



Finance and Risk Management Committee

May 18, 2021



Meeting Agenda

1. Welcome
2. Roll Call
3. Public Comment for Items Not on the Agenda
4. Items to be Added, Withdrawn, or Reordered on the Agenda
5. Treasurer's Report from Maher Accountancy
6. Review and Recommend Board Approval of FY21 Budget Amendment
7. Review and Recommend Board Approval of Preliminary Fiscal Year 2021/2022 Budget
8. Review and Recommend Board Approval of NEM Net Surplus Compensation Rate & Amend the NEM program Policy Amendment
9. Committee Member Announcements
10. Adjournment

Item 5

Treasurer's Report from Maher Accountancy

Item 6

Review and Recommend Board Approval
of FY21 Budget Amendment

[illegible]

Item 7

Review and Recommend Board
Approval of Preliminary Fiscal Year
2021/2022 Budget

				FY 2020/21 Budget (Prior Year)	FY 2021/22 Budget (Proposed)	Changes	Description of change
OPERATING REVENUES							
			Ratepayer Revenues, Net of 1% Uncollectibles	\$ 26,552,433	\$ 318,320,860	\$ 291,768,428	Increased due to enrolling customers in Phase 1, 2, and 3
			(Less 1% Uncollectible Customer Accounts)	\$ (265,524)	\$ (3,183,209)	\$ (3,448,733)	
			Total Operating Revenues	26,286,908	315,137,652	288,319,695	
OPERATING EXPENSES							
			Cost of Energy	\$ 29,562,000	\$ 284,304,000	\$ 254,742,000	Increased due to enrolling customers in Phase 1, 2, and 3
			Personnel Costs	1,188,000	4,885,000	3,697,000	Adjusted for anticipated timing of new hires throughout the year
			Professional Services and Consultants	2,012,000	4,931,000	2,919,000	Major categories are Data Manager fees (Calpine) and SDG&E service fees
			Marketing and Outreach	796,000	1,417,000	621,000	Larger outreach and community presence anticipated; includes pilot member city grants
			General and Administration	220,000	845,000	625,000	Increase to accommodate increasing industry membership, rent, and insurance
			Total Operating Expenses	33,778,000	296,382,000	262,604,000	
			Operating Income (Loss)	\$ (7,491,092)	\$ 18,755,652	\$ 25,715,695	
NON-OPERATING REVENUES (EXPENSES)							
			Interest and Related Expenses	\$ (357,000)	\$ (978,000)	\$ (621,000)	Adjust to align with anticipated debt levels. Interest only, no principal payments.
			Total Non-Operating Revenues (Expenses)	\$ (357,000)	\$ (978,000)	\$ (621,000)	
CHANGE IN NET POSITION				\$ (7,848,092)	\$ 17,777,652	\$ 25,094,695	
Non-Budgeted Cash Inflows (Outflows)							
			Working capital from River City Bank	\$ 24,000,000	\$ 10,000,000	\$ (14,000,000)	Adjust loan draws to align with expected needs and available balance

Item 8

Review and Recommend Board Approval of
NEM Net Surplus Compensation Rate &
Amend the NEM Program Policy Amendment



Agenda

Net Energy Metering (NEM)

- Background Information:
 - Number of Existing NEM Customers
 - How Net Energy Metering (NEM) Works
 - True-Up Process & Billing
- Action Items:
 1. Establishing a SDCP Net Surplus Compensation Rate
 2. Establishing a Net Surplus Compensation Cap
 3. Standardize on True-Up & Billing Method for All NEM Customers
 4. Amending the NEM Program Policy

Background: Existing NEM Customers

Net Energy Metering

Net Energy Metering (NEM) is a long and complicated subject.

We are NOT affecting Transmission & Distribution charges, minimum bill payments, grid access, and other charges the utility can, may, and will charge customers.

We will have an opportunity to weigh in on those issues through the CPUC and legislation. Those items will be discussed later.

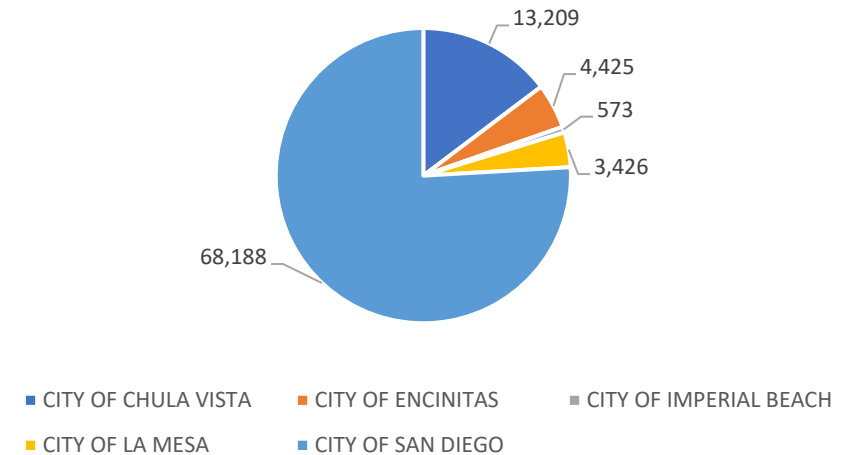
Current NEM Customers

Current NEM Customer Landscape

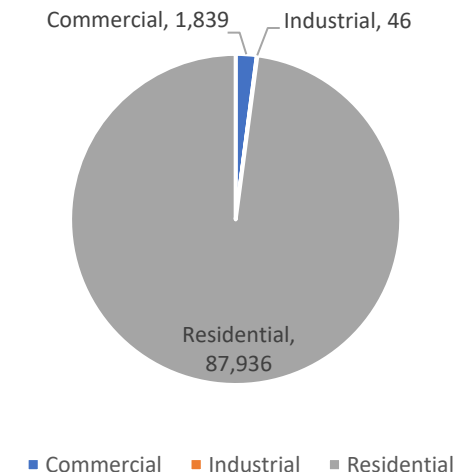
As of February 2021, we have:

- Over 89,800 eligible NEM accounts
 - 573 in the City of Imperial Beach
 - 13,209 in the City of Chula Vista
 - 4,425 in the City of Encinitas
 - 3,426 in the City of La Mesa
 - 68,188 in the City of San Diego
- 8,232 are CARE/FERA customers
- 1,839 accounts are considered Commercial
- 46 accounts are considered Industrial
- 87,936 accounts are considered Residential

Number of NEM Accounts by City



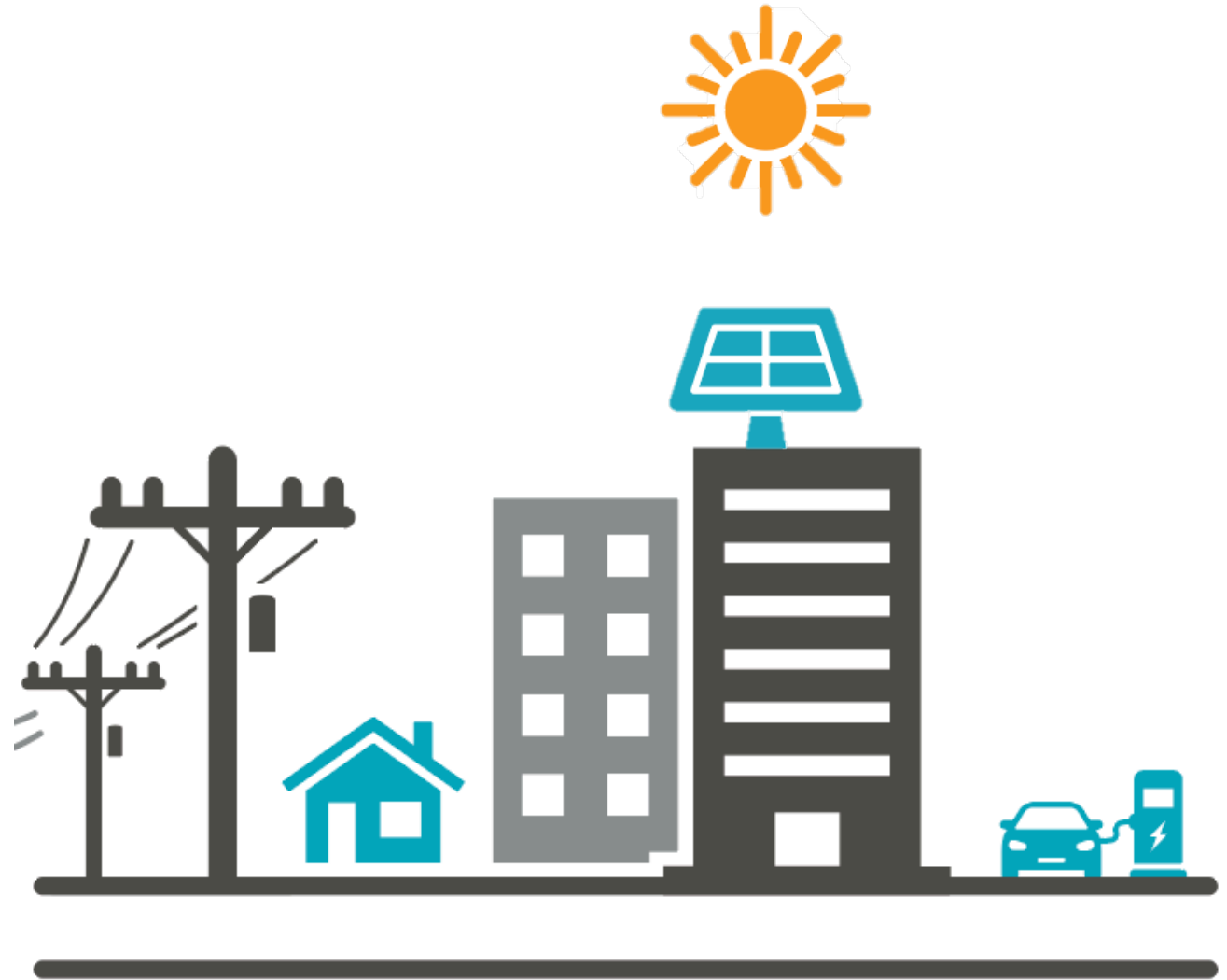
NEM Accounts by Customer Class



Background: How Net Energy Metering Currently Works

How NEM Works

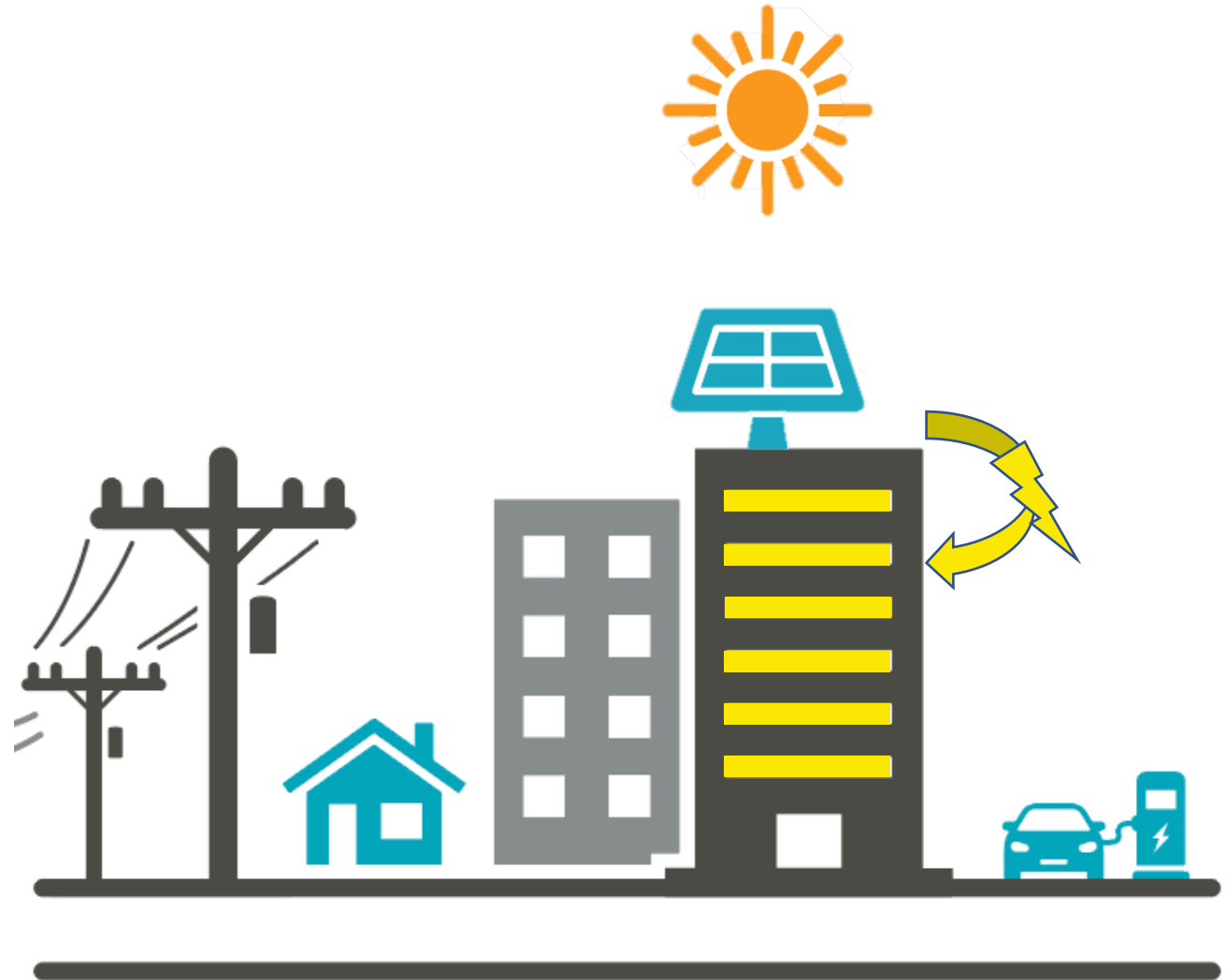
Nelson Lomeli Inc. installs a solar storage system and interconnects with SDG&E



How NEM Works

Nelson Lomeli Inc. installs a solar storage system and interconnects with SDG&E

The energy produced by the system will first be used by the building.

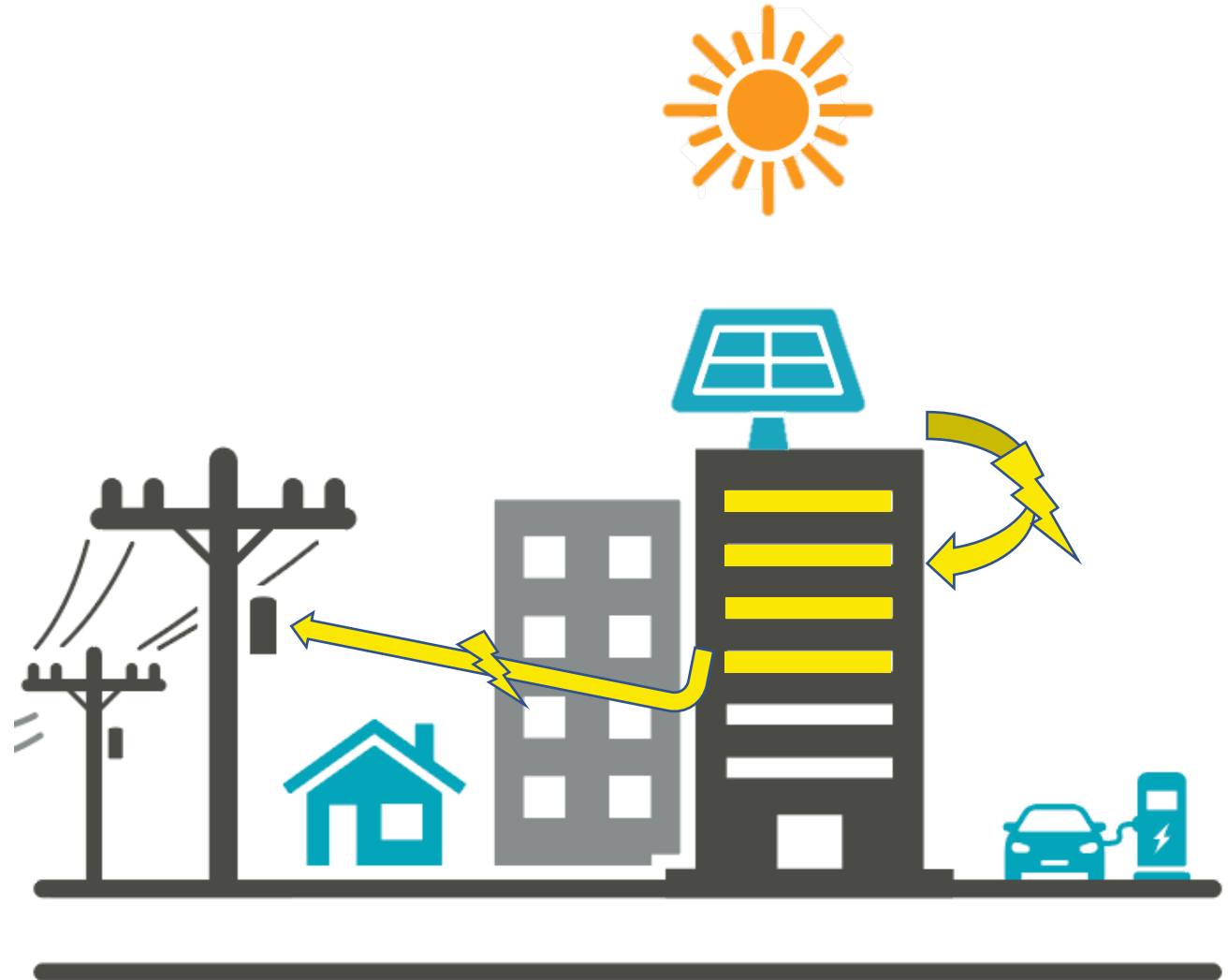


How NEM Works

Nelson Lomeli Inc. installs a solar storage system and interconnects with SDG&E

The energy produced by the system will first be used by the building.

When the customer consumes less electricity than what the system produces, the extra electricity produced is sent to the grid.



How NEM Works

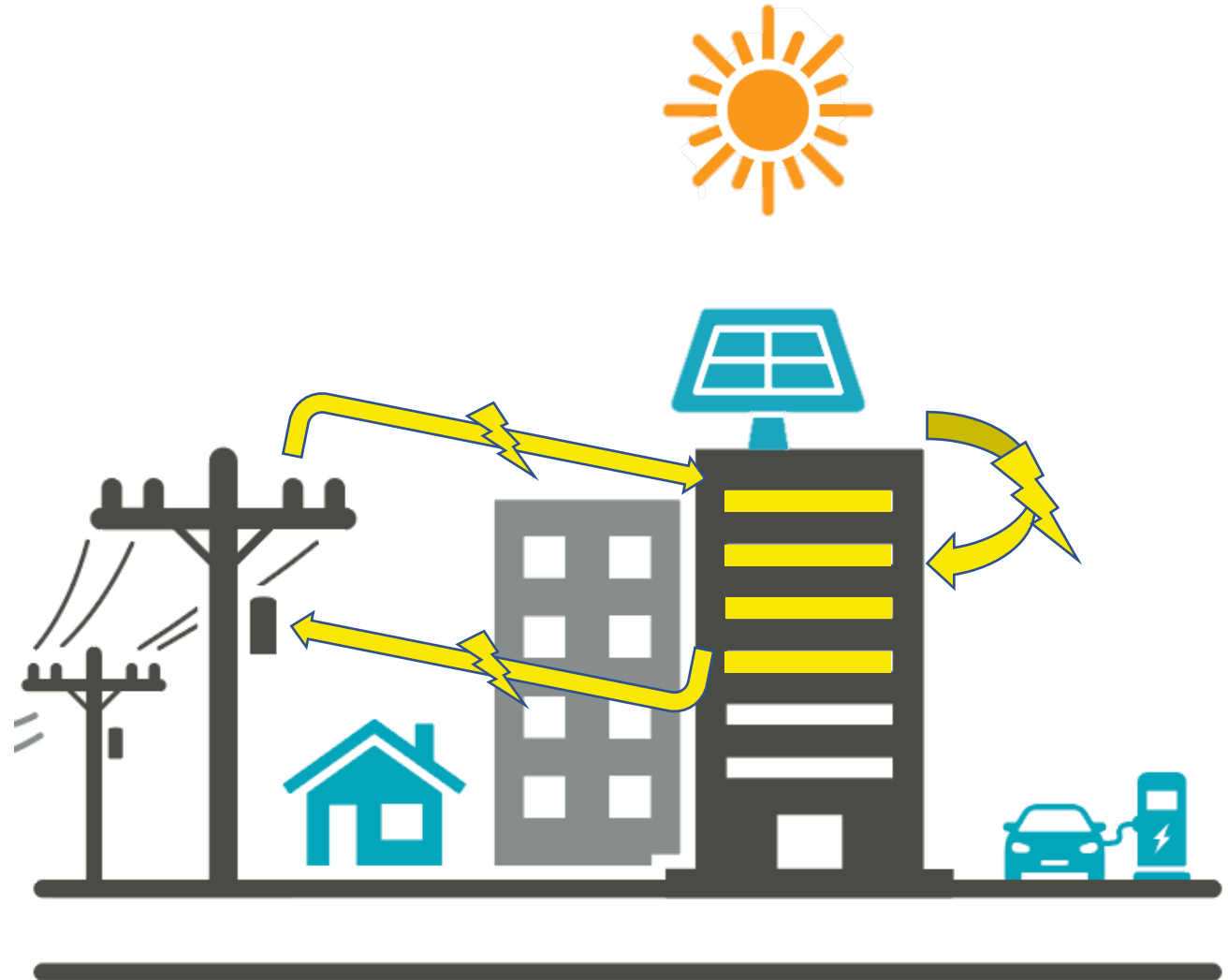
Nelson Lomeli Inc. installs a solar storage system and interconnects with SDG&E

The energy produced by the system will first be used by the building.

When the customer consumes less electricity than what the system produces, the extra electricity produced is sent to the grid.

When the customer consumes more electricity than what the system produces, the extra electricity consumed is drawn from the grid.

On a **monthly** basis, the utility determines how much electricity was sent to the grid and how much electricity was consumed and adds it up.



How NEM Works

On a **monthly** basis, if the amount of electricity sent to the grid is more than the electricity consumed from the grid, this is called **net generation**.

- This *monthly* net generation is **credited** (*paid*) **based on the customers rate schedule and time-of-use period** (peak/off-peak) of the net generation.
 - It is credited at the same rate the customer would have otherwise paid for electricity.

If, however, the amount of electricity consumed from the grid is more than the electricity generated from the system, this is called **net consumption**.

- This *monthly* net consumption is **charged based on the customers rate schedule and time-of-use period** (peak/off-peak) of the net consumption.

Net Generation

Month	TOU Period	TOU-A-S \$/kWh	Net Usage kWh	Charges \$	Total Monthly Charges
June	Peak	\$ 0.19	-50	\$ (9.63)	\$ (14.11)
	Off-Peak	\$ 0.09	-50	\$ (4.47)	

Net Consumption

Month	TOU Period	TOU-A-S \$/kWh	Net Usage kWh	Charges \$	Total Monthly Charges
June	Peak	\$ 0.19	50	\$ 9.63	\$ 14.11
	Off-Peak	\$ 0.09	50	\$ 4.47	

Background: NEM True-Up & Billing

How True-Up Works

Monthly net consumption and net generation by time-of-use periods are tracked monthly for 12-months (referred to as the **relevant period**)

The associated generation credits and consumption charges are calculated and banked for those 12-months as well.

At the end of 12-months, a **True-Up** is conducted where the monthly generation credits, monthly consumption charges, and minimum bill payments are added up.

- If a customer has more generation credits than charges, the customer owes nothing!
- If a customer has more charges than generation credits, the customer is billed and required to pay the difference.



	Month	TOU Period	TOU-A-S \$/kWh	Net Usage kWh	Charges \$	Total Monthly Charges
Summer Months	June	Peak	\$ 0.19	-200	(38.53)	\$ (92.21)
		Off-Peak	\$ 0.09	-600	(53.68)	
	July	Peak	\$ 0.19	-250	(48.16)	\$(106.31)
		Off-Peak	\$ 0.09	-650	(58.15)	
	August	Peak	\$ 0.19	-250	(48.16)	\$(101.84)
		Off-Peak	\$ 0.09	-600	(53.68)	
	September	Peak	\$ 0.19	-200	(38.53)	\$ (87.73)
		Off-Peak	\$ 0.09	-550	(49.20)	
	October	Peak	\$ 0.19	-100	(19.27)	\$ (55.05)
		Off-Peak	\$ 0.09	-400	(35.78)	
Winter Months	November	Peak	\$ 0.05	100	5.04	\$ 12.57
		Off-Peak	\$ 0.04	200	7.53	
	December	Peak	\$ 0.05	200	10.07	\$ 25.14
		Off-Peak	\$ 0.04	400	15.06	
	January	Peak	\$ 0.05	300	15.11	\$ 33.94
		Off-Peak	\$ 0.04	500	18.83	
	February	Peak	\$ 0.05	300	15.11	\$ 33.94
		Off-Peak	\$ 0.04	500	18.83	
	March	Peak	\$ 0.05	200	10.07	\$ 25.14
		Off-Peak	\$ 0.04	400	15.06	
	April	Peak	\$ 0.05	100	5.04	\$ 12.57
		Off-Peak	\$ 0.04	200	7.53	
	May	Peak	\$ 0.05	50	2.52	\$ (1.25)
		Off-Peak	\$ 0.04	-100	(3.77)	
NET TOTAL						-\$301.10

Action Item #1: Review & Recommend Establishment of a Net Surplus Compensation (NSC) Rate

Net Surplus Compensation

- Net Surplus Compensation is **only paid for annual net generation** to compensate those customers that net exported electricity in the year.
- The Net Surplus Compensation rate for the utilities is set at the wholesale cost of electricity and varies by month.
- Net Surplus Compensation Rate is **NOT** used to calculate monthly generation credits for NEM customers.
 - Generation credits are calculated using the customers' applicable rate schedule (*i.e. TOU-A-S, EV-TOU, DR-TOU, etc.*)

Net Surplus Compensation

With NSC, we only care about the Net Usage in kWh

Example:

Annual net generator of -450 kWh

	Month	TOU Period	TOU-A-S \$/kWh	Net Usage kWh	Charges \$	Total Monthly Charges
Summer Months	June	Peak	\$ 0.19	-200	(38.53)	\$ (92.21)
		Off-Peak	\$ 0.09	-600	(53.68)	
	July	Peak	\$ 0.19	-250	(48.16)	\$(106.31)
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		Off-Peak	\$ 0.04	200	7.53	
	May	Peak	\$ 0.05	50	2.52	\$ (1.25)
		Off-Peak	\$ 0.04	-100	(3.77)	
NET TOTAL				-450 kWh		

Net Surplus Compensation

With NSC, we only care about the Net Usage in kWh

Example:

Annual net generator of -450 kWh

True-Up in May

SDG&E NSC is \$0.02702/kWh

Annual Net kWh Exported	-450 kWh	
SDG&E May Net Surplus Compensation Rate	\$ 0.02702	\$/kWh
Total Paid to Customer by SDG&E	\$ (12.16)	

Setting Our Net Surplus Compensation Rate

Staff Recommendation:

- **Set the Net Surplus Compensation to match SDG&E's monthly Net Surplus Compensation**
- **Add a \$0.0075/kWh adder as an incentive for customers generating 100% renewable, local electricity.**
- Potential financial payment to customers of \$2.8M per year for net generators.
 - Estimate based on a conservative SDG&E's Max 3-year NSC rate of \$0.04452/kWh + \$0.0075/kWh adder

CCA Compensation Landscape

Using the NSC Method

- Apple Valley Choice Energy
- Baldwin Park Resident Owned Utility District (BPROUD)
- Central Coast Community Energy
- Clean Power Alliance (CPA)
- CleanPower SF
- Desert Community Energy
- East Bay Community Power
- Lancaster Choice Energy
- MCE
- Pico Rivera Innovative Municipal Energy (PRIME)
- Pioneer Community Power
- Pomona Choice Energy
- Rancho Mirage Energy Authority
- San Jose Clean Energy
- Sonoma Clean Power
- Valley Clean Energy

Using the Retail Credit Balance Method

- Silicon Valley Clean Energy
- Peninsula Clean Energy
- Redwood Energy Authority

Setting Our Net Surplus Compensation Rate

Other Options Explored

1. Setting the NSC at parity to SDG&E

- Not recommended because:
 - Doesn't differentiate between SDCP and the utility
 - Doesn't give customers any incentive to stay with SDCP

2. Setting the NSC at double SDG&E's NSC

- Not recommended because:
 - Expose SDCP to large financial risk

3. Cashing-out customer's credit balance

- Not recommended because:
 - Potentially compensates customers that are not generators of clean electricity on an annual basis

Setting Our Net Surplus Compensation Rate

Action Item Before the Committee:

- Recommend to the Board the Establishment of a Net Surplus Compensation Rate for SDCP.

Staff Recommendation:

- Set the Net Surplus Compensation to match SDG&E's monthly Net Surplus Compensation
- Add a \$0.0075/kWh adder as an incentive for customers generating 100% renewable, local electricity.

Action Item #2: Review & Recommend Establishment of a Compensation Cap

Establish a Compensation Cap

Action Item Before the Committee:

- **Recommend to the Board the Establishment of a Limit (Cap) for Net Surplus Compensation from SDCP.**

Staff Recommendation:

- **Limit net surplus compensation at \$2,500 per account per year**

Reason for Recommendation:

- Cap set to minimize financial impacts to SDCP and our customers.
- Protect SDCP customers in the unlikely event that the wholesale market prices (thus the NSC rate) are ever volatile and spike.
 - Note: The 10-year average NSC is \$0.035/kWh. Highest it's gone is \$0.05082/kWh back in Nov. 2014.
- Vast majority of customers will never approach this cap.
 - Our net generator customers on average, generate 1,773 kWh/year, receiving an avg. compensation of \$100.

Action Item #3: Review & Recommend Standardization of True-Up & Billing Method

Standardize True-Up & Billing Method

Current Status

Current SDCP NEM Program Policy states that:

- Residential customers will be trued-up and billed annually.
- Commercial and industrial customers (non-residential) are trued-up and billed monthly.

Under the current policy, for residential customers:

- Their generation credits and consumption charges are calculated and banked for 12-months.
- At their true-up, they potentially can get one massive bill for 12-months worth of electricity usage

Standardize True-Up & Billing Method

Staff Recommendation: Monthly True-Up for ALL customers

When a customer is a net generator, generation credits are calculated and added to a NEM credit balance account.

When a customer is a net consumer, monthly charges are paid (*taken from*) any accrued generation credits.

If the monthly charges exceed available credit balance, customer is billed for the difference.

This method is more customer centric as it helps customers avoid large end-of-year charges for customer and budget accordingly

Month	TOU Period	TOU-A-S \$/kWh	Net Usage kWh	Charges \$	Total Monthly Charges		Credit Balance	Billed to Customer
June	Peak	\$0.19265	-100	\$ (19.27)	\$ (37.16)	→	\$ (37.16)	\$ -
	Off-Peak	\$0.08946	-200	\$ (17.89)				
July	Peak	\$0.19265	25	\$ 4.82	\$ 13.76	+ →	\$ (23.39)	\$ -
	Off-Peak	\$0.08946	100	\$ 8.95				
August	Peak	\$0.19265	100	\$ 19.27	\$ 37.16	+ →	\$ -	\$ 13.76
	Off-Peak	\$0.08946	200	\$ 17.89				

Standardize True-Up & Billing Method

Benefits of Monthly True-Up & Billing

Aligns all customer classes to one true-up and billing method simplifying an already confusing program.

Allows customers to have smaller monthly billing payments instead of potentially one giant bill.

- Avoids the “bill shock” if customers is a net consumer.
 - (70% of our NEM customers are net consumers)
- Potential risk of customers opting-out when they receive one large bill – may blame it on SDCP.

Aligns with where the industry is going.

- Numerous NEM 3.0 proposals call for monthly true-ups and billing.

Standardize True-Up & Billing Method

Action Item Before the Committee:

- Recommend to Board Amending the NEM Policy to Standardize True-Up & Billing Method for All NEM Customers

Staff Recommendation:

- Establish that all NEM customers will receive monthly true-up & billing

CAC Input:

- CAC suggested offering yearly true-up and billing as an option to customers alongside monthly.

**Action Item #4:
Amend Board Adopted NEM
Program Policy**

Amend Board Adopted NEM Program Policy

Action Item Before the Committee:

- Recommend to the Board to update the NEM Program Policy as adopted in December 2020 to reflect adopted changes to NEM program.

Staff Recommendation:

- Recommend to Board to delegate authority to the CEO or their designee to amend the NEM Program Policy as needed to comply with Board adopted changes.



Thank You

Nelson Lomeli, Program Manager

Meeting Agenda

Item 9: Committee Member Announcements

Item 10: Adjournment



Finance and Risk Management Committee

Next Meeting

June 15, 2021

