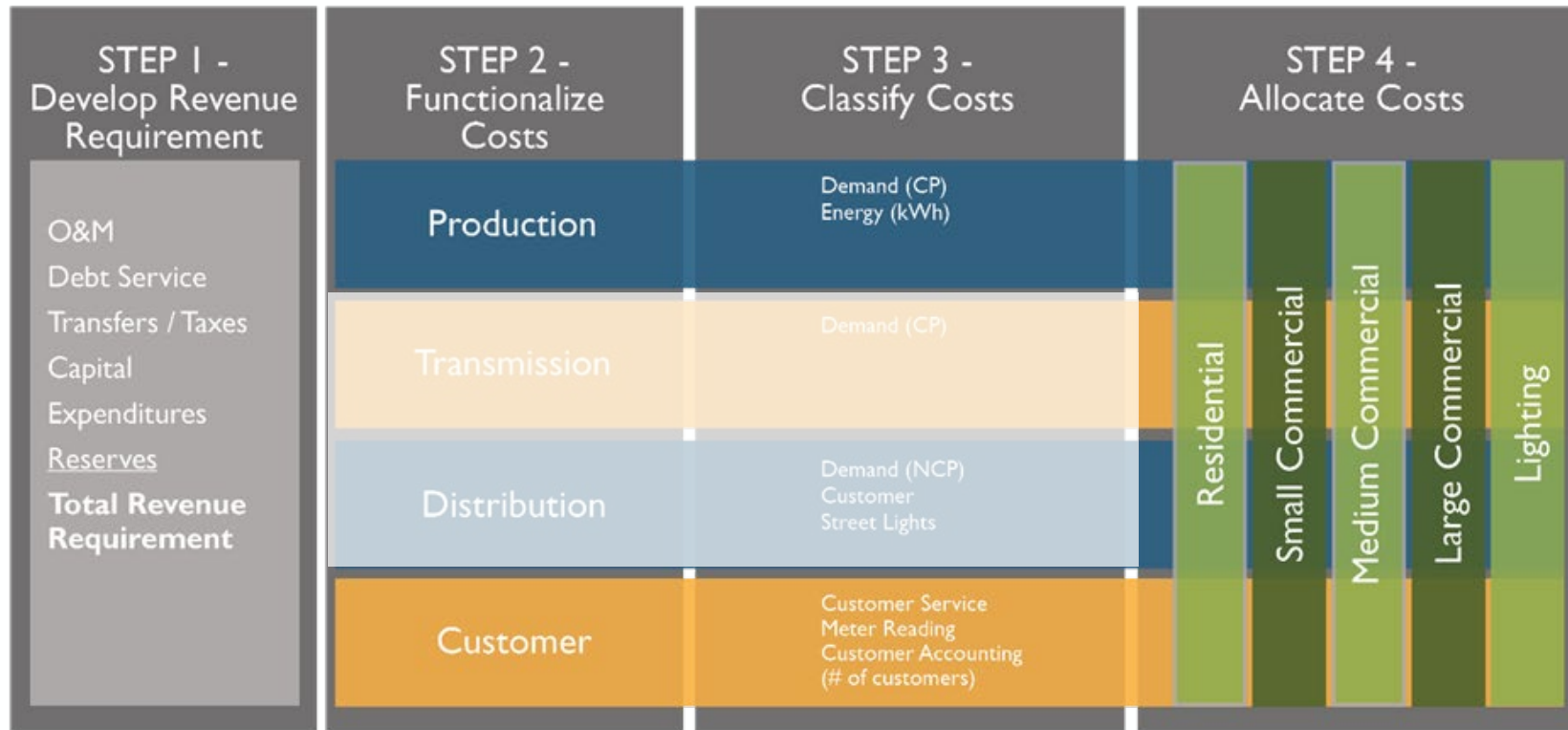
- Industry-accepted framework for utility rate-setting
- Determines the total costs incurred by a utility in providing service to its customers and the allocation of those costs to customer classes



REVENUE REQUIREMENT

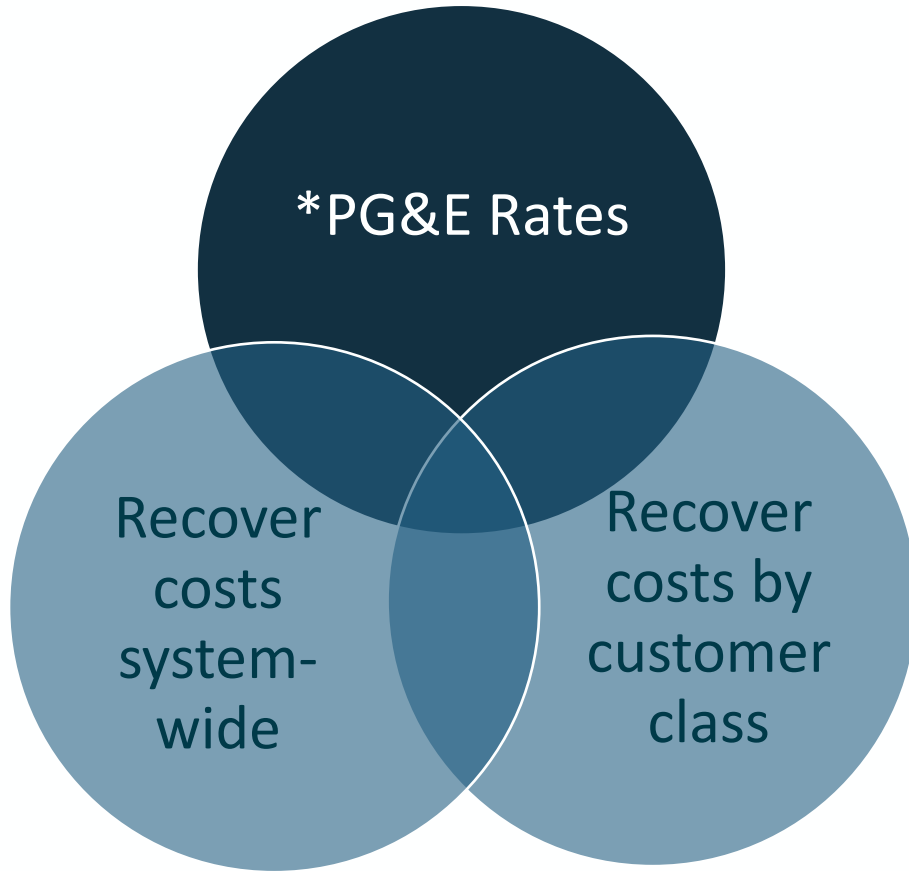
- Base Year/Test Year data comes from SJCE financial forecast of revenues and expenses
- Test Year data is a 3-year average (FY 2023–2025) to support longer term rate making where possible
- Current SCJE rates are applied to annual billing data to derive revenues to compare to Test Year Revenue Requirement
- ***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



- 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 the SJCE's cost to serve.

COST OF SERVICE RATE DESIGN BENEFITS

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
<i>Total Revenue Requirement</i>	\$443	\$463	\$490

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 at Current Rates	\$504	\$504	\$504
Potential Additional Contribution to Operating Reserves	\$61	\$41	\$14
Contribution to Operating Reserve from Revenue Requirement	\$66	\$66	\$66
<i>Total Contribution to Reserves at Current Rates</i>	<i>\$127</i>	<i>\$107</i>	<i>\$80</i>

2023 ENDING BALANCES

	Forecasted CY 2023 Ending Balances (Millions)		
	Better	<i>Expected</i>	Worse
CY 2022 *Unrestricted Cash	\$106	\$101	\$96
CY2023 Total Contribution to Reserves based on Current Rates	\$127	\$107	\$80
CY 2023 Incremental Contribution to Reserve based on 2023 Rates/PCIA	\$57	\$37	\$17
CY Total Unrestricted before Commercial Paper Loan Repayment	\$290	\$245	\$193
Commercial Paper Loan Repayment	\$60	\$60	\$60
CY 2023 Unrestricted Cash net of Commercial Paper Loan Repayment	\$230	\$185	\$133
Operating Reserve in Days @\$1M per day, Dec 2023	230	185	133

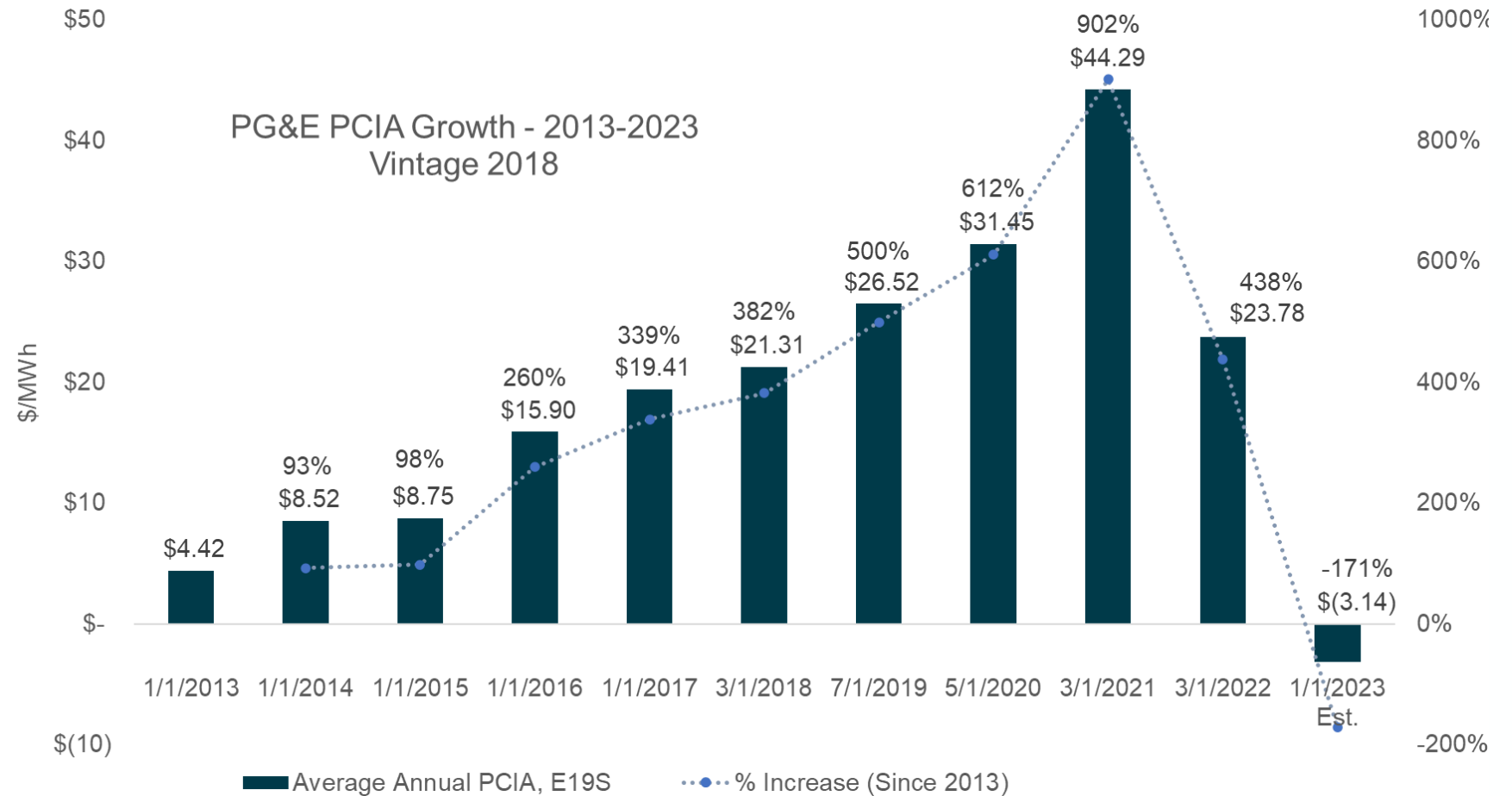
*Not inclusive of \$20 Million Restricted Cash



SJCE 2023 RATE STRATEGY

PCIA VOLATILITY

- In 2023, the PCIA is expected to be **-\$3.14/MWh**; SJCE will assume \$0
- Every 0.5¢/kWh increase in the PCIA represents \$18 million in lower SJCE revenues



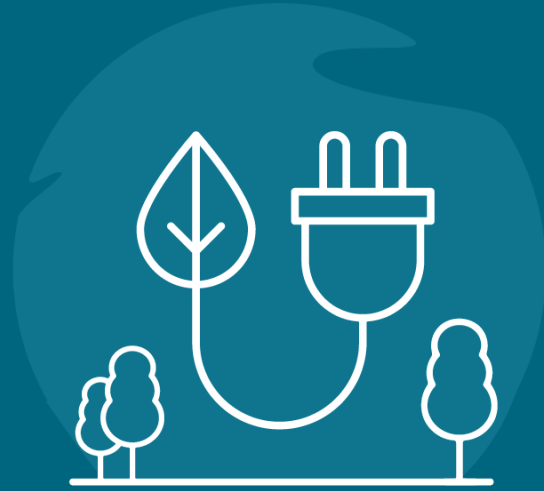
Note that the PCIA value is the average PCIA for the year. The date is when the PCIA changed to reflect the new rate for the rest of the calendar year.

BUILD RESERVES, OFFER COMPETITIVE RATES FOR CLEAN ENERGY

- 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 keep rates stable in the future**
 - Reduce rates relative to PG&E from eight percent above and set them as equal or at a small discount relative to PG&E's generation rates
 - SJCE customers expected to see a reduction in monthly generation charges

NEXT STEPS

- 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



QUESTIONS