CCA Rate Design

Traditional Utility Approaches Applied to CCAs

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SMUD Background

• Not-for profit, community-owned
• 6th largest community-owned electric service provider in the nation
• Serves 1.5 million people in Sacramento County (and small portion of Placer County)
• Governed by 7-member elected Board
Sample Rate Design Goals

- Reflect marginal costs
- Understandable to the customer
- Competitive with PG&E
- Maintain net income and cash flow targets
Marginal Cost Analysis assigns each cost category to a cost driver, and splits those cost drivers across customer groupings and SKUs.
Applicability to CCAs

A simplified cost allocation model may look like this:
Marginal Revenue by Rate Class

- Calculating **marginal revenue by season** and time period may show areas where rates are not fully matching customer load shapes.
- Calculating the **marginal revenue by rate class** or rate may identify specific groups of customers that are relatively less beneficial to serve.
- Calculating **marginal revenue by customer** may lead to discovery of unpriced cost drivers.
Using IOU Rates – Pros and Cons

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>Incorporates IOU’s analysis of marginal costs</td>
<td>IOU Rates are based on load shapes for the system average, not your specific customers</td>
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<td>Customer categories and billing determinants already defined</td>
<td>PCIA is deducted from the rates on a flat basis, with no seasonality or TOU component.</td>
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<td>Rate comparison is simple</td>
<td>Rate structure reflects IOU’s prioritization of simplicity and accuracy</td>
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Challenges for CCAs

• General Challenge with Marginal Cost based pricing:
  – Shifting total costs around various customers does not improve the overall average rate unless customers change behavior.
  – Aligning rates with marginal costs can decrease CCA exposure to load forecast variance, but can increase burden on customer to understand and manage bill

• CCA-Specific Challenges:
  – Customer buckets are defined by IOU
    • Is the load shape within a rate consistent?
    • Are load shapes across rates varied?
  – Billing Determinants are defined by IOU
    • Difficult to define different time periods (Both technical and customer communication)
    • PCIA as percentage of total PG&E cost is high for off-peak periods
Challenges for CCAs

Flat PCIA distorts alignment of marginal revenue

No Fixed Charge

Several costs are incurred regardless of load. In fact, move-in/move-out and NEM are likely to have lower load, and higher costs:
- Staffing
- Power Procurement
- Regulatory
- Marketing
- Call Center
- Billing
Opportunities for CCAs

- Set prices based on **local load shapes** and **local customer behavior**
- Communicate and **educate customers** on prices to **drive customer behavior**
- For some segments, manage their bill through **simplifying** their **rates**
- Build rates as a discount from PG&E, but **vary where the discount applies** to match marginal cost
- Design **critical peak pricing** or other alternatives that better match Resource Adequacy costs
- **Partner rate changes with DER** offerings to maximize the value of both
Next Steps

• Define your rate goals
• Run marginal revenue analyses
• Identify available levers
• Develop Rate Roadmap and Communication Plan
• Implement
• Monitor and Refine
Questions?

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