



CITY OF SANTA BARBARA

SUSTAINABILITY COMMITTEE AGENDA REPORT

AGENDA DATE: June 1, 2023

TO: Sustainability Council Committee

FROM: Sustainability & Resilience Department

SUBJECT: Santa Barbara Clean Energy Program Annual Update

RECOMMENDATION: That Council:

- A. Receive an annual update on Santa Barbara Clean Energy, the City's Community Choice Energy Program;
- B. Review and discuss potential incentive programs to be developed and offered by Santa Barbara Clean Energy in Fiscal Year 2024 and support staff's recommended program development direction; and
- C. Forward a recommendation to Council to amend the Santa Barbara Clean Energy Rate Setting Formula for each of its energy product offerings across all customer types and authorize the City Administrator to determine rates by application of the formula.

DISCUSSION:

Annual Update on Santa Barbara Clean Energy

Santa Barbara Clean Energy (SBCE), the City's Community Choice Energy (CCE) program, launched residential service in October of 2021 and commercial service in March of 2022, providing clean, carbon-free electricity to the Santa Barbara community.

The first complete year of the program has seen the program launch and grow, while also providing critical data to inform power procurement, rate setting, and customer programs. Staff will provide to the Committee an energy market review and update, a report on SBCE power sources, and an overview of existing and customer participation.

SBCE Customer Programs for Fiscal Year 2024

Staff will provide a proposal to the Committee on how to allocate the program dollars proposed in the Sustainability and Resilience budget for Fiscal Year (FY) 2024. Staff proposed a conservative budget of \$300,000 to be used in FY24 for customer programs. Per Council's established SBCE priorities, program funds should be used for one or more of the following:

- **Customer Programs:** Providing critical assistance to local Santa Barbara Residents and Businesses to take certain steps that will help the City achieve its carbon neutrality goal.
- **Rate Relief:** Ensuring the Customer rates are competitive and affordable for the community.
- **Building Local Energy Infrastructure:** Ensuring local resilience, local jobs and green economy development, and truly local energy sources.

Staff is in the process of evaluating options to address all three of these priorities. Because staff has conservatively budgeted just \$300,000, staff is recommending to initially focus on a single pilot incentive to be paid out of this budget relating to electric vehicle adoption, with particular focus on low-income Santa Barbara residents.

Staff has met with several other California CCEs and has found that EV incentives are not only the most effective tool to encourage EV adoption, but also help make meaningful and measurable gains toward the City's transportation decarbonization goals.

Additionally, staff have pursued and received other funds to create smaller programs, such as a youth innovation grant, municipal make-ready infrastructure project, and a commercial heat pump water heater incentive program.

Staff is addressing the Energy Infrastructure objectives outside of this budget proposal by using creative financing mechanisms such as power purchase agreements, grant funds, and new statewide and federal funding streams to implement several critical energy infrastructure projects.

Lastly, staff proposes to address Rate Relief in FY24 through the amendment to the SBCE Rate Setting Policy outlined below.

Amendment to the SBCE Rate Setting Policy

Staff recommends an amendment to SBCE's rate setting policy. The policy was first adopted in 2021 prior to the program launch and amended during the FY 2023 budget process to adjust the rate premium charged for 100% Green increased from \$0.012 to \$0.016 to cover significant market volatility.

The policy outlines how rates are tied to SBCE's revenue requirement and further that, since the program is funded by electricity generation rates paid by its customers based on the amount of electricity they use, rates must be designed to provide sufficient revenues to meet the revenue requirement, or the cost of administering the SBCE program.

SBCE currently sets its rates by formula, pegged to Southern California Electric's (SCE) rates which are used as the foundational basis for determining rates for all of the SBCE rate classes and customer types. The formulas are applied for each of its three energy products as outlined in the table below:

Energy Product	Rate Formula
SBCE 100% Green	= SCE base rate + \$0.016/kWh
SBCE Green Start	= SCE base rate
SBCE Resilient Net Surplus Compensation Rate	= \$0.0663/kWh for excess solar generation

However, in the past year SCE has increased their generation rates significantly over multiple rate increases. Each time this occurs, it triggers the SBCE rates to increase commensurately, based on the SBCE rate setting policy. These dramatic increases are not always necessary for SBCE to cover its revenue requirement. Therefore, staff is recommending that the policy be amended to give staff flexibility in applying the formula to mitigate some of the SCE rate increase impacts to SBCE customers.

Specifically, the amendment proposes to add the ability to set the rates for SBCE at an amount less than the amount stated in the rate formula as the City Administrator determines to be consistent with the principles stated in section 1 of the rate setting policy (attached to this report). This would allow SBCE rates to reduce the \$0.016 premium to a lower amount if it was not needed to meet SBCE’s revenue requirement for a given period.

Amending the rate policy in this way will allow staff to be most responsive to SCE rate changes, adjust the rate premium quickly to mitigate customer impacts whenever possible, and ensure that rates will cover the revenue requirement.

BUDGET/FINANCIAL INFORMATION:

The Sustainability and Resilience FY24 budget included the appropriation of \$300,000 to fund customer programs. The proposed amendment to the rate setting policy supports the SBCE Fund’s budget submittal for FY 2024 and aligns the fund with its 10-year financial plan.

ATTACHMENT: Draft Amendment to SBCE Rate Setting Policy Resolution

PREPARED BY: Alelia Parenteau, Sustainability and Resilience Director

SUBMITTED BY: Alelia Parenteau, Sustainability and Resilience Director

RESOLUTION NO.

A RESOLUTION OF THE COUNCIL OF THE CITY OF SANTA BARBARA CONFIRMING AND AMENDING RATE SETTING FORMULA FOR SANTA BARBARA CLEAN ENERGY

THE COUNCIL OF THE CITY OF SANTA BARBARA RESOLVES AS FOLLOWS:

1. On May 12, 2021, the City Council adopted Resolution No. 21-032 approving the rate setting formula for Santa Barbara Clean Energy (SBCE and authorizing the City Administrator to determine rates by application of the formula. Resolution No. 21-032 also established the following principles regarding rates:

Rate Consideration	Definition
Revenue Sufficiency	<i>Rates should recover all program expenses, debt service requirements, and reserves</i>
Rate Competitiveness	<i>Rates should allow SBCE to successfully compete in the marketplace to retain and attract customers</i>
Rate Stability	<i>Rate changes should be minimized to reduce customer bill impacts</i>
Customer Understanding	<i>Rates should be simple, transparent, and easily understood by customers</i>
Equity Among Customers	<i>Rate differences among customers should be justified by differences in usage characteristics or cost of service</i>
Efficiency	<i>Rates should generally encourage conservation and efficient use of electricity</i>

2. In June 2022, in conjunction with adoption of the FY 23 City budget, the City Council increased the rate for SBCE's 100% Green product from the SCE base rate + \$0.012/kWh to the SCE base rate + \$0.016/kWh.

3. The rates established by the FY 23 budget are reconfirmed as follows:

Energy Product	Rate Formula
SBCE 100% Green	= SCE base rate + \$0.016/kWh

SBCE Green Start	= SCE base rate
SBCE Resilient Net Surplus Compensation Rate	= \$0.0663/kWh for excess solar generation

4. The City Administrator is authorized to determine the rates for SBCE by application of the formula to the various SCE rates across all customer classes and service categories. Because the rates for SBCE service are tied to the rates approved by the Public Utilities Commission for provision by Southern California Edison (SCE) of electricity within the City of Santa Barbara, the City Administrator may from time-to-time set the rates for SBCE at an amount less than the amount stated in the rate formula as the City Administrator determines to be consistent with the principles stated in section 1.

5. The City Administrator may delegate the authority granted by this resolution.

6. The rates established by this resolution are necessary to fund the operating expenses of SBCE and are exempt from the California Environmental Quality Act pursuant to Public Resources Code § 21080(b)(8) and 14 Cal. Code of Regs. § 15273.

7. This resolution shall be effective upon adoption.