



 **Special Board Meeting - Rate Design Workshop**
November 8, 2023

THE POWER
OF CHOICE
IS YOURS



Rate Design Workshop

November 8, 2023

Section I: Rate Setting Fundamentals

- Rate Regulation – IOUs vs. CCAs
- Revenue Requirement – IOUs vs. CCAs
- Customer Billing – IOUs vs. CCAs
- Cost Responsibility Surcharges – PCIA & Vintages
- Financial Requirements – Operating Reserve & Debt Service Coverage Ratio

Section II: OCPA Rate Design Process

- OCPA Rate Setting Development – OCPA Board's Priorities
- OCPA Strategic Plan 2023-2026
- OCPA Primary Rate Setting Objectives
- OCPA Rate Making Process
- Rate Design Methodology
- OCPA Revenue Requirement Calculation Process
- Critical Risk Factors Influencing OCPA 2024 Rate Design
- SCE Rate Update Process and Timeline

OCPA Rate Design Workshop - Agenda

Section I

Rate Setting Fundamentals

Rate Regulation

- California Investor-Owned Utilities (IOUs) are monopolies and, as such, are required to have a regulatory body to affirm the justness and reasonableness of rates.
 - The California Public Utilities Commission (CPUC) acts as the governing body for IOUs and reviews and approves all IOU rate changes.
- Unlike IOUs, Community Choice Aggregators' (CCAs) rates are only regulated by their governing boards.
 - CCAs follow standard industry practices to ensure rates are reasonable and justifiable.



Revenue Requirement

The amount of revenue a utility must collect from its customers to recover costs and meet all financial requirements.

IOUs (SCE)

IOUs set revenue requirement based on the following components:

- Operation and maintenance expenses
- Depreciation
- Return on ratebase
 - CPUC approves a rate of return on the value of assets that are used to provide electric service

CCAs (OCPA)

CCAs set revenue requirement based on the following components:

- Operation and maintenance expenses
- Cash requirements for capital expenditures
- Debt services
- Financial requirements
 - Operating Reserve Levels
 - Debt Service Coverage Ratio

Revenue Requirement – IOUs vs. CCAs

Customer Billing

CCAs' customers are still billed by their respective IOUs.

IOUs (SCE)

Recovers costs for...

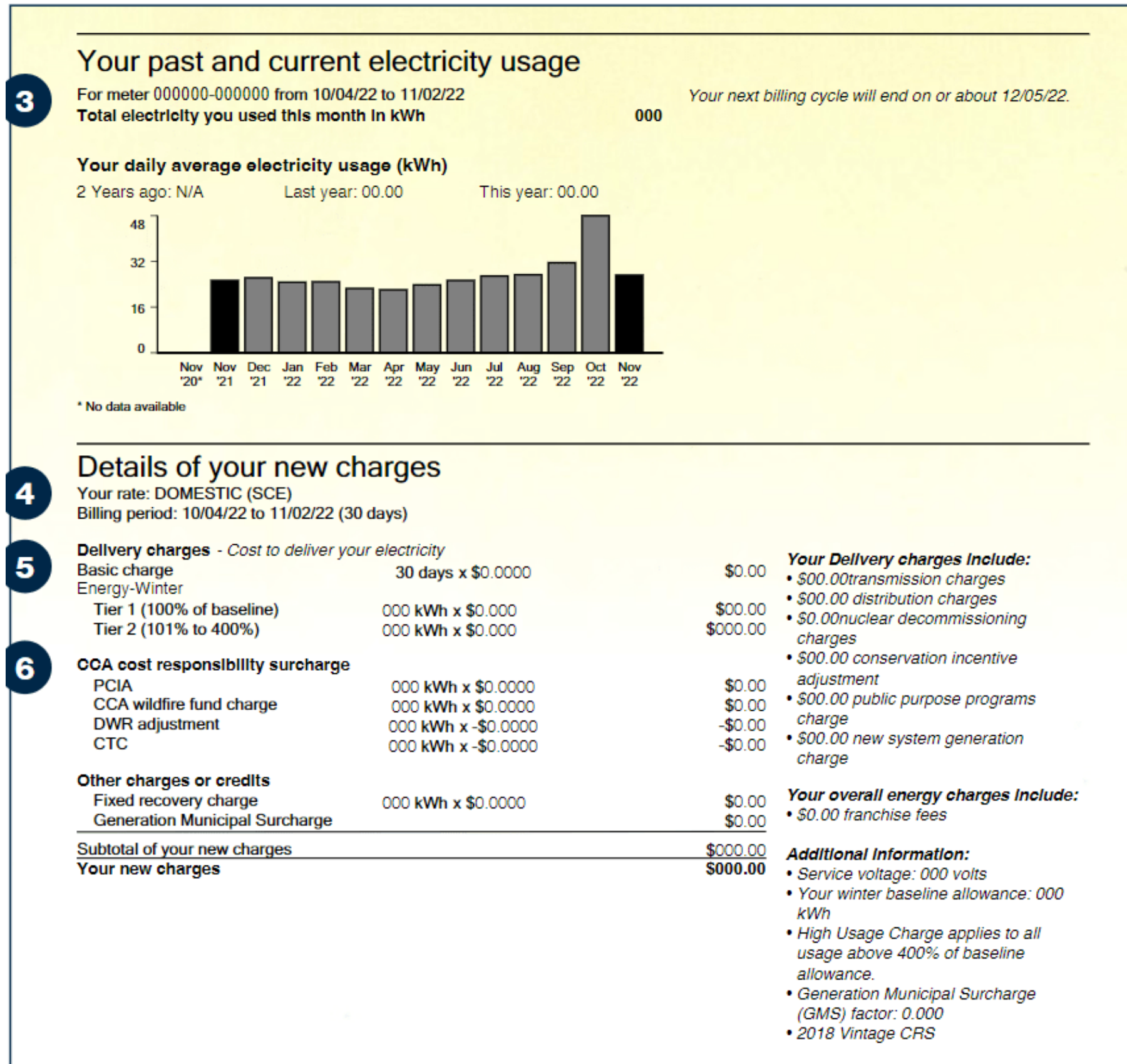
- Energy Delivery Charges including Transmission and Distribution (T&D)
- Cost Responsibility Surcharge including:
 - Power Charge Indifference Adjustment (PCIA)
 - Ongoing Competition Transition Charge (CTC)
 - Wildfire Fund Non-Bypassable Charge (WFC)
 - Fixed Recovery Charge (FRC)
- Administrative Expenses including Nuclear Decommissioning, Public Purpose Program, New System Generation, etc.

CCAs (OCPA)

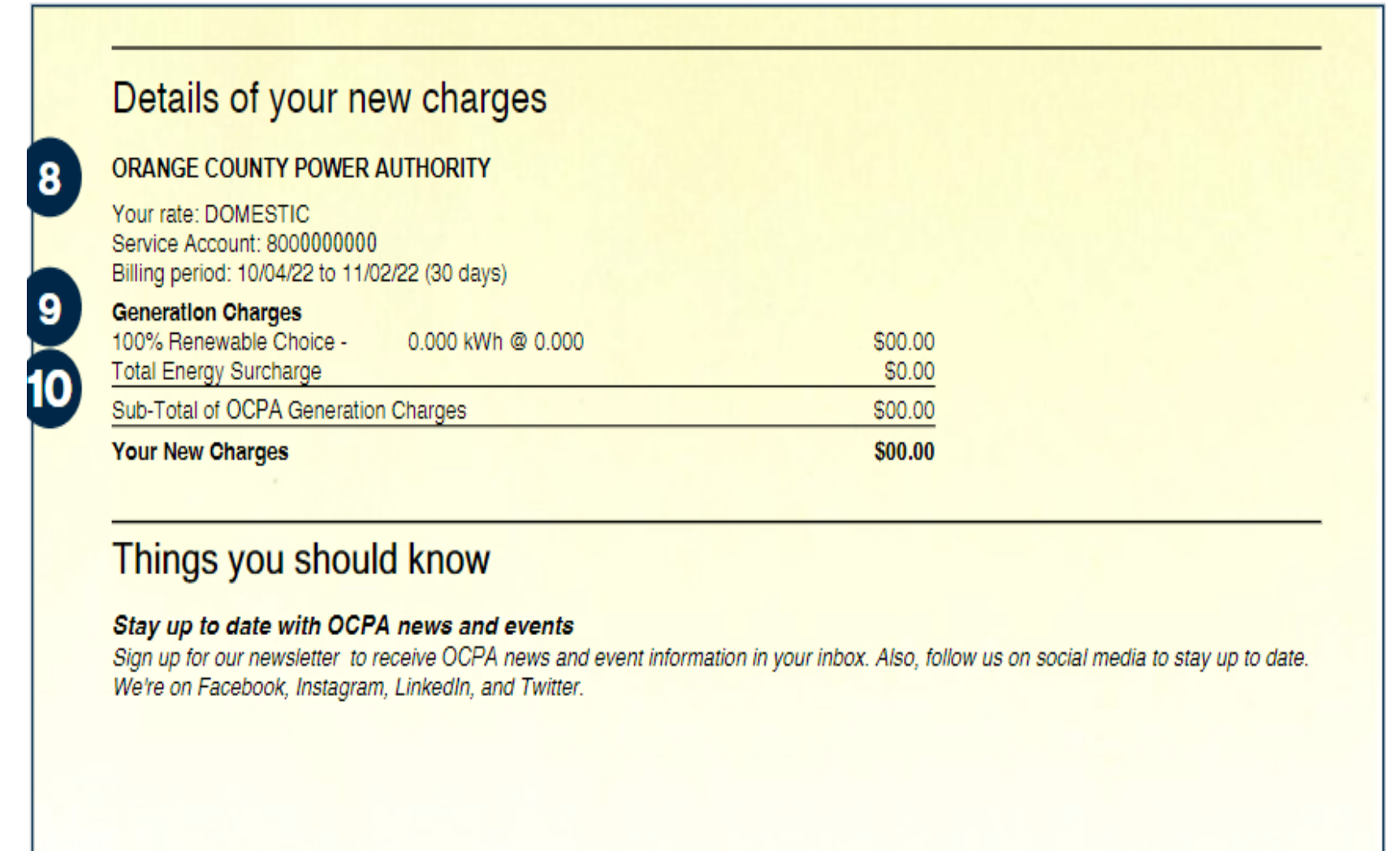
Recovers costs for...

- Energy Generation Charges

IOUs (SCE)



CCAs (OCPA)



[Understanding Your Bill - Orange County Power Authority \(ocpower.org\)](https://ocpower.org)

Customer Billing – SCE vs. OCPA

Cost Responsibility Surcharges – PCIA

The most significant Cost Responsibility Surcharge (CRS) is the Power Cost Indifference Adjustment (PCIA).

- PCIA is a safety net for IOUs, made by lawmakers, that allowed for the formation of CCAs without harming IOUs.
- Its primary purpose is to ensure that when customers switch to CCAs and IOUs have excess energy to sell but not enough revenue to cover their previous procurements, they can still recover those costs.
- PCIA is a charge imposed on CCA customers to ensure that remaining bundled customers are not unfairly burdened with the above-market costs of IOU-generated electricity procured for those departing customers.
- PCIA is calculated as the difference between the “actual portfolio costs” and the “market value of the portfolio”.



Cost Responsibility Surcharges – Vintages

The PCIA rate varies based on customer’s “vintage,” ensuring that departing customers only pay for resources acquired before their departure. The CCA vintage is determined by when customers enrolled in the CCA service.

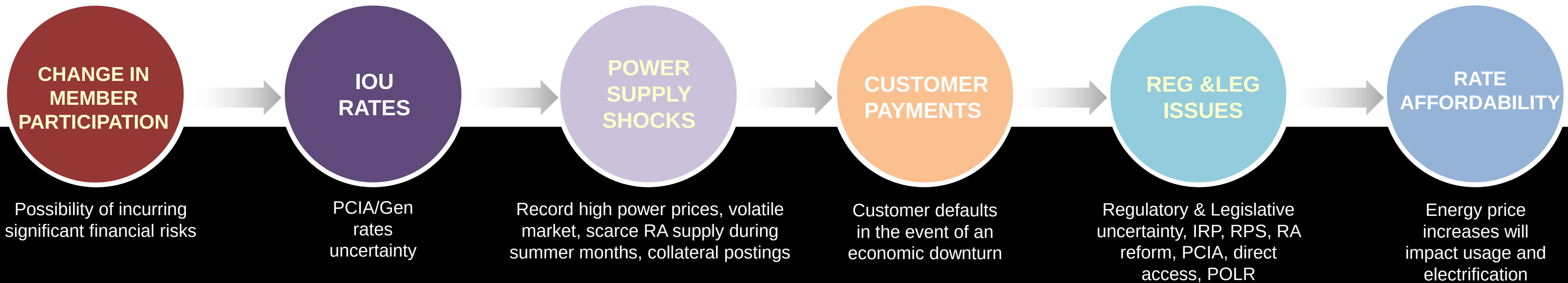
- OCPA Commercial customers are in vintage 2021.
- OCPA Residential customer are in vintage 2022.

SCE 2023 PCIA Rates by Vintage (OCPA Vintages Highlighted Yellow)

Rate Group	PCIA 2001 Vintage	PCIA 2004 Vintage	PCIA 2009 Vintage	PCIA 2010 Vintage	PCIA 2011 Vintage	PCIA 2012 Vintage	PCIA 2013 Vintage	PCIA 2014 Vintage	PCIA 2015 Vintage	PCIA 2016 Vintage	PCIA 2017 Vintage	PCIA 2018 Vintage	PCIA 2019 Vintage	PCIA 2020 Vintage	PCIA 2021 Vintage	PCIA 2022 Vintage
Domestic	\$ (0.00003)	\$ (0.00003)	\$ 0.00032	\$ 0.00046	\$ 0.00111	\$ 0.00109	\$ 0.00049	\$ (0.00148)	\$ (0.00623)	\$ (0.00492)	\$ (0.00681)	\$ (0.00447)	\$ (0.00845)	\$ (0.00734)	\$ (0.00662)	\$ 0.01605
TOU-GS-1	\$ (0.00002)	\$ (0.00002)	\$ 0.00023	\$ 0.00033	\$ 0.00079	\$ 0.00078	\$ 0.00035	\$ (0.00106)	\$ (0.00445)	\$ (0.00351)	\$ (0.00486)	\$ (0.00319)	\$ (0.00604)	\$ (0.00524)	\$ (0.00473)	\$ 0.01147
TC-1	\$ (0.00003)	\$ (0.00003)	\$ 0.00024	\$ 0.00035	\$ 0.00084	\$ 0.00082	\$ 0.00038	\$ (0.00113)	\$ (0.00473)	\$ (0.00373)	\$ (0.00517)	\$ (0.00339)	\$ (0.00642)	\$ (0.00557)	\$ (0.00502)	\$ 0.01218
TOU-GS-2	\$ (0.00003)	\$ (0.00003)	\$ 0.00024	\$ 0.00034	\$ 0.00083	\$ 0.00081	\$ 0.00037	\$ (0.00111)	\$ (0.00467)	\$ (0.00368)	\$ (0.00510)	\$ (0.00335)	\$ (0.00633)	\$ (0.00549)	\$ (0.00496)	\$ 0.01202
TOU-GS-3	\$ (0.00002)	\$ (0.00002)	\$ 0.00023	\$ 0.00033	\$ 0.00080	\$ 0.00079	\$ 0.00036	\$ (0.00108)	\$ (0.00453)	\$ (0.00358)	\$ (0.00495)	\$ (0.00325)	\$ (0.00615)	\$ (0.00533)	\$ (0.00481)	\$ 0.01167
TOU-8-Sec	\$ (0.00002)	\$ (0.00002)	\$ 0.00022	\$ 0.00033	\$ 0.00078	\$ 0.00077	\$ 0.00035	\$ (0.00105)	\$ (0.00442)	\$ (0.00349)	\$ (0.00483)	\$ (0.00317)	\$ (0.00600)	\$ (0.00520)	\$ (0.00469)	\$ 0.01138
TOU-8-Pri	\$ (0.00002)	\$ (0.00002)	\$ 0.00022	\$ 0.00032	\$ 0.00077	\$ 0.00075	\$ 0.00034	\$ (0.00103)	\$ (0.00432)	\$ (0.00341)	\$ (0.00472)	\$ (0.00310)	\$ (0.00587)	\$ (0.00509)	\$ (0.00459)	\$ 0.01114
TOU-8-Sub	\$ (0.00002)	\$ (0.00002)	\$ 0.00021	\$ 0.00030	\$ 0.00072	\$ 0.00071	\$ 0.00032	\$ (0.00097)	\$ (0.00408)	\$ (0.00322)	\$ (0.00446)	\$ (0.00293)	\$ (0.00554)	\$ (0.00481)	\$ (0.00434)	\$ 0.01052
TOU-PA-2	\$ (0.00002)	\$ (0.00002)	\$ 0.00023	\$ 0.00034	\$ 0.00081	\$ 0.00080	\$ 0.00036	\$ (0.00109)	\$ (0.00457)	\$ (0.00361)	\$ (0.00500)	\$ (0.00328)	\$ (0.00621)	\$ (0.00538)	\$ (0.00486)	\$ 0.01178
TOU-PA-3	\$ (0.00002)	\$ (0.00002)	\$ 0.00023	\$ 0.00033	\$ 0.00080	\$ 0.00079	\$ 0.00036	\$ (0.00108)	\$ (0.00452)	\$ (0.00357)	\$ (0.00494)	\$ (0.00324)	\$ (0.00613)	\$ (0.00532)	\$ (0.00480)	\$ 0.01164
St. Lighting	\$ (0.00003)	\$ (0.00003)	\$ 0.00029	\$ 0.00042	\$ 0.00101	\$ 0.00099	\$ 0.00045	\$ (0.00136)	\$ (0.00570)	\$ (0.00450)	\$ (0.00623)	\$ (0.00409)	\$ (0.00774)	\$ (0.00672)	\$ (0.00606)	\$ 0.01469

Cost Responsibility Surcharges – Vintages

Maintaining healthy operating reserve to absorb numerous risks



Operating reserve (also known as rate stabilization reserve fund) will enable OCPA to:

- Set its long-term financial planning to obtain and maintain an investment grade credit rating.
- Satisfy working capital requirements.
- Procure energy at competitive rates.
- Adhere to contractual covenants.
- Provide revenue to make up for unanticipated revenue shortfall or spikes in power supply expenses.
- Provide temporary resources in the event of an economic downturn while expenditure reductions and/or rate adjustments are implemented.

Financial Requirements – Operating Reserve

Financial Requirements – Operating Reserve Levels

Operating reserve levels are generally set by the CCA Boards:

- Commonly expressed as the number of days the utility could continue to pay operating expenses or a percentage of total operating expenditures.
- Credit rating agencies typically look for CCAs to have between 120 days to 200 days of operating expenses or 33% to 56% of total operating expenditures for an “A” rating.

Operating reserve levels of CCAs in SCE territory:

- Central Coast Community Energy (3CE): Built a reserve of \$119 million as of fiscal year-end in 2020 (279 days of operating expenses or 63% of total operating expenditures).
 - S&P assigned A/Stable credit rating to 3CE on October 16, 2020.
- Clean Power Alliance (CPA): Built a reserve of \$225 million as of fiscal year-end in 2023 (98 days of operating expenses or 27% of total operating expenditures).
 - S&P assigned A-/Stable credit rating to CPA on of September 27, 2023.

Financial Requirements – Debt Service Coverage Ratio

- Debt Service Coverage Ratio (DSCR) measures the amount of money a utility retains to cover its debt obligations after deducting its operating expenses.
- Credit rating agencies typically look for a DSCR between 1.20 and 1.40 for an “A” rated utility.
- Most lenders include minimum DSCR requirements in the 1.10 to 1.25 range.



Section II OCPA Rate Design Process



OCPA Rate Setting Development – OCPA Board’s Priorities

OCPA Strategic Plan 2023-2026

Financial Sustainability:

- Establish long-term disciplined fiscal and operational strategies to obtain an investment-grade credit rating in 2027
- Ensure rates are sufficient to generate returns and meet expenses, aiming to have the Rate Stabilization Reserves Fund in the range of 30-50% of total operating expenses from FY2024/2025 through FY2026/2027



OCPA Primary Rate Setting Objectives



Local Control: Board discretion on rate setting.



Cost recovery: Rates are adequate to cover all expenses, debt services, and other financial obligations.



Stability: Rates shall enable the creation of a prudent operating reserve to mitigate significant swings in rates, cover unforeseen expenses, negotiate favorable terms with power suppliers, obtain and maintain an investment-grade credit rating, and achieve strategic goals.



Competitive: Rates shall allow OCPA to effectively retain and attract customers by offering superior electricity services with higher renewable content than the incumbent investor-owned utility.



Equity: Variations in rates among customers are based on justifiable differences in their usage characteristics and/or cost of service.

OCPA Primary Rate Setting Objectives

Strategy and Principals

- Framework for financial and rate-related decisions (board policy, JPA goals, metrics, etc.).

Revenue Requirement

- Identify cost to operate and determine rate revenue necessary to keep OCPA financially solvent.

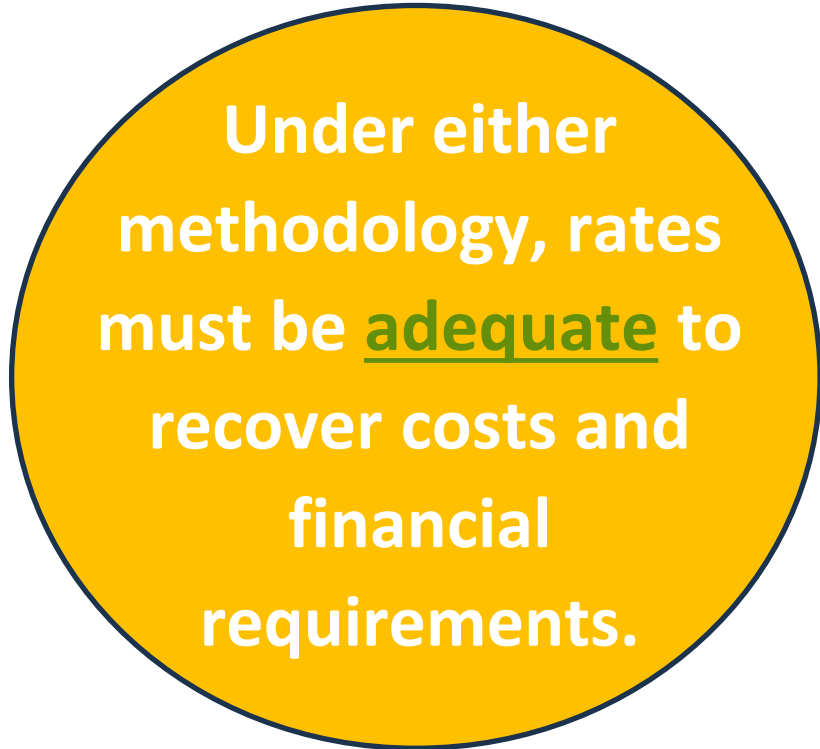
Rate Design

- Use the revenue requirement and policy to guide rate design. Rates must fully recover all costs and financial requirements.

Rate Design Methodology

IOU Indexed Rate Design

- Rates are determined based on the generation rates charged by the IOU.
- Set rates at a discount or premium compared to the IOU generation rates.
- Establish operating reserve.
- Most common approach among CCAs.



Under either methodology, rates must be adequate to recover costs and financial requirements.

Cost-of-Service Rate Design

- Rates are determined based on the allocation of CCA costs to each customer class.
- S&P considers cost-of-service rate setting practice to provide the utility with greater ratemaking flexibility and allow the utility to recover costs more predictably and reliably in a wider array of market conditions.
- Need to establish sufficient operating reserve to provide stable customer rates.
- Central Coast Community Energy (3CE) and Clean Power Alliance (CPA) use variations of cost-based rates.

Critical Risk Factors Influencing OCPA 2024 Rate Design

- OCPA may face unanticipated changes in energy costs, REC prices, or resource adequacy.
- The finalized January 2024 SCE bundled generation and PCIA rates may differ from the preliminary rates used in our current model.
- The finalized June 2024 SCE bundled generation and PCIA rates might not align with the preliminary rates from our current model.
 - SCE has already released a forecasted rate decrease in June 2024, which OCPA is anticipating in its CY2024 rate plan.
- There could be further reductions in SCE bundled generation rates in January 2025.



OCPA Revenue Requirement Calculation Process (**Before** Financial Requirements)

- Revenue Requirement is the total amount that OCPA needs to recover its costs and remain financially viable as projected over a 12-month “test year” or CY2024.
 - Operating Expenses
 - Non-Operating Expenses
 - Financial Requirements (shown in proceeding slides)

Note: The CY2024 projection is preliminary and subject to adjustment in December 2023 for the 2024 Rate Design Proposal.

	CY2024 Projection (\$'000s)
Operating Expenses	
Cost of Energy	\$257,549
Data Manager	\$2,017
Utilities Service Fees	\$321
Staffing Costs	\$6,403
Contract Services	\$1,469
Legal Services	\$687
Marketing and Customer Enrollment	\$2,295
Other G&A	\$1,073
Energy Programs	\$841
Total Operating Expense	\$272,655
Non-Operating Expenses	
Capital Expenditures	\$75
Interest Costs	\$339
Finance Costs – Principal	\$62
Total Non-Operating Expenses	\$476
Total Revenue Requirement Before Financial Requirements	\$273,131

OCPA Financial Requirements – Debt Service Coverage Ratio (DSCR)

- Debt Service Coverage Ratio = $\frac{\text{Net Operating Revenues}}{\text{Annual Debt Service}}$
 - Net Operating Revenues: Operating revenues minus operating expenses.
 - Annual Debt Service (per lender terms): Interest and fees plus average outstanding principal divided by 5. For CY2024, this value is equal to \$4.3 million.
- Per lender requirement, DSCR must be greater than 1.40 by June 30, 2024.
- To meet the 1.40 DSCR requirement, OCPA must recover 1.40 x the Annual Debt Service amount (\$4.3 million) in Net Operating Revenues, or \$6.0 million for CY2024
- OCPA has approximately \$476,000 in non-operating expenses (capital expense, debt financing, etc.) already in its revenue requirement.
- The 1.40 DSCR requirement adds an additional \$5.53 million to the revenue requirement to bring total net revenues before non-operating expenses to \$6.0 million

Note: The CY2024 projection is preliminary and subject to adjustment in December 2023 for the 2024 Rate Design Proposal.

OCPA Revenue Requirement Calculation Process

Financial Requirements – Operating Reserve

- Lender requirement to keep a minimum operating reserve of \$17 million beginning June 2025.
- Credit rating agencies typically look for CCAs to have between 120 days to 200 days of operating expenses or 33% to 56% of total operating expenditures for an “A” rating:
 - Based on Projected CY2024 Costs:
 - OCPA 120 Days = \$90 million
 - OCPA 200 Days = \$149 million
 - OCPA current projected reserve by June 30, 2024 is \$115 million = 154 Days
 - OCPA current projected reserve by June 30, 2024 is 37% of total operating expenditures

Note: The CY2024 projection is preliminary and subject to adjustment in December 2023 for the 2024 Rate Design Proposal.

OCPA Revenue Requirement Calculation Process (After Financial Requirements)

- The goal for calculating the total revenue requirement before additional reserve is to demonstrate the minimum amount OCPA must collect.
- OCPA’s long-term objective is to establish reserve at industry-standard levels for fiscal responsibility and credit rating attainment.
- OCPA aims to be strategic in building reserve, maintaining a balance between reserve level and competitive positioning.
- To determine the target reserve level for CY2024, OCPA first calculates the reserve that would be obtained under the current rate design policy and then evaluates the need for rate adjustments.

<u>Revenue Requirement Item</u>	<u>CY2024 (\$'000s)</u>
Total Operating Expenses	\$272,655
Total Non-Operating Expenses	\$476
Additional Amount to Reach 1.40 DSCR	\$5,538
Check that Minimum Operating Reserve is Met	YES
Total Revenue Requirement After Financial Requirements (Before Additional Reserve)	\$278,669

Note: The CY2024 projection is preliminary and subject to adjustment in December 2023 for the 2024 Rate Design Proposal.

OCPA Current Rate Design

Basic Choice Rates (38.5% Renewable) at 2% discount to SCE Generation Rate	Provides OCPA customers with choice of rate that will provide savings compared to SCE Smart Choice and 100% renewable Choice customers also received benefit as their rates are proportional to Basic Choice.
Smart Choice Rates (at least 69% Renewable) at Basic Choice Rates plus 1 cent per kWh	Provides OCPA customers with choice of higher renewable energy content (at least 69% Renewable) at 1 cent more.
100% Renewable Rates at Basic Choice Rates plus 1.5 cents per kWh	Provides OCPA customers with choice of 100% renewable energy content at 1.5 cents more.

OCPA Revenue Requirement Calculation Process

OCPA Revenue Requirement Calculation Process (Reserve Contribution)

Based on OCPA Current Rate Design:

- OCPA anticipates collecting net revenue of \$320 million for CY2024.
- Revenue requirement to cover CY2024 operating expenses and financial requirements is \$279 million.
- The total potential reserve contribution is \$47 million for CY2024.

<u>Revenue Under Current Rate Design</u>	<u>CY2024 (\$'000s)</u>
Total Net Revenue	\$319,768
Revenue Requirement Before Additional Reserve	\$278,669
Additional Amount Available for Reserve	\$41,099
Additional Amount to Reach 1.40 DSCR	\$5,538
Total Amount Contribution to Reserve	\$46,637

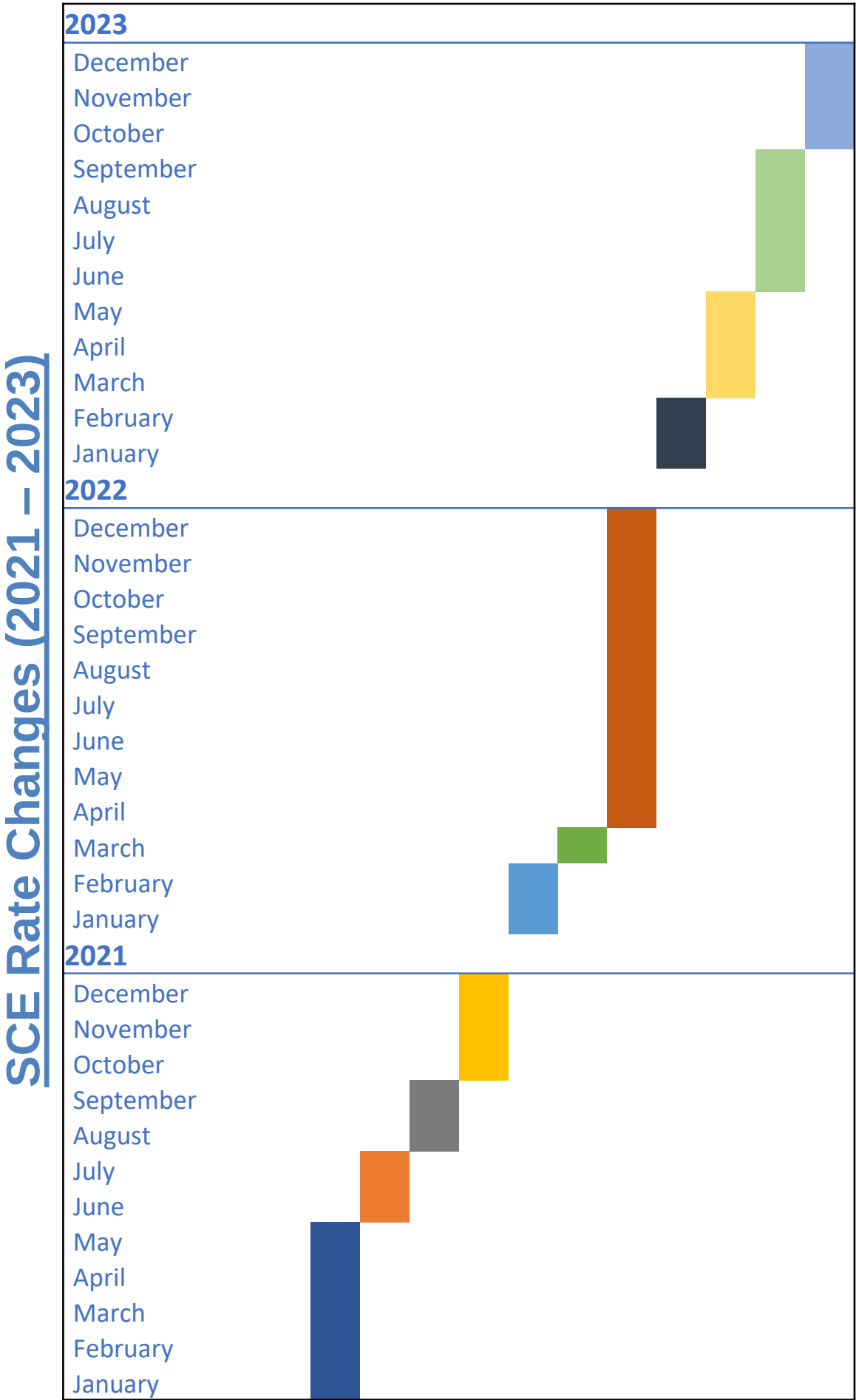
Note: The CY2024 projection is preliminary and subject to adjustment in December 2023 for the 2024 Rate Design Proposal.

SCE 2024 Rate Changes Timeline

- OCPA received preliminary 2024 rates from SCE on October 13, 2023.
- OCPA will receive final 2024 rates from SCE on November 30, 2023.
- OCPA Board will approve 2024 OCPA Rate Design on December 20, 2023.
- OCPA will calculate 2024 OCPA rates based on approved rate design and provide the rate schedules to Calpine by the end of 2023.
- Calpine will update their billing system within 10 business days.
- 2024 OCPA rates will be effective around January 15, 2024.
- Calpine will update OCPA rates comparison tool within 30 calendar days.
- 2024 OCPA rates comparison tool will be available on website around February 1, 2024.
- OCPA will calculate 2024 Joint Rate Comparison (JRC) upon receipt of the JRC template from SCE. Statutory timeline is within 60 days after SCE’s rate change.
- JRC will be available around March 2024.

SCE Rate Changes Throughout 2024

- Same process but can happen at any time.
- SCE has changed its rates 3–4 times a year since 2021.



OCPA Rate Design – SCE Rate Update Process and Timeline

Discussion