

### *Introduction*

This Chapter describes the initial policies proposed for Apple Valley in setting its rates for electric aggregation services. These include policies regarding rate design, rate objectives, and provision for due process in setting Program rates. Program rates are ultimately approved by the Apple Valley Town Council. The Town would retain authority to modify program policies from time to time at its discretion.

### *Rate Policies*

The Town will establish rates sufficient to recover all costs related to operation of the AVCE Program, including any reserves that may be required as a condition of financing and other discretionary reserve funds that may be approved by Apple Valley. As a general policy, rates will be uniform for all similarly situated customers enrolled in the AVCE Program throughout the Town.

The primary objectives of the rate setting plan are to set rates that achieve the following:

- Rate competitive tariff option (default service offering), including a proportionate quantity of renewable energy in excess of California’s prevailing renewable energy procurement mandate;
- 100 percent renewable energy supply option (voluntary service offering);
- Rate stability;
- Equity among customers in each tariff;
- Customer understanding; and
- Revenue sufficiency.

Each of these objectives is described below.

### *Rate Competitiveness*

The primary goal is to offer competitive rates for electric services that the Town would provide to participating customers. For participants in the AVCE standard Tariff, the goal would be for AVCE Program rates to be initially one to five percent below, subject to actual energy product pricing and decisions of the Town Council, similar generation rates offered by SCE. For voluntary participants in the AVCE Program’s 100 percent renewable energy Tariff, the goal would be to offer the lowest possible customer rates with an incremental monthly cost premium reflective of the actual cost of additional renewable energy supply required to serve such customers – based on current estimates, the anticipated cost premium for the AVCE Program’s 100 percent renewable supply option would be 5 to 10 percent relative to the default AVCE tariff.

Competitive rates will be critical to attracting and retaining key customers. In order for the Town to be successful, the combination of price and value must be perceived as superior when compared to the bundled utility service alternative. As planned, the value provided by the AVCE Program will include a community focus and local investment and control.

As previously discussed, the AVCE Program will increase renewable energy supply to program customers, relative to the incumbent utility, by offering two distinct rate tariffs. The default tariff for AVCE Program customers will be the standard Tariff, which will increase renewable energy supply while maintaining generation rates that are generally comparable to SCE's. The initial renewable energy content provided under AVCE's standard Tariff will at a minimum meet California's prevailing renewable energy procurement mandate. The Town will also offer its customers a voluntary 100 percent renewable energy Tariff, which will supply participating customers with 100 percent renewable energy at rates that reflect AVCE's cost for procuring related energy supplies.

Participating qualified low- or fixed-income households, such as those currently enrolled in the California Alternate Rates for Energy ("CARE") program, will be automatically enrolled in the standard Tariff and will continue to receive related discounts on monthly electricity bills through SCE.

### *Rate Stability*

The Town will offer stable rates by hedging its supply costs over multiple time horizons and by including renewable energy supplies that exhibit stable costs. Rate stability considerations may prevent AVCE Program rates from directly tracking similar rates offered by the distribution utility, SCE, and may result in differences from the general rate-related targets initially established for the AVCE Program. Apple Valley plans to offer the most competitive rates possible after all Program operating costs are recovered and reserve targets are achieved.

### *Equity among Customer Classes*

Initial rates of the AVCE Program will be set based on cost-of-service considerations with reference to the rates customers would otherwise pay to SCE. Rate differences among customer classes will reflect the rates charged by the local distribution utility as well as differences in the costs of providing service to each class. Rate benefits may also vary among customers within the major customer class categories, depending upon the specific rate designs adopted by the Town.

### *Customer Understanding*

The goal of customer understanding involves rate designs that are relatively straightforward so that customers can readily understand how their bills are calculated. This not only minimizes customer confusion and dissatisfaction but will also result in fewer billing inquiries to the AVCE Program's customer service call center. Customer understanding also requires rate structures to reflect rational rate design principles (i.e., there should not be differences in rates that are not justified by costs or by other policies such as providing incentives for conservation).

### *Revenue Sufficiency*

AVCE Program rates must collect sufficient revenue from participating customers to fully fund the Town's annual budget related to AVCE operations. Rates will be set to collect the adopted budget based on a forecast of electric sales for the budget year. Rates will be adjusted as necessary to maintain the ability to fully recover all costs of the AVCE Program, subject to the disclosure and due process policies described later in this chapter. To ensure rate stability, funds available in the Town's rate stabilization fund may be used from time to time to augment operating revenues.

### *Rate Design*

The Town will generally match the rate structures from the utilities' standard rates to avoid the possibility that customers would see significantly different bill impacts as a result of changes in rate structures that would take effect following enrollment in the AVCE Program.

### *Custom Pricing Options*

The Town may work to develop specially-tailored rate and electric service products that meet the specific load characteristics or power market risk profiles of larger commercial and industrial customers. This will allow such customers to have access to a wider range of products than is currently available under the incumbent utility and potentially reduce the cost of power for these customers. The Town may provide large energy users with custom pricing options to help these customers gain greater control over their energy costs. Some examples of potential custom pricing options are rates that are based on an observable market index (e.g., CAISO prices) or fixed priced contracts of various terms.

### *Net Energy Metering*

As planned, customers with on-site generation eligible for net metering from SCE will be offered a net energy metering rate from the Town. Net energy metering allows for customers with certain qualified solar or wind distributed generation to be billed on the basis of their net energy consumption. The SCE net metering tariff ("NEM") requires the CCA to offer a net energy metering tariff in order for the customer to continue to be eligible for service on Schedule NEM. The objective is that Apple Valley's net energy metering tariff will apply to the generation component of the bill, and the SCE net energy metering tariff will apply to the utility's portion of the bill. The Town plans to pay customers for excess power produced from net energy metered generation systems in accordance with the rate designs adopted by the Town.

### *Disclosure and Due Process in Setting Rates and Allocating Costs among Participants*

Initial program rates will be adopted by Apple Valley following the establishment of the first year's operating budget prior to initiating the customer notification process. Subsequently, the Town will prepare an annual budget and corresponding customer rates. Any proposed rate adjustment will be made to the Town Council and ample time will be given to affected customers to provide comment on the proposed rate changes.

After proposing a rate adjustment, the Town will furnish affected customers with a notice of its intent to adjust rates, either by mailing such notices postage prepaid to affected customers, by including such notices as an insert to the regular bill for charges transmitted to affected customers, or by including a related message directly on the customer's monthly electricity bill (on the page addressing AVCE charges). The notice will provide a summary of the proposed rate adjustment and will include a link to the AVCE Program website where information will be posted regarding the amount of the proposed adjustment, a brief statement of the reasons for the adjustment, and the mailing address of the AVCE Program to which any customer inquiries relative to the proposed adjustment, including a request by the customer to receive notice of the date, time, and place of any hearing on the proposed adjustment, may be directed.