

Orange County Power Authority Policy Number 021: Rate Development Policy

Purpose

This policy provides the framework for Orange County Power Authority's ("OCPA") Board of Directors and staff to ensure OCPA's rate design, development and implementation process remains transparent, fiscally responsible and centered on the customer.

As a public agency, OCPA must, at minimum, set rates to recover costs associated with the purchase of power, operational costs, meeting financial metrics, and debt services. It is in the best interest of OCPA and its customers to design and implement rates that meet revenue requirements as well as targeted reserves, while maintaining rate competitiveness, stability, and long-term financial viability.

Background

OCPA customers receive electric delivery service under a wide variety of Southern California Edison's ("SCE") rate schedules that include Residential (D), Commercial and Industrial (GS), Agricultural and Pumping (PA), and Street Lighting and Traffic Control (LS and TC). In Spring 2022, OCPA commenced its commercial customer enrollment, serving GS, PA, LS and TC classes. Residential customers were enrolled in Fall 2022. Because of the timing differences in enrollments, OCPA's residential customers are assigned the 2022 vintage for the purpose of calculating SCE Power Charge Indifference Adjustment ("PCIA") charges and other surcharges, while non-residential customers are assigned to the 2021 vintage.¹

OCPA advocates for ratepayers by providing a choice of electricity providers and shifting control of local energy supply decisions from profit-driven, incumbent utility into the hands of residents and businesses located in our service jurisdiction. This creates competition in rates that benefits customers, increases transparency, and ensures a better overall customer experience.

OCPA Primary Rate Setting Objectives

OCPA has set goals and priorities that shall be taken into account during the rate design process:

1. **Local Control**
Board discretion on rate-setting.
2. **Cost Recovery**
Rates are adequate to cover all expenses, debt services, and other financial obligations.
3. **Stability**
Rates shall enable the creation of a prudent rate stabilization reserve fund 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.

¹ Vintages assigned to customers in future mass enrollments, if any, may be different based on the timing of the enrollment.

4. 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.

5. Equity

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

OCPA Rate Setting Timeline

Typically, SCE updates its annual Energy Resource Recovery Account (“ERRA”) forecast for electric generation rates and PCIA changes, which becomes effective in January and is usually approved by the California Public Utilities Commission (“CPUC”) in December.

Following the approval of the ERRA, staff will present a proposed Rate Design for the year to the Board for review and approval. With frequent power market changes and evolving regulatory policies, SCE changes their rates multiple times a year, which may require staff to propose intra-year rate changes to the Board for review and approval.

Upon the Board’s approval of the annual OCPA Rate Design, staff will make necessary adjustments to OCPA rates as soon as practicable and as necessary during the year to maintain the approved OCPA Rate Design for all customers. Staff will place a report on the agenda detailing the adjustment and request ratification of the adjusted OCPA rates at the next regular board meeting.

The approved OCPA rates will be published on the OCPA website prior to their effective date, allowing customers to compare, plan, and gain a better understanding of their upcoming bills.

Joint Rate Comparison

As per the regulatory requirements, SCE and OCPA must collaborate to publish and post a Joint Rate Comparison on their respective websites for each rate change. This will enable customers to easily compare the rates and assess any potential changes in their bills.

Future Cost-Based Rate Design

OCPA may evaluate the viability of transitioning to a Cost-Based (Cost-of-Service) rate design, rather than a rate design directly tied to SCE rates, after it has established sufficient reserves in accordance with the OCPA Reserves Policy. The Cost-Based rate design is the prevailing method utilized by most utilities to calculate their retail rates and provides enhanced rate stability to customers.