



## **3CE Cost of Service FAQ**

Since inception, Central Coast Community Energy (3CE) designed its rates based on matching PG&E's rates and applying a discount inclusive of PG&E fees such as the Power Charge Difference Adjustment (PCIA). Having achieved financial stability and proven its ability to meet and exceed agency goals, the opportunity has come for 3CE to decouple its rate structure from PG&E's investor-owned utility (IOU) model and follow a Cost of Service or cost-based model, pending board approval. The Cost of Service approach reflects the true costs of serving customers based on their consumption patterns as well as associated administrative and operational costs such as power procurement and energy programs. It also provides rate equity and consistency throughout the Central Coast such that each customer (associated with the defined customer segment) pays the same price per kWh regardless of location or date of enrollment in service.

### **Why is 3CE transitioning to Cost of Service?**

The current rate structure, based on IOU rates minus a discount, requires 3CE to adjust to IOU rate changes multiple times each year. The IOU rates reflect the cost to serve the entire IOU service area, not the cost to serve the consumption patterns of 3CE customers living on the Central Coast. 3CE has changed its rates approximately a dozen times since its launch of service in March 2018.

Wrapped up in the complicated IOU rate design model are dozens of rate classifications and large discrepancies in how much one customer pays per kWh of energy vs others, as well as customer classes that require considerable administrative time vs. those that require little to no administrative time.

3CE's Cost of Service rate approach, which is predicated on a three-year period from January 1, 2022 until December 31, 2024, provides a more simplistic, and predictable rate structure. 3CE believes this is the right step towards equitable and competitive rates for all customers.

### **What is Cost of Service (COS)?**

The COS or cost-based rate structure is centered solely on the costs to procure electricity, cover agency operations, fund energy programs and maintain 3CE's rate stabilization fund. It is the surest path to simple, predictable, and equitable rates that consistently compete and/or outperform the IOU alternative. 3CE's goal is to provide a minimum of 1% rate discount across the seven newly defined customer segments: Residential, Small General Service, Medium General Service, Large General Service, Standby, Small to Medium Agriculture, and Large Agriculture.

### **What are the rate options proposed in 3CE's Cost of Service structure?**

3CE proposes the following options for all customers:

1. Default Option: Cost-based rates, set for 3 years, applied to new TOU periods beginning January 1, 2022 to December 31, 2024.
2. Alternate Option: Seasonal flat rates, set for 3 years beginning January 1, 2022 to December 31, 2024. Beginning January 1, 2025, customers choosing that option will be enrolled in the Default Option.

For customers that are exempt from the mandatory TOU transition or excluded from default TOU, the following options will be available:

1. Default Option: Cost-based rates applied to Legacy TOU periods beginning January 1, 2022 to December 31, 2024.
2. Alternate Option: Seasonal flat rates for 3 years beginning January 1, 2022 to December 31, 2024. Beginning January 1, 2025, customers choosing that option will be enrolled in the Default Option.

### **How is 3CE Helping Customers Adjust to Cost of Service Rates?**

All 3CE customers can choose between migrating to the proposed default COS Time of Use rates structure in January 2022, or adopting a Seasonal Flat Rate for three years, from January 2022 through December 2024. Customers can learn more about these options by visiting: [3cenergy.org/cost-of-service/](https://3cenergy.org/cost-of-service/) Beginning July 2021, customers will be able to utilize a rate-comparison calculator to better consider each scenario or engage with 3CE's staff and seasoned Energy Advisors at our Call Center.

### **How does COS affect Net Energy Metering (NEM) customers?**

All residential customers, including NEM customers, will see a monthly service fee of \$4.50 to better align with the true costs to procure electricity and cover ongoing administrative costs associated with customer service. The \$4.50 service fee is a monthly charge that can be offset by net producing NEM customers.

NEM customers will also switch to monthly NEM invoicing, providing the customer greater insight into their energy usage over the year while maintaining the annual true-up.

3CE's general customers (roughly 365,000 total) subsidize solar customers (roughly 33,000 total) with approximately \$9.8 million per year based on expenses related to serving NEM customers and the revenue received from NEM customers. If all NEM customers choose the default COS TOU rate, the subsidy paid by non-solar customers would be reduced to approximately \$6 million. If all NEM customers choose the Seasonal Flat Rate, the subsidy would be closer to \$8.4 million. Ultimately, NEM customers are still receiving a significant subsidy, but COS will allow for better cost recovery from NEM customers and less subsidization from general customers.

On average, 3CE residential customer and NEM customer rates will continue to be competitive with PG&E.

### **How will COS affect Net Surplus Compensation (NSC) rates?**

Of the 33,000 NEM customers, an estimated 5,600 customers receive NSC. 3CE's proposed flat rate would offer a seasonal NSC rate of 6.4cent/kWh in the summer and 6.0cent/kWh in the winter. COS TOU would be aligned with the wholesale cost at around 2.5cent/kWh for net surplus compensation. COS does not eliminate NSC and still allows for surplus generators to receive year-end compensation.

### **Why are solar developers and advocates voicing concerns over modest changes founded on equitable rate setting and continued benefits?**

Just prior to 3CE announcing its proposed transition to COS, California's IOUs proposed considerable changes to the NEM program (known as NEM 3.0). If passed, the IOU proposals would dramatically reduce the significant IOU subsidy afforded to NEM customers – approximately \$2,000 per customer, per year. 3CE's proposed COS structure decouples 3CE's rates from IOUs and is entirely unrelated to the IOU's push for NEM 3.0 and related regulations and legislation. 3CE's Community Choice Aggregator (CCA) model is rooted in local control and decision making such that 3CE's boards approve customer rates not the CPUC.

### **Does 3CE support solar, battery, and microgrid industries?**

Yes. 3CE invests significantly in all renewable energy resources, including solar, as part of its pathway to our board approved 100% Clean and Renewable Energy strategy by 2030. 3CE has contracted 550MW of solar generation and 200 MW of storage and expects to contract for roughly 350 MW more solar this year plus 50 MW of storage. Additionally, 3CE will be inviting local developers to prequalify for installation of up to 100MW of stand-alone battery storage (with a preference for projects of 1 to 5MW) throughout the 3CE service area. 3CE further supports local developers and the local economy through outreach and focusing its Energy Program funding on electrification of the transportation, building, and agricultural sectors. 3CE is also leading discussions in support of key legislative initiatives to support battery deployment, microgrid developments, and baseload bioenergy projects.

## **Glossary of Terms and Acronyms**

### **3CE – Central Coast Community Energy**

**CCA or CCE – Community Choice Aggregation or Community Choice Energy** – Community Choice Aggregation also known as Community Choice Energy is a public agency alternative to the investor-owned utility energy supply system in which communities aggregate the buying power of customers within a jurisdiction to secure energy supply contracts.

**COS – Cost of Service** – 3CE’s proposed new rate structure taking into account the cost to serve each customer class (residential, commercial, ag and NEM) with the goal of equitable rate benefits. COS would go into effect in January 2022 pending board approval in June 2021.

**IOU – Investor-Owned Utility** – A private electricity and natural gas provider such as PG&E or SCE.

**MW – Megawatt** – measure of power. 1 megawatt equals 1,000 kilowatts or 1 million watts.

**NEM – Net Energy Metering** – A program in which solar customers receive credit for excess electricity generated by solar panels.

**NSC – Net Surplus Compensation** – the compensation paid to NEM solar customers who are net generators of energy over a one-year period of time

**PCIA or “exit fee”** - Power Charge Indifference Adjustment (PCIA) is an “exit fee” based on stranded costs of the utility generation set by the California Public Utilities Commission. It is calculated annually and assessed to customers of CCAs and paid to the IOU that lost those customers as a result of the formation of a CCA.

**Time-of-Use (TOU) Rates** — The pricing of delivered electricity based on the estimated cost of electricity during a particular time-block. Time-of-use rates are usually divided into three or four time-blocks per 24-hour period (on- peak, midpeak, off-peak and sometimes super off-peak) and by seasons of the year (summer and winter). Real time pricing differs from TOU rates in that it is based on actual (as opposed to forecasted) prices that may fluctuate many times a day and are weather sensitive, rather than varying with a fixed schedule.