DESERT COMMUNITY ENERGY
MEETING AGENDA

Monday, March 17, 2025
3:00 p.m.

Palm Springs City Hall
Large Conference Room
3200 E. Tahquitz Canyon Way
Palm Springs CA 92262

Members of the public may use the following link for listening access and ability to address the Desert Community Energy Board when called upon:

https://us02web.zoom.us/j/89924082212?pwd=8VkR3QU5wXB1oXbAaUr3OnmMXFbyMF.1

Dial In: +1 669 900 9128 US
Webinar ID: 899 2408 2212
Password: 461722

IF YOU ARE UNABLE TO CONNECT VIA DIAL IN OPTION, PLEASE CALL 760-346-1127.

Members of the public are encouraged to submit comment in connection with the Desert Community Energy meeting by email to: cvag@cvag.org by 5:00 p.m. on the day prior to the Board meeting. Members of the public joining the meeting by Zoom can provide comment by using the "raise hand" feature or hitting *9 on the phone keypad.

As a convenience to the public, DCE provides a call-in and internet-based option for members of the public to virtually observe and provide public comments at its meetings. Please note that, in the event of a technical issue disrupting the call-in or internet-based options, the meeting will continue unless otherwise required by law.

THIS MEETING IS HANDICAPPED ACCESSIBLE.
ACTION MAY RESULT ON ANY ITEMS ON THIS AGENDA.

1. CALL TO ORDER

2. ROLL CALL

A. Member Roster **P4**

3. AGENDA MODIFICATIONS (IF ANY)

4. PUBLIC COMMENTS ON AGENDA ITEMS

This is the first of two opportunities to address the Board. Any person wishing to address the Desert Community Energy Board on items appearing on this agenda may do so at this time. Please limit comments to 3 minutes. At the discretion of the chair, additional public comment time and/or opportunities during the meeting may be granted.

5. BOARD MEMBER / EXECUTIVE DIRECTOR COMMENTS

6. CONSENT CALENDAR

A. Approve the minutes of the November 18, 2024, Board meeting **P5**

B. Authorize the Executive Director to execute an amended engagement letter with Best Best & Krieger LLP to incorporate proposed regulatory compliance and filing support services into the scope of work **P9**

C. Authorize the updating of the signature cards and signatories for DCE investments and banking **P12**

6.1 ITEMS HELD OVER FROM CONSENT CALENDAR

7. DISCUSSION / ACTION

A. Election of DCE Chair – Tom Kirk **P13**

Recommendation: Elect a Chair for the Desert Community Energy Board of Directors

B. **Fiscal Year 2024-25 Budget Amendment –** Claude Kilgore **P14**

Recommendation: Approve the Mid-Year Budget Amendment for Fiscal Year 2024-25

C. **Rate Stabilization Schedule Amendment –** Don Dame

Recommendation: Adopt DCE Resolution 2025-01 approving the Amended Rate Stabilization Schedule effective April 1, 2025 **P26**

8. INFORMATION

A) Attendance Record **P39**

B) Summary of the Community Advisory Committee Activities **P40**

C) Summary of February 2025 Rate Adjustment **P41**

D) Unaudited Year-to-Year Financial Report as of December 31, 2024 **P43**

E) DCE's Quarterly Investment Report through December 31, 2024 **P48**

9. PUBLIC COMMENTS ON NON-AGENDA ITEMS

This is the second of two opportunities to address the Board. Any person wishing to address the Board on items not appearing on this agenda may do so at this time. Please limit comments to 2 minutes. At the discretion of the chair, additional public comment time and/or opportunities during the meeting may be granted.

10. ANNOUNCEMENTS

The next DCE Board meeting will be held April 21, 2025, at 3:00 p.m. at the Large Conference Room at Palm Springs City Hall, 3200 E. Tahquitz Canyon Way, Palm Springs, 92262.

11. ADJOURNMENT

DESERT COMMUNITY ENERGY
BOARD MEMBER ROSTER

Voting Members	Seat on Committee	Representative
City of Palm Desert	Vice Chair	**Veronica Chavez** Finance Director
City of Palm Springs		**Jeffrey Bernstein** Councilmember
DCE Staff		
Tom Kirk, Executive Director		
Claude Kilgore, Director of Finance		
Lisa McNeilly, Director of Energy & Sustainability		
Emily Langenbahn, Management Analyst		
Savannah Gil, Program Specialist		
Janice Reitman, Accounting Manager		

ITEM 6A

Desert Community Energy Board
Meeting Minutes
December 9, 2024

The audio file for this meeting can be found at: http://www.desertcommunityenergy.org

1. **CALL TO ORDER**
The meeting of the DCE Board was called to order by Chair Lisa Middleton at 3:00 p.m. at Palm Springs City Hall, Large Conference Room, 3200 E. Tahquitz Canyon Way, Palm Springs, CA 92262.

2. **ROLL CALL**

Roll call was taken, and it was determined that a quorum was present.

Members Present	Member Jurisdiction
Councilmember Lisa Middleton, *Chair*	City of Palm Springs
Finance Director Veronica Chavez, *Vice Chair*	City of Palm Desert

3. **AGENDA MODIFICATIONS (IF ANY)**

Noting this would be her final meeting on the Board, Chair Middleton asked if Item 5 (Board member/ staff comments) could be addressed at the end of the meeting.

4. **PUBLIC COMMENTS ON AGENDA ITEMS**

None.

Per the modification, Item 5 was taken at the end of the agenda.

6. **CONSENT CALENDAR**

IT WAS MOVED BY VICE CHAIR CHAVEZ AND SECONDED BY CHAIR MIDDLETON TO APPROVE THE FOLLOWING CONSENT CALENDAR ITEMS:

A. Approve the minutes of the October 21, 2024, Board meeting

B. Adopt DCE's Legislative Platform for the next two-year cycle to allow for effective and efficient engagement on key policies of importance to DCE and its customers

C. Adopt Resolution 2024-03, approving the interim 2023 Power Source Disclosure Annual Reports and associated 2023 Power Content Label and authorizing the Executive Director to complete all actions necessary for submittal to the California Energy Commission, including approving the final 2023 Power Source Disclosure Annual Reports and associated 2023 Power Content Label for Desert Saver and Carbon Free products, and attesting to their veracity

D. **Appoint Bernard Rottner of Palm Springs and Donald Zeigler of Palm Desert to the Community Advisory Committee through 2026**

THE MOTION CARRIED WITH 2 AYES.

Chair Lisa Middleton	**Aye**
Vice Chair Veronica Chavez	**Aye**

6.1 ITEMS HELD OVER FROM CONSENT CALENDAR

None

7. DISCUSSION / ACTION

A. DCE's Audit for Fiscal Year 2023/24 and Related Reports

Director of Finance Claude Kilgore introduced the item and then Shannon Ayala, Partner with Davis Farr, provided details on the audit. Board discussion ensued.

Chair Middleton acknowledged the audit as being received and filed. No additional action was taken.

B. Update to DCE's Amended Financial Reserve Policy 18-10

Mr. Kilgore presented the staff report and detailed the approach of special reserves. Board member discussion ensued, with Mr. Kilgore answering questions. Board members requested that future updates to the Board address how the reserve fund types would be prioritized and help address a fluctuating market by providing reserve projections as a range instead of a singular number.

IT WAS MOVED BY VICE CHAIR CHAVEZ AND SECONDED BY CHAIR MIDDLETON TO APPROVE ADDITIONAL UPDATES TO DCE POLICY NO. 18-10 AMENDED FINANCIAL RESERVE POLICY.

THE MOTION CARRIED WITH 2 AYES.

Chair Lisa Middleton	**Aye**
Vice Chair Veronica Chavez	**Aye**

C. DCE Mid-term Reliability Procurement: Terra-Gen Wind Energy Projects and Other Long-Term Procurement Initiatives

Program Manager David Freedman presented the staff report. Member discussion ensued. Chair Middleton noted the importance of the agreement and encouraged staff to schedule a public celebration.

IT WAS MOVED BY VICE CHAIR CHAVEZ AND SECONDED BY CHAIR MIDDLETON TO ADOPT RESOLUTION 2024-04, APPROVING A LONG-TERM POWER PURCHASE AGREEMENT WITH SAN GORGONIO WESTWIND II, LLC FOR ITS NORTH PALM SPRINGS WIND PROJECT, AND CONFORMING AMENDMENTS TO EXISTING POWER PURCHASE AGREEMENTS WITH SAN GORGONIO WESTWIND II, LLC, AND COACHELLA WIND HOLDINGS, LLC, AND AUTHORIZING THE EXECUTIVE DIRECTOR AND/OR LEGAL COUNSEL TO MAKE MINOR MODIFICATIONS BEFORE EXECUTION OF THE AGREEMENTS.

THE MOTION CARRIED WITH 2 AYES.

Chair Lisa Middleton	**Aye**
Vice Chair Veronica Chavez	**Aye**

D. ACCESS Indian Canyon Renewable Energy Assessment

Management Analyst Emily Langenbahn presented the staff report.

IT WAS MOVED BY VICE CHAIR CHAVEZ AND SECONDED BY CHAIR MIDDLETON TO AUTHORIZE THE EXECUTIVE DIRECTOR TO EXECUTE A CONTRACT WITH MUGRID ANALYTICS LLC FOR AN AMOUNT NOT TO EXCEED $53,110 FOR PHASE I OF THE ADDRESSING CLIMATE CHANGE, EMERGENCIES AND SAND STORMS (ACCESS) INDIAN CANYON RENEWABLE ENERGY ASSESSMENT SERVICES.

THE MOTION CARRIED WITH 2 AYES.

Chair Lisa Middleton	**Aye**
Vice Chair Veronica Chavez	**Aye**

8. INFORMATION

The following items were included in the agenda packet for members' information :

A) Attendance Record

B) Unaudited Year-to-Year Financial Report as of September 30, 2024

C) DCE's Quarterly Investment Report through September 30, 2024

D) Palm Springs Home Energy Efficiency Reach Code

9. PUBLIC COMMENT ON NON-AGENDA ITEMS

None

5. BOARD MEMBER / DIRECTOR COMMENTS

Chair Middleton reflected on her time on the DCE Board and described a bittersweet farewell. She lauded residents and businesses for paying more to invest in clean energy and a sustainable future, expressed disappointment with the California Public Utilities

Commission and thanked staff and her fellow Council members. She acknowledged Mayor Jeffrey Bernstein, who will become the DCE Board member.

Mr. Kilgore praised her leadership and announced plans to acknowledge her with a plaque at the windmill project in early 2025. Mr. Kilgore also acknowledged Mr. Freedman, who is retiring. Chief Operating Officer Erica Felci provided the Board with an update on staffing and the transition after Mr. Freedman's retirement.

10. ANNOUNCEMENTS

The January meeting has been canceled. The next DCE Board meeting will be held February 10, 2025, at 3:00 p.m. at the Large Conference Room at Palm Springs City Hall, 3200 E. Tahquitz Canyon Way, Palm Springs, 92262.

11. ADJOURNMENT

There being no further business, Chair Middleton adjourned the meeting at 3:35 p.m.

Respectfully submitted,

Erica Felci
Chief Operating Officer

ITEM 6B

Desert Community Energy Board
March 17, 2025

STAFF REPORT

Subject: **Regulatory Compliance and Filing Support Services**

Contact: Allen McMillen, Management Analyst II (amcmillen@cvag.org)

Recommendation: **Authorize the Executive Director to execute an amended engagement letter with Best Best & Krieger LLP to incorporate proposed regulatory compliance and filing support services into the scope of work**

Background: DCE has a range of compliance obligations with various State and Federal regulatory agencies, including the California Public Utilities Commission (CPUC), California Energy Commission, California Air Resources Board, California Independent System Operator, and U.S. Energy Information Administration, with reporting obligations occurring at monthly, quarterly, annual, or other frequencies.

DCE is supported by a solid team of contractors with expertise in the energy industry and CCA programs. DCE's core team includes The Energy Authority (TEA), independent energy consultant Don Dame, and Calpine Energy Solutions. This team helps DCE navigate the volatile energy markets and increasingly complicated regulatory environment that have marked the period since DCE's 2020 launch and are expected to continue. DCE also is an operational member of the California Community Choice Association (CalCCA), a non-profit association of CCAs.

Even with this support, regulatory matters were largely tracked by DCE staff. The recent retirement of DCE's program manager, who had decades of experience in tracking the CPUC nd regulatory matters, prompted staff to evaluate the options for compliance obligations and support. Staff opted to solicit the current market by seeking to engage a firm to provide regulatory compliance program and regulatory filing support with the required agencies, with additional support and cooperation provided by DCE's in-house staff.

A request for proposals was issued on November 14, 2024. Four responsive vendor proposals were received by the submission deadline on December 20, 2024: Best Best & Krieger LLP (BBK); Clean Energy Regulatory Research, LLC; Downey Brand; and Keyes and Fox LLP with EQ Research, LLC.

An evaluation committee was formed of DCE staff and a member of the Palm Springs Sustainability Commission, who also is the Chair of the DCE Community Advisory Committee. The evaluation committee reviewed the proposals, interviewed the short-listed vendors, conducted reference checks, and ultimately recommended BBK as the finalist vendor. BBK is legal counsel for many local cities and agencies, and serves as DCE's legal counsel under an engagement letter that the DCE Board authorized in September 2023. BBK Partner Ryan Baron also works closely with other Community Choice Aggregation (CCA) programs across California.

Staff is now recommending the Board authorize the Executive Director to execute an amended engagement letter incorporating their proposed regulatory compliance and filing support services.

Fiscal Analysis: The regulatory compliance and filing support services will be covered in the existing legal services agreement to be incurred at the current hourly rates. The existing agreement with BBK provides for annual rate adjustments on January 1 of each year to address cost of living adjustments. These legal costs will be incorporated into DCE's subsequent fiscal year budgets.

Attachment: Amended representation letter

BBK
BEST BEST & KRIEGER LLP
ATTORNEYS AT LAW

Ryan M. F. Baron
Partner
(949) 263-6568
ryan.baron@bbklaw.com

January 30, 2025

Tom Kirk
Executive Director
Desert Community Energy
74-199 El Paseo, Suite 100
Palm Desert, CA 92260

Re: Amendment - Representation of Desert Community Energy

Dear Mr. Kirk:

Best Best & Krieger LLP is pleased to represent Desert Community Energy (DCE) in providing regulatory compliance and regulatory filing support services as described in the DCE's Request for Proposals (RFP 2024-04), dated December 20, 2024.

In lieu of using the Professional Services Agreement attached to the RFP as Attachment A, we propose that the terms of our representation under RFP 2024-04 be governed by our existing engagement letter, dated September 26, 2023. If this letter meets with your approval, please sign and date it, and return the original to us at your earliest opportunity.

If you have any other questions or concerns about the terms of our representation, please contact me. Thank you for the opportunity to continue to represent Desert Community Energy.

Sincerely,

Ryan M. F. Baron
of BEST BEST & KRIEGER LLP

AGREED AND ACCEPTED:

By: ___________________________________

Dated: ________________________________

ITEM 6C

Desert Community Energy Board
March 17, 2025

STAFF REPORT

Subject: **Updating of DCE Bank and Investment Signature Cards**

Contact: Claude T. Kilgore, Director of Finance (ckilgore@cvag.org)

Recommendation: Authorize the updating of the signature cards and signatories for DCE investments and banking

Background: On at least an annual basis, usually due to an election of DCE's Chair and/or staffing changes, DCE seeks authorization through Coachella Valley Association of Governments' employees (which are contracted by DCE for staffing) to update the appropriate signatories and signature cards for DCE investments. This request supersedes any prior action related to the matter.

With the Board's approval of the staff recommendation, the signature cards will be updated as follows:

1) All Bank and Investment Signature Cards, to the following CVAG employees and DCE Chair:

Name	Title	Type
Jeffery Bernstein (or new DCE Chair as elected during Agenda Item 7A)	DCE Chair	New
Lisa McNeilly	Director of Energy & Sustainability	New
Tom Kirk	Executive Director	Existing
Erica Felci	Chief Operating Officer	Existing
Claude T. Kilgore	Director of Finance and Administration	Existing

Fiscal Analysis: There is no cost to DCE for this action.

ITEM 7A

Desert Community Energy Board
March 17, 2025

STAFF REPORT

Subject: **Election of DCE Chair**

Contact: Tom Kirk, Executive Director (tkirk@cvag.org)

Recommendation: Elect a Chair for the Desert Community Energy Board of Directors

Background: DCE formed in 2017 to provide customers with a local choice in their electricity service. On occasion, often as a result of changes in Board representation, the DCE Board has considered the election of a Chair and Vice Chair. The Joint Powers Agreement provides the following guidance for electing officers: *"The Directors shall select, from among themselves, a Chair, who shall be the presiding officer of all Board meetings, and a Vice Chair, who shall serve in the absence of the Chair. The Chair and Vice Chair shall serve at the pleasure of the Board. There shall be no limit on the number of terms held by either the Chair or Vice Chair."*

Since October 2019, the DCE Board has been led by a representative from the City of Palm Springs as service has launched in that City. The previous Chair was then-Councilmember Lisa Middleton of Palm Springs, who had been elected as chair in February 2023.

Given the recent council elections and new Board makeup, staff recommends that DCE Board provide nominations and elect its chair.

Fiscal Analysis: There are no costs to DCE for electing officers.

ITEM 7B

Desert Community Energy Board
March 17, 2025

STAFF REPORT

Subject: **Fiscal Year 2024-25 Budget Amendment**

Contact: Claude T. Kilgore, Director of Finance (ckilgore@cvag.org)

Recommendation: **Approve the Mid-Year Budget Amendment for Fiscal Year 2024-25**

Background: The annual budget is a guiding document, which allows for flexibility and adjustments to accommodate current business needs and updated projections. Budget reports are presented to provide ongoing oversight of public funds, relate current events and upcoming activities, and request adjustments based on new information. This budget amendment uses actual data for the first seven months of the fiscal year (July 2024 through January 2025) and projections for the remaining five months (February through June 2025). Given the nature of projections, these figures are subject to change and may even be brought back to the Board for further revision at a future date. DCE operates on a fiscal year that starts on July 1 and runs through June 2025. When DCE's Fiscal Year 2024-25 budget was initially developed in the Spring of 2024, the best-known information available at the time using a mix of publicly filed as well as internally projected information was used for DCE's revenues and expenses.

The following items explain key differences between original and amended budget figures:

A) **Net Total Retail Revenue (line 9)** – Retail revenue is projected to decrease by 12.9%, or $9.8 million, from the original budget. The main factor contributing to the decrease in revenue compared to the original budget is the generation rate assumptions used in the original budget. The projected retail revenues in the original budget, developed in May 2024, were based on SCE's 2025-2028 General Rate Case (GRC), which anticipated an 11% increase in the generation rate year-over-year from 2024 to 2025. DCE assumed an 8% increase in the generation rate during this period which were closely aligned with Southern California Edison's filings based on DCE's then current Rate Stabilization Schedule. However, SCE's final 2025 generation rates, submitted in AL 5449-E on December 30, 2024, showed a 9% decrease compared to SCE's 2024 generation rates due to an overcollection trigger by SCE. Considering this unexpected decrease in 2025 generation rates, DCE decided to maintain its carbon-free generation at October 2024 rates (representing two modest rate decreases), which are 30% lower than DCE's GRC generation rate budget assumptions. Additionally, DCE's Desert Saver rate was adjusted in line with SCE's 2025 generation rate decrease to retain a 0-1% discount compared to SCE's total bundled bill.

This decline in revenue from the original budget to the proposed amended budget due to assumptions tied to SCE's GRC filings clearly highlights the necessity and business case for DCE to remain in control of its rate setting through cost recovery models as further described below and in Agenda Item 7C proposing an amendment to DCE's current Rate Stabilization Schedule.

Other factors contributing to the decline in projected revenue were lower-than-expected load results for the first half of the fiscal year due to periods of milder weather than has historically been observed as well as an increase in behind the meter solar activity.

The proposed budget amendment assumes that DCE's current rates will be sustained through June 30, 2025. With this budget amendment, DCE staff does not recommend any rate increase or decrease to the current generation rates; however, adjustments may be necessary under the Rate Stabilization Schedule throughout the remainder of the fiscal year.

B) **Wholesale Power Supply (line 16)** – The revision shows a significant increase in power costs from the originally budgeted figures, representing a 38.7% or $17.5 million rise. This highlights the challenges faced by DCE and all Community Choice Aggregation programs (CCAs) in a costly and complex regulatory environment, particularly concerning procurement and compliance with Resource Adequacy (RA) and Renewable Portfolio Standards (RPS). Most significantly, publicly filed forecasts in the form of Market Price Benchmarks for certain RPS products procured by DCE were used during budget development yet saw increases of 72 to 152 percent with updated filings in December 2024. This also underscores how quickly cost estimates can change and emphasizes the need for DCE to continue building strong basic and special financial reserves. Other cost increases resulted from new regulations like Slice of Day RA that affect already limited power procurement markets, reducing DCE's negotiating leverage. DCE also faces considerable CPUC penalties if it does not comply promptly with their requirements. There has been little flexibility from the CPUC on these matters. Additionally, Renewable Energy Certificates saw record highs in some markets. As DCE looks ahead, there are indications that the forward price curve for some products are decreasing from recent highs.

C) **Other Minor Updates –** Smaller adjustments to the budget include reducing the expected expense for uncollectable accounts (line 8) as customer disconnections and accounts receivable dunning processes have resumed post COVID-19 pandemic. Non-power costs represented by DCE internal operations charges (line 55) saw decreases across the board as actual costs for the first half of the year came in under budget. Additionally, the amended budget includes estimated costs for DCE's revolving line of credit renewal (line 24) which will ensure its liquidity calculations remain strong.

In the summer of 2024, after the original budget was adopted, DCE engaged S&P Global Ratings (S&P) to discuss DCE's business operations, financial viability, and to seek an Issuer Credit Rating. During these discussions, S&P issued a report providing DCE with an investment-grade credit rating opinion of BBB and highlighted several recommended actions. These recommendations were presented to the DCE Board of Directors in October 2024. S&P advised that budgetary practices should closely match actual results. Therefore, DCE staff recommend this budget adjustment in alignment with the recommendations from S&P.

This includes a recommendation by S&P to update DCE's financial reserve policy, which the DCE Board approved at its December 2024 meeting. The updated financial reserve policy creates additional special reserves buckets for things like customer programs, procurement, market stabilization, as well as a Fixed Charge Coverage (FCC) special reserve.

Another key recommendation made by S&P was to provide rate-setting flexibility to ensure cost recovery, which is measured in the form of fixed charge coverage ratios. S&P calculates FCC as the sum of gross revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy). Since DCE does not have any debt, S&P Global Ratings calculates FCC to reflect its view of DCE's ability to meet its fixed obligations on an ongoing basis. S&P treats 50% of DCE's fixed power purchase agreement expenses as debt-like and impute them as fixed charges. S&P has indicated it expects to see DCE maintain a FCC above 2.0x in the coming years.

To highlight the significance of DCE meeting its FCC coverage ratios, S&P noted in its report that *“We could lower the rating if FCC falls significantly short of projections due to restricted rate-setting flexibility that impedes adequate cost recovery or a substantial increase in the opt-out rate that significantly reduces revenue.”* Conversely, S&P noted *“We could raise the rating if management establishes a healthy track record of FCC and liquidity while continuing to secure additional power contracts that reduce open positions and provide for predictable costs. In addition, a low and stable customer opt-out rate would also support an upgrade.”* Maintaining and/or receiving an upgraded investment grade credit rating is of paramount importance for not only DCE’s near-term financial activities but also for its ability to continue securing long-term power purchase agreements with fixed costs in order to effectively serve its customers.

Based on DCE staff’s calculations and mirroring S&P’s using best-known and slightly-conservative estimates, the proposed budget amendment demonstrates a FCC for Fiscal Year 2024-25 of approximately 2.0x. Amending the budget continues to address recommendations made by S&P and demonstrates clear steps DCE is taking to be less susceptible to adverse economic conditions while establishing a healthy track record of FCC. In addition, allowing DCE to cover its fixed charges in this manner, the Board will help achieve DCE’s core mission to better maintain local control, offer a better choice, and help provide for more predictable bills for customers. DCE staff have also made related recommendations to update DCE’s Rate Stabilization Schedule (RSS) and clarify its guidelines. These items are further detailed as a separate agenda item in the March agenda packet.

Staff is recommending the Board approve the mid-year budget amendment, which represents the minimum cost recovery required to maintain FCC ratios based on S&P’s recommendations. DCE staff will continue to monitor operations and may request additional amendments during the remainder of the fiscal year or implement provisions of the RSS to ensure proper recovery of costs.

At the same time, DCE staff is beginning to work on the Fiscal Year 2025-26 Budget. Staff also anticipates bringing forward future recommendations to set aside specific funding for new customer programs in its service territory. This could include supporting the City of Palm Springs’ proposed reach code ordinances with incentives for homeowners who carry out qualifying energy efficiency upgrades, which could help the City of Palm Springs further reduce its greenhouse gas emissions.

Fiscal Analysis: The costs of the mid-year budget amendment are incorporated into the amendment itself. If approved, DCE’s Fiscal Year 2024-25 net position is expected to increase by approximately $3.7 million dollars based on the factors described above.

Attachments:
1. S&P Global Ratings Credit Opinion
2. DCE’s Fiscal Year 2024-25 Amended Budget (as proposed by Staff)

S&P Global Ratings

RatingsDirect®

Summary:

Desert Community Energy, California; Retail Electric

Primary Credit Analyst:
Nicole Shen, New York (1) 332-323-4605; nicole.shen@spglobal.com

Secondary Contact:
Doug Snider, Englewood + 1 (303) 721 4709; doug.snider@spglobal.com

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Summary:

Desert Community Energy, California; Retail Electric

Credit Profile		
ICR		
Long Term Rating	BBB/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'BBB' issuer credit rating (ICR) to Desert Community Energy (DCE), Calif.
- The outlook is stable.

Security

The ICR represents our view of DCE's capacity and willingness to meet its financial commitments as they come due and does not apply to any specific financial obligation. DCE has no debt outstanding, nor does it plan to issue any debt in the near term.

Credit overview

The ICR reflects our opinion of DCE's operational limitations, including issues related to rate-setting flexibility, customer base, and power supply, which are somewhat mitigated by recently improved financial performance.

DCE, a community choice aggregator (CCA), began operations in April 2020 and now serves approximately 35,400 retail electric customers in Palm Springs. The CCA competes directly with the service area's incumbent investor-owned utility, Southern California Edison (SCE), to provide customers with the energy portion of electric service. (SCE's transmission and distribution assets deliver the electricity.) Although DCE has set its rates to cover costs and build reserves and intends to continue doing so, we believe its ability to adjust rates will be constrained by the need to remain competitive with SCE. Additional risks include inherent operational and financial risks related to power supply procurement, and uncertainties about the ultimate number of communities DCE will serve and the size of the customer base. These risks could adversely affect financial metrics in future years.

However, DCE's healthy financial metrics in fiscal 2023, its fourth year of operations, somewhat temper these risks. As the customer base matures and DCE enrolls more customers within its member city, Palm Springs, fixed charge coverage (FCC) improved significantly to 6.4x in fiscal 2023 from negative 4.1x in fiscal 2022 and negative 34.4x in fiscal 2021. DCE's liquidity also improved, with unrestricted reserves rising to $16.8 million, or 126 days' cash, in fiscal 2023 from $3.4 million, or 35 days' cash, in fiscal 2021. We believe this positive trajectory will likely continue, based on our analysis of management's financial forecasts. In addition, although DCE initially experienced a high opt-out rate, suggesting customer losses to SCE, the rate of customer loss has slowed, with the annual opt-out rate declining to 2% in both 2022 and 2023 from 9% in 2020.

The rating further reflects our view of the following factors:

- DCE's power procurement presents recontracting risk. Only 23% of DCE's 2024 energy load is secured through fixed-price long-term agreements, while the remaining load is covered by short-term contracts ranging from one to 12 months. DCE aims to increase its long-term contract coverage to 43% by 2028, although it has not executed any additional long-term contracts since September 2023. Given this generally short-term position, rising energy prices could affect financial metrics and rate competitiveness over time, as DCE must procure additional power when its existing contracts expire. However, DCE's hedging program marks hedges to market daily and uses fixed-price contracts to cover most of its energy needs, reducing the exposure to spot and day-ahead energy prices and, to a lesser extent, intramonth price changes.
- DCE needs to secure additional renewable power to comply with California's strict Renewable Portfolio Standard (RPS) and achieve its carbon-free procurement goals. This requirement exposes DCE to potential variability in future contract prices. Currently, most of DCE's power supply comes from short-term hydroelectric contracts, which are not considered eligible under the state's RPS. DCE plans to add about 42 megawatts of local wind, solar, and geothermal power to reduce reliance on ineligible hydro contracts to meet RPS mandates. As DCE increases its use of renewables, it will face several challenges, including managing intermittency to ensure reliability, dealing with the lengthy and potentially delayed processes for renewable generation projects, or retail customers returning to the incumbent utility, SCE.
- Although neither Cathedral City nor Palm Desert has received DCE power within their communities, this has not directly influenced DCE's financers or operations. Cathedral City exited effective July 1, 2021, due to a mismatch between its timeline for achieving decarbonization and DCE's. Subsequently, the Palm Desert city council narrowly voted against a motion to leave DCE in 2021 and has postponed its plans to use DCE's services indefinitely, creating uncertainty about future membership and revenue.
- Although not taking DCE power, Palm Desert has representation on DCE's two-member board.
- Separately, two Palm Desert city council seats are up for election in late 2024. DCE plans to continue discussions with the city in early 2025 on the benefits of DCE membership and when Palm Desert might begin taking energy from DCE.
- There is uncertainty surrounding the level of the power charge indifference adjustment (PCIA). DCE must charge its customers the PCIA that reflects the costs that SCE incurred to procure power for these customers when they were still served by SCE. The PCIA amount varies year to year, partially depending on market prices that SCE faces, and could pressure the CCA's financial metrics and competitiveness. Over the longer term, the PCIA will become less meaningful as power supply contracts signed by SCE for its former customers expire.

Partially offsetting the above weaknesses, in our view, are DCE's:

- A protective joint powers authority (JPA) agreement requires that members (currently the City of Palm Springs and City of Palm Desert) provide six months' notice prior to their exit, subject to an affirmative vote from their respective governing boards. In addition, departing municipal members must make DCE whole for any costs incurred in serving them prior to their departure. We believe this arrangement provides a safety net that mitigates financial losses and provides a time buffer to adjust operations accordingly. However, this provision does not insulate DCE from the risk of individual retail customers opting out of service.
- Located within the Riverside-San Bernardino-Ontario, California metropolitan statistical area (MSA), the customer base benefits from a diverse and growing regional economy, primarily driven by the tourism and hospitality sectors.

Although these industries are typically subject to significant seasonal demand fluctuations, the city hosts festivals, conventions, and international events throughout the year, which mitigates this risk, continuing to attract permanent residents and enhancing revenue stability. In addition, residential customers account for approximately 55% of revenue, which we consider relatively high. This, combined with minimal customer concentration, provides a degree of revenue certainty.

- The power supply is diverse, as evidenced by the 54 power supply contracts that encompass various resource types, geographic locations, and storage capabilities, with a predominant focus on renewable energy. The Energy Authority (TEA), contracted by DCE to manage power supply in consultation with DCE's board, examines the creditworthiness and operational attributes of potential power providers before finalizing contracts, mitigating (but not eliminating) the risk of counterparty nonperformance.
- The CCA maintains several industry-standard policies to ensure smooth operations, including an integrated resource plan, a comprehensive budget with five-year financial projections, and a multi-phase reserve policy. This reserve policy initially targets 120-150 days of operating capital, increasing to a minimum of 180 days and a maximum of 270 days as operations transition from startup to stabilization.

Environmental, social, and governance

We believe DCE's governance risk is somewhat elevated because the board has delegated day-to-day operational responsibilities to third-party contractors for the development of recommendations regarding rate setting, power-supply procurement, and customer services. In addition, we believe that historical budgetary practices have failed to approximate actual results, as net revenue fell short of budgeted levels. However, the latest five-year forecast appears conservative, with management including reasonable assumptions such as flat load growth, no rate increases, and an annual opt-out rate of 3.4% based on historical trends. Despite this, we remain uncertain about whether DCE can meet or exceed these budgetary targets due to a lack of historical performance data.

DCE faces limited direct wildfire risk due to its dense urban nature with resorts and golf courses located on the desert valley floor and mostly underground distribution lines within the service area. Nevertheless, it faces indirect exposure to wildfire risk because it relies on SCE's transmission and distribution assets. The need to fund any wildfire liabilities or mitigation could lead SCE to socialize these costs among all users of its transmission and distribution systems. In turn, DCE's customers' higher delivery charges could weaken overall rate affordability, and limit DCE's ability to increase rates without precipitating demand deterioration. We understand that if SCE is held liable, it would first use its Wildfire Expense Memorandum account, which is funded on an ongoing basis through delivery fees. In addition, public safety power shutoffs (PSPS) by the owners of the transmission and distribution systems serving DCE's customers could nevertheless weaken the reliability of customers' electric service (although there have been no PSPS events since DCE's launch). In addition, the intermittency of renewable resources might frustrate the CCA from achieving California's ambitious greenhouse gas emission goals in the absence of advances in long-duration storage technology.

We view social risk as having a moderately negative influence on the rating. The majority of residential customers subscribe to Carbon Free product, with its rates currently 14% higher than SCE base rates (which is at the state average in 2022). Median incomes for Palm Springs are 5% below the national average. Management reports no significant customer payment delinquencies or bad debt write offs. However, rate affordability could be pressured if DCE implements substantial rate increases for an extended period. We continue to monitor the strength and stability of electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion. Although the rate of inflation as measured by the CPI has softened, Bureau of Labor Statistics data shows that electricity price inflation continues to outpace the broader CPI. The amalgam of increases in delinquent credit card, consumer, and auto loans, along with financial pressures associated with the resumption of student loan payments and weaker than historical household savings rates, will likely compound the financial pressures electricity consumers face. Potentially exacerbating issues of energy affordability are weakening economic indicators, such as S&P Global Economics' forecast of a 25%-30% recession risk within the next 12 months, which is elevated relative to the historical baseline. A cooling labor market, geopolitical risks, and a potentially disruptive election, might add to recessionary pressures. (See "A Cooling U.S. Labor Market Sets Up A September Start for Rate Cuts," published Aug. 6, 2024, on RatingsDirect).

Outlook

The stable outlook reflects our expectation that DCE's maturing operations and load, along with its diverse and growing economic base and protective JPA agreement, will support ongoing rate increases as needed to meet projected FCC levels and build liquidity. The outlook further reflects our expectation that DCE will continue to shift its power procurement to be more renewable and long-term in nature, therefore reducing exposure to increasingly stringent emissions regulations and potentially volatile wholesale markets.

Downside scenario

We could lower the rating if FCC falls significantly short of projections due to restricted rate-setting flexibility that impedes adequate cost recovery or a substantial increase in the opt-out rate that significantly reduces revenue. In addition, we could lower the rating if liquidity decreases significantly from current levels.

Upside scenario

We could raise the rating if management establishes a healthy track record of FCC and liquidity while continuing to secure additional power contracts that reduce open positions and provide for predictable costs. In addition, a low and stable customer opt-out rate would also support an upgrade.

Credit Opinion

Desert Community Energy overview

DCE, a CCA originally formed in 2017, began retail services for approximately 35,400 customer accounts in the City of Palm Springs in April 2020. It continues to serve as the default electric generation provider for the city. Palm Desert, while not taking DCE power at this time, has representation on DCE's two-member board.

SCE bills DCE's customers monthly, including both SCE's transmission and distribution charges and DCE's electric generation charges. Retail customers who switched to DCE can return to SCE with 60 days' notice, without DCE imposing any exit fees. Accounts in Palm Springs are automatically enrolled in DCE's Carbon Free plan unless the account holder opts down to the Desert Saver plan or opts out to remain with SCE's bundled service.

DCE has outsourced its day-to-day operations to third-party contractors, with Coachella Valley Association of Governments (CVAG) in charge of administrative and accounting services, TEA managing power supply procurement, and Calpine Energy handling customer services. DCE has no immediate plans to hire in-house staff. Key personnel from CVAG will remain fully dedicated to DCE, maintaining frequent communication with the DCE board members.

Enterprise profile

Located in the Riverside-San Bernardino-Ontario, California MSA, the customer base benefits from a diverse and growing regional economy, primarily driven by tourism and hospitality. Although these industries usually experience significant seasonal demand fluctuations, the city hosts festivals, conventions, and international events throughout the year, which mitigates this risk, continuing to attract permanent residents and enhancing revenue stability.

Currently, DCE's Desert Saver product is priced slightly below SCE's standard offering, while its Carbon Free product is priced 14% higher than SCE's rates. According to U.S. Energy Information Administration data, SCE's weighted-average rate was in line with the state average in 2022. In turn, DCE's Carbon Free rates, used by about 75% of its customers, compare less favorably with state averages. We believe the ability to adjust rates will be constrained by the need to remain competitive with SCE, although DCE has set its rates to recover costs and build reserves.

Customers can opt out of DCE service and return to SCE without a penalty if they do so within a specified time. We consider the relative ease with which customers can return to their previous electric utility a potential risk to DCE's revenue stream. DCE had high annual opt-out rates, indicating a consistent loss of customers to SCE and somewhat constrained rate-setting flexibility. However, the rate of customer loss has slowed, as evidenced by a decline in the annual opt-out rate to 2% in 2022 and 2023 from 9% in 2020, the year of DCE's launch.

DCE relies on base-rate adjustments, which are tied to SCE's rate schedules, to pass through costs and currently has no formal policies to implement an additional mechanism for addressing unexpected costs. However, DCE staff can implement a discretionary energy cost adjustment (ECA) no more frequently than monthly to true up unbudgeted costs, although there is a limited use of ECA to date.

DCE's board consists of representatives from Palm Springs and Palm Desert, each with equal voting rights. In case of a tie, the DCE executive director (who is also the CVAG executive director) casts the deciding vote. Should Palm Desert decide to use DCE's services, the board may consider switching to weighted voting, which we believe would better reflect each city's load requirements. Management anticipates that Palm Desert's earliest service launch would be 2027, which will allow time to secure necessary power supplies. Conversely, if Palm Desert exits, we believe it is unlikely to affect DCE's role as the default energy supplier for Palm Springs. We expect that DCE's load will remain predictable in the near term, based on management's expectation of a stabilized opt-out rate, modest load growth in Palm Springs, and no plans for expanding its service territory.

Financial profile

DCE does not have any debt; however, S&P Global Ratings calculates FCC to reflect our view of DCE's ability to meet fixed obligations on an ongoing basis. We treat 50% of DCE's purchased power expenses as debt-like and have imputed them as fixed charges in our calculation. Consequently, FCC was negative 34.4x in fiscal 2021, negative 4.1x in fiscal 2022, and 6.4x in fiscal 2023. Based on S&P Global Ratings' application of stress tests to management's forecasts, which accounts for potentially lower loads and higher fixed costs, we expect DCE will maintain FCC above 2.0x in the coming years.

At fiscal year-end 2023, DCE had $16.8 million in unrestricted reserves, equating to 126 days of operating expenses.

This includes an $8 million committed line of credit with the River City Bank, which is set to renew on expiration. Management projects that nominal reserves will grow to $36 million by the end of fiscal 2024 and reach $64 million in subsequent years. We believe maintaining a higher cash level is crucial to address the risks that DCE faces. In addition, whether DCE can achieve and sustain a stronger liquidity position in the future will depend on revenue stability and the effectiveness of rate adjustments to cover unexpected costs.

DCE has no on-balance-sheet debt, and no plans to issue direct debt in the near or medium term.

Desert Community Energy, California--Key credit metrics

	--Fiscal year ended June 30--		
	2023	**2022**	**2021**
Operational metrics			
Electric customer accounts	33,300	33,010	33,639
% of electric retail sales from residential customers	56	N.M.	N.M.
Top 10 electric customers' sales as % of total electric retail sales	8	N.A.	N.A.
Service area median household effective buying income as % of U.S.	95	93	85
Weighted average retail electric rate as % of state	100	100	97
Financial metrics			
Gross revenues ($000s)	58,240	44,836	36,101
Total operating expenses less depreciation and amortization ($000s)	48,847	45,114	38,030
Debt service ($000s)	0	0	0
Debt service coverage (x)	0.0	0.0	0.0
Fixed-charge coverage (x)	6.4	-4.1	-34.4
Total available liquidity ($000s)*	16,806	7,771	3,685
Days' liquidity	126	63	35
Total on-balance-sheet debt ($000s)	0	0	1,500
Debt-to-capitalization (%)	0	0	22

*Total available liquidity includes available committed credit line balances, where applicable. Debt service coverage--Revenues minus expenses divided by debt service. Fixed-charge coverage--Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy). N.A.--Not available.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

March 17, 2025
Desert Community Energy
Fiscal Year 2024-25 Amended Budget

#		FY2024-25 Budget Original	FY2024-25 Budget Amended	Dollar Change	Percentage Change
1	**Load Particulars**				
2	DCE Retail Load (MWh, net of opt-outs + losses)	401,815	389,993	$ (11,823)	(2.94%)
3	DCE Wholesale Load (MWh, retail load + losses)	424,469	416,512	$ (7,957)	(1.87%)
4	Estimated Distribution Losses (%)	5.64%	6.80%	1.16%	20.61%
5	Losses (MWh)	22,654	26,520	$ 3,866	17.07%
6	**Revenue Particulars**				
7	Gross Revenue	$ 78,624,176	$ 68,434,664	$ (10,189,512)	(12.96%)
8	Less Uncollectable Accounts	$ (2,358,725)	$ (2,020,149)	$ 338,576	14.35%
9	Net DCE Total Retail Revenue	$ 76,265,451	$ 66,414,515	$ (9,850,935)	(12.92%)
10	Average Monthly Revenue ($/MWh)	$ 189.80	$ 170.30	$ (20)	(10.28%)
11	Other Revenue	$ 1,096,850	$ 3,515,874	$ 2,419,024	220.54%
12	Other Operating Revenue	$ -	$ 2,615,874	$ 2,615,874	100.00%
13	Investment Income	$ 1,096,850	$ 900,000	$ (196,850)	(17.95%)
14	Total Revenues	$ 77,362,301	$ 69,930,389	$ (7,431,911)	(9.61%)
15	**Total DCE Power Cost (w/o DCE Direct)**				
16	Wholesale Power Supply (Physical Components)	$ 45,413,664	$ 62,992,626	$ 17,578,962	38.71%
17	TEA Services	$ 770,792	$ 853,056	$ 82,265	10.67%
18	TEA / Other Inv. Adjustments	$ 70,000	$ 78,574	$ 8,574	12.25%
19	Calpine Data Management	$ 546,000	$ 542,819	$ (3,181)	(0.58%)
20	SCE Billing Services	$ 72,000	$ 71,008	$ (992)	(1.38%)
21	Total Wholesale Cost, Accrual (FiMo)	$ 46,872,456	$ 64,538,083	$ 17,665,627	37.69%
22	Average Wholesale Cost $/MWh	$ 116.65	$ 165.49	$ 49	41.86%
23	**River City Bank Credit Facility**				
24	RLOC Renewal Processing Fees	$ -	$ 50,400	$ 50,400	-
25	Net RCB Credit Accrual	$ -	$ 50,400	$ 50,400	-
26	**Estimated Operating Expenses**				
27	DCE Staff Costs from CVAG	$ 800,316	$ 732,132	$ (68,185)	(8.52%)
28	Total Salaries	$ 571,349	$ 510,854	$ (60,495)	(10.59%)
29	Total Benefits	$ 228,967	$ 221,278	$ (7,689)	(3.36%)
30	Contracts / Contract Labor (not incl. elsewhere)	$ 469,216	$ 333,075	$ (136,140)	(29.01%)
31	4425 · Legal Services	$ 120,000	$ 92,117	$ (27,883)	(23.24%)
32	4431 · Professional Services[1]	$ 163,841	$ 110,438	$ (53,403)	(32.59%)
33	4432 · Consultants[2]	$ 185,375	$ 130,521	$ (54,854)	(29.59%)
34	CVAG Overhead Support	$ 185,286	$ 156,145	$ (29,141)	(15.73%)
35	Office Operations	$ 38,106	$ 30,723	$ (7,383)	(19.37%)
36	Employee Travel or Training	$ 6,587	$ 4,120	$ (2,468)	(37.46%)
37	Facility Expenses	$ 43,263	$ 46,661	$ 3,397	7.85%
38	Professional Services	$ 9,579	$ 11,402	$ 1,823	19.03%
39	Project/Program	$ 79,785	$ 55,275	$ (24,511)	(30.72%)
40	GASB Interest Expense	$ 7,966	$ 7,966	$ -	-
41	Retail Business Support Activities	$ 29,080	$ 23,894	$ (5,186)	(17.83%)
42	4200 · Accounting / Bank Services	$ 1,800	$ 2,779	$ 979	54.39%
43	4353 · Insurance	$ 8,880	$ 8,462	$ (418)	(4.71%)
44	4452 · Marketing	$ 18,400	$ 12,653	$ (5,747)	(31.23%)
45	DCE Programs	$ 150,000	$ 76,628	$ (73,372)	(48.91%)
46	4455 · Customer Programs	$ 150,000	$ 76,628	$ (73,372)	(48.91%)
47	Office Supplies and Other Expenses	$ 390,645	$ 259,545	$ (131,100)	(33.56%)
48	4423 · Office Supplies	$ 3,200	$ 1,600	$ (1,600)	(50.00%)
49	4433 · Outreach Services	$ 46,270	$ 29,154	$ (17,116)	(36.99%)
50	4435 · Technology Costs (IT)	$ 6,300	$ 6,229	$ (71)	(1.13%)
51	4440 · Postage	$ 16,000	$ 14,516	$ (1,484)	(9.28%)
52	4441 · Printing	$ 13,750	$ 11,757	$ (1,993)	(14.50%)
53	4500 · Registrations/Memberships	$ 305,125	$ 196,290	$ (108,835)	(35.67%)
54	4610 · Interest Expense	$ -	$ -	$ -	-
55	Total DCE Internal Operations Charges	$ 2,024,544	$ 1,581,420	$ (443,125)	(21.89%)
56	DCE Internal $/MWh	$ 5.04	$ 4.05	$ (1)	(19.52%)
57	Total Non Power Opr Exp (DCE + All Services)	$ 3,483,336	$ 3,126,877	$ (356,459)	(10.23%)
58	Operating Expenses $/MWh	$ 8.67	$ 8.02	$ (1)	(7.51%)
59	**Expected Accrual Results**				
60	Revenues	$ 77,362,301	$ 69,930,389	$ (7,431,911)	(9.61%)
61	Power and Operations Costs	$ 48,897,000	$ 66,119,503	$ 17,222,503	35.22%
62	Non-Operating Costs	$ -	$ 50,400	$ 50,400	100.00%
63	Net Margin Avail After Expenses - Accrual	$ 28,465,301	$ 3,760,486	$ (24,704,814)	(86.79%)
64	Annual Cumulative Accrual Revenues	$ 330,586,693	$ 320,606,838	$ (9,979,855)	(3.02%)
65	Annual Cumulative Accrual Power/Ops Cost	$ 263,840,188	$ 281,745,125	$ 17,904,938	6.79%
66	Cumulative Net Position - Accrual	$ 66,746,505	$ 38,861,713	$ (27,884,792)	(41.78%)

This budget supercedes the relevant figures in the orginally adopted fiscal year 2024-25 budget approved by the DCE Board of Directors in June 2024.

1. Does not include the professional services expenses of SCE which are listed individually in Total DCE Power Cost (w/o DCE Direct) section.
2. Does not include the consultant expenses of TEA, Calpine and CVAG which are listed individually in Total DCE Power Cost (w/o DCE Direct) section.

ITEM 7C

Desert Community Energy Board Meeting
March 17, 2025

STAFF REPORT

Subject: **Rate Stabilization Schedule Amendment**

Contact: Lisa McNeilly, Director of Energy and Sustainability (lmcneilly@cvag.org) and Don Dame, DCE Energy Consultant

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Recommendation: Adopt DCE Resolution 2025-01 approving the Amended Rate Stabilization Schedule effective April 1, 2025

Background: A primary DCE operating objective is to maintain adequate revenues to fully recover business operating costs including maintaining adequate financial reserves. As a Community Choice Aggregation (CCA) energy provider, DCE's advantages include local control and the ability to timely develop and implement revenue structures to meet financial policies and goals and reliably serve end-use customer electric demands. Revenue forecasts and rate levels developed in advance of retail sales, however, will inevitably be either above or below actual revenues attained throughout the operating and budget year. This is especially true in the electric power business due to weather events, load variability, power cost volatility, and other unforeseen circumstances.

To provide the ability to adjust for such changing operating and financial conditions, on November 16, 2020, the Board approved DCE's Rate Stabilization Schedule (RSS) to more efficiently balance revenues and costs. DCE's RSS was amended effective June 1, 2023 to remove language pertaining to Carbon Free (CF) energy subsidy that had previously been offered for Desert Saver customers, and to clarify that RSS adjustments may be implemented as a separated surcharge or melded within existing DCE generation rates. Most electric utilities have similar mechanisms to timely mitigate revenue and cost uncertainties.

The current RSS provides for revenue/rate adjustments as a function of two cost categories outside of DCE's direct control:

1. Energy Cost Adjustment (ECA), to address wholesale power supply costs.
2. IOU/CPUC Cost Adjustment (ICA), to address SCE rate changes and or regulatorily actions affecting DCE's revenues.

With this item, staff is now recommending another amendment to the RSS. The proposed amendment separates DCE's Carbon Free product rate/revenue requirements from a rate premium on Southern California Edison's (SCE) bundled base product. The proposed amendment provides that DCE's Carbon Free rates, together with any RSS adjustment, are to be based on DCE's Carbon Free full revenue requirements identified through budgetary processes, including Board approved financial reserves accumulation, meeting fixed charge ratios, and responding to power market and regulatory changes.

Setting electric rates to meet revenue requirements is consistent with prudent utility practice, maintaining an investment quality credit rating, and meeting expectations of power supply counterparties. Further, maintaining revenue stability and adequacy is in the best interests of DCE's retail electricity customers. Any rate adjustment undertaken pursuant to the revised RSS must adhere to the Rate Adjustment Guidelines that are outlined in Exhibit A of the proposed amendment, which aims to add clarity to the RSS process.

Exhibit A to the RSS designates that any change to DCE's Carbon Free rates must be implemented such that the impact on the average total CF generation rate does not exceed a plus or minus five percent (5.0%) change and that DCE's Desert Saver rates are to be adjusted to provide a modest discount to SCE's bundled base power product average total residential bill. Desert Saver will continue to provide a least cost option for price sensitive customers. Any implemented RSS changes are to be discussed and accepted by DCE's Risk Management Team (RMT) prior to implementation. Any needed DCE rate and revenue changes that are projected to exceed Exhibit A's Rate Adjustment Guidelines may not be implemented without separate DCE Board review and approval. The RSS Exhibit A may be revised from time to time by the Board.

Staff is recommending adoption of Resolution 2025-01 to approve the amended RSS. With this action, the RSS provides a timely and flexible mechanism to allow DCE to respond to unplanned and unanticipated cost and operating conditions, while limiting the extent of such changes without further Board review. The RSS revision is consistent with prudent utility practice, maintaining revenue adequacy, and providing long term rate stability. The amended RSS is proposed to become effective as of April 1, 2025.

Fiscal Analysis: Adoption of the attached amended Rate Stabilization Schedule will continue to provide timely balancing of DCE costs and revenues and is cost neutral. Further, maintaining revenue adequacy complies with DCE's existing rate, financial and risk management policies and will help achieve CCA program goals and objectives.

Attachments:

1. Resolution 2025-01
2. Amended Rate Stabilization Schedule
3. Redlined version of Amended Rate Stabilization Schedule

RESOLUTION NO. 2025-01
A RESOLUTION OF THE BOARD OF DIRECTORS OF
DESERT COMMUNITY ENERGY
AMMENDING RATE STABILIZATION SCHEDULE

WHEREAS, Desert Community Energy (DCE) is a joint powers authority established on October 30, 2017 for the purpose of implementing Community Choice Aggregation (CCA) programs under Public Utilities Code Section 366.2;

WHEREAS, under Section D of DCE's Joint Powers Agreement (JPA), DCE's mission includes building "… a Community Choice Aggregation program that is locally controlled and delivers cost-competitive clean electricity, product choice, price stability, energy efficiency and greenhouse gas emission reductions";

WHEREAS, under Section 2.5.12 of the JPA, DCE has the authority to adopt Operating Rules and Regulations;

WHEREAS, under Section 3.11.9 of the JPA, the DCE Board of Directors (Board) has the authority to set rates for power sold by DCE and the setting of charges for any other category of service provided by DCE;

WHEREAS, the Board has established CCA program policies and goals that provide for meeting all operating costs and building operating and financial reserves;

WHEREAS, the Board has previous authorized DCE's Carbon Free rates to provide for a 0.0 – 1.0 percent average total bill discount to Southern California Edison (SCE) bundled base product average total bill and to provide for a Carbon Free average total bill premium not to exceed 14.0 percent when compared to SCE's bundled base product average total bill, and the Board desires to establish and include CCA Rate Adjustment Guidelines as Exhibit A to the RSS to provide flexibility to meet revenue requirements as identified through budgetary processes, including Board approved financial reserves accumulation, and fixed charge coverage ratios;

WHEREAS, on November 16, 2020 the Board authorized and approved a Rate Stabilization Schedule (RSS), as amended effective June 1, 2023, which allows DCE to adjust rates upward or downward in response to external cost and or revenue fluctuations not subject to DCE's direct control;

WHEREAS, the Board desires to amend the current RSS to provide for timely adjustment of DCE rates within Board prescribed parameters as described in amended RSS Exhibit A, in order to maintain revenue sufficiency, build reserves and achieve DCE's financial policies and objectives.

NOW THEREFORE BE IT RESOLVED BY THE BOARD OF DIRECTORS OF DESERT COMMUNITY ENERGY, AS FOLLOWS:

1. The Board of Directors hereby approves and adopts DCE's amended Rate Stabilization Schedule including Exhibit A Rate Adjustment Guidelines, with an effective date of April 1, 2025.

2. The Board of Directors hereby affirms designing DCE's Desert Saver rates within a 0-1% average total bill discount when compared to SCE's average total base product bill and providing Carbon Free rates be set to meet revenue requirements as identified through budgetary processes, including Board approved financial reserves accumulation, and fixed charge coverage ratios.

3. This resolution shall take effect immediately upon its adoption.

ADOPTED AND APPROVED by the Board of Directors of Desert Community Energy on this 17th day of March 2025.

AYES:
NOES:
ABSTAIN:
ABSENT:

____

Chair, Desert Community Energy

Attest:

____

Tom Kirk
Secretary, Desert Community Energy

Desert Community Energy
Rate Stabilization Schedule (RSS)

Energy Cost Adjustment (ECA) and
IOU/CPUC Adjustment (ICA)

A. ENERGY COST ADJUSTMENT (ECA)

1. An ECA may be included in DCE's generation rates to customers under CCA service schedules as part of DCE's per kWh generation charge or as a separate surcharge. The ECA is intended to recover the costs of purchased power including renewable resources, energy and energy hedges, resource and capacity adequacy products, demand side management (DSM) costs (including revenue losses), and other energy and/or capacity products not otherwise included or forecast in DCE's retail generation rates or current total revenue requirement. ECA related DCE rate adjustments shall be subject to Board-authorized Rate Adjustment Guidelines as outlined in attached Exhibit A. Exhibit A may be revised from time to time by the DCE Board.

2. An ECA shall be calculated no more often than monthly and expressed in $ per kWh to five decimal places. In order to apply any calculated ECA pursuant to this RSS, such ECA, when added or subtracted from DCE's current generation rate must adhere to the currently approved Rate Adjustment Guidelines shown in attached Exhibit A. Any single ECA which results in Desert Saver and or Carbon Free rate changes exceeding DCE's Rate Adjustment Guidelines in Exhibit A are to be brought to the Board for further consideration and approval and may not be implemented subject to this RSS. DCE's Risk Management Team (RMT) must review and concur with any ECA prior to implementation.

   The ECA formula, expressed to the nearest $0.00001 per kilowatt-hour (kWh):

$$\text{ECA} = \frac{(a)+(b)+(c)+(d)}{(e)}$$

   Where:

   (a) is the estimated change in total wholesale power supply cost for the 12-month period commencing with either: i) the current 12-month budget, or ii) the effective date of ECA implementation. This amount shall include all charges associated with resource adequacy and other capacity requirements, transmission service, CAISO charges and fees, energy purchased by CCA from all sources including the CAISO, and any energy purchase prepayment expenses for which expenditures have been approved in advance by the DCE Board for inclusion in the purchased power component of the ECA.

   (b) is the estimated change in total costs/expenses associated with procurement and acquisition of renewable portfolio standard (RPS) resources for the 12-month period commencing with either: i) the current 12-month budget, or ii) the effective date of ECA implementation. This cost increase or decrease is to be measured from the next prior ECA or the current rate calculation date, if any. This expense shall include all charges associated with renewable resource energy, capacity, RPS related prepayment expense, operation and maintenance, depreciation, and interest expenses for generation and or transmission as and which have been approved in advance by the DCE Board for inclusion in the RPS component of DCE's revenue requirement.

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(c) is the estimated change in total Demand-Side Management (DSM) cost, reduced by funding received from other sources, for qualified DSM projects for the 12-month period commencing with either: i) the current 12-month budget, or ii) the effective date of the ECA implementation. This increase or decrease is to be measured from the next prior ECA calculation date, if any. DSM costs are those incurred for the acquisition and installation of devices and systems, including incentive payments, audit costs related to DSM, and administrative costs, which are part of those programs or projects designed to lower and control power system demand or consumption, and for which expenditures have been approved in advance by the DCE Board for inclusion in the Demand-Side Management component of the ECA.

(d) any unallocated balance in the ECA account, subject to currently approved DCE Rate Adjustment Guidelines.

3. A summary of any implemented ECA will be included in DCE's RSS implementation history log.

4. Any given ECA may result in an upward or downward adjustment to DCE average generation rates given the then existing economic and financial circumstances at the time of such ECA calculation. ECA implementation will utilize best reasonable efforts to maintain the same or similar relative DCE retail product average total bill differentials, as applicable, versus corresponding SCE bundled base product average total bills.

5. The ECA does not generally directly apply to DCE's Desert Saver retail rates. Desert Saver charges are derived pursuant to Paragraph 1 of the attached Exhibit A, Rate Adjustment Guidelines. Exhibit A may be revised from time-to-time by the DCE Board.

6. An information report describing any implemented ECA will be provided to the Board at the next regularly scheduled Board Meeting following such implementation.

B. IOU/CPUC ADJUSTMENT (ICA)

1. An ICA may be included in DCE's generation rate to customers under CCA service schedules as part of DCE's per kWh generation charge or as a separate surcharge. The ICA is intended to recover and adjust DCE revenues and rates to maintain Board-authorized revenue requirements. Such adjustments may be necessary if and when SCE revises its costs and or other factors affecting the PCIA, SCE retail rate changes, collection of SCE balancing account charges, and or other SCE and or California Public Utilities Commission (CPUC) related regulatory actions which directly impact DCE's operating costs and or DCE revenue requirements. ICA related DCE rate adjustments shall be subject to Board-authorized Rate Adjustment Guidelines as outlined in attached Exhibit A. Exhibit A may be revised from time to time by the DCE Board.

   An ICA shall be calculated as warranted following such actions by SCE and or CPUC which result in material changes to DCE costs and or revenue levels. DCE intends to calculate and implement any such ICA within 90 days following relevant actions affecting DCE. The timing, frequency, and financial impact of CPUC and SCE actions which may affect the ICA are not typically known in advance and may occur multiple times during any given year. DCE's RMT must review and concur with any ICA prior to implementation.

2. Any implemented ICA is subject to Board approved Rate Adjustment Guidelines outlined in attached Exhibit A.

3. Due to the particulars of rate design, existing SCE rate schedules, and customer class and consumption characteristics, actual rate impacts experienced by any specific DCE customer may vary somewhat from overall average rate change percentages.

4. Any given ICA may result in an upward or downward adjustment to DCE generation rates given the particular impacts of any one or combination of CPUC / SCE actions resulting in such ICA calculation.

5. A summary of any implemented ICA will be included in DCE's RSS implementation history log.

6. The ICA does not generally directly apply to DCE's Desert Saver retail rates. Desert Saver charges are derived pursuant to Paragraph 1 of the attached Exhibit A, Rate Adjustment Guidelines. Exhibit A may be revised from time-to-time by the DCE Board.

7. An information report describing any implemented ICA will be provided to the Board at the next regularly scheduled Board Meeting following implementation.

Exhibit A
Rate Adjustment Guidelines

DCE sets rates in accordance with Board approved policies and procedures in order to assure revenue sufficiency to meet all financial responsibilities, build necessary reserves, to provide flexibility to respond to unplanned and or unexpected power supply and operating cost changes, and other factors that affect DCE's revenues and costs. DCE's Risk Management Team (RMT) must review and concur with any rate adjustments prior to implementation. The below Rate Adjustment Guidelines were approved by the Board on March 17, 2025. These Rate Adjustment Guidelines may be revised from time to time by the DCE Board.

1) Adjustments to Desert Saver Rates: Any RSS adjustments to Desert Saver rates are to be implemented in a manner to maintain an average 0.0 – 1.0 percent discount versus Southern California Edison's current non-CARE residential base product average total monthly bill.

2) Adjustments to Carbon Free Rates: Any given RSS adjustments to Carbon Free rates are to be implement in a manner such that Carbon Free Customers' average DCE generation rate does not increase or decrease by more than 5.0 percent.

Desert Community Energy
Rate Stabilization Schedule (RSS)

Energy Cost Adjustment (ECA) and
IOU/CPUC Adjustment (ICA)

A. ENERGY COST ADJUSTMENT (ECA)

1. An ECA may be included in DCE's generation ~~rate~~rates to customers under CCA service schedules as part of DCE's per kWh generation charge or as a separate surcharge. The ECA is intended to recover the costs of purchased power including renewable resources, energy and energy hedges, resource and capacity adequacy products, demand side management (DSM) costs (including revenue losses), and other energy and/or capacity products not otherwise included or forecast in DCE's retail generation rates or current total revenue requirement. ECA related DCE rate adjustments shall be subject to Board-authorized ~~Desert Saver discount and 100% Carbon Free premium levels~~Rate Adjustment Guidelines as outlined in ~~effect at the time of such ECA. The Desert Saver discount and 100% Carbon Free premium levels~~attached Exhibit A. Exhibit A may be ~~changed~~revised from time~~-~~ to~~-~~ time by the DCE Board.

2. ~~The~~An ECA shall be calculated no more often than monthly and expressed in $ per kWh to five decimal places. In order to apply any calculated ECA pursuant to this RSS, such ECA, when added or subtracted from DCE's current generation rate~~, shall not result in a 100% Carbon Free average total bill premium for DCE's largest residential rate class, "Domestic," exceeding 14% greater than Southern California Edison's (SCE's) bundled base product monthly average total bill. Any single ECA which results in a total 100% Carbon free product average total bill premium for the "Domestic" rate exceeding 14% above SCE's bundled base product average total bill is~~ must adhere to the currently approved Rate Adjustment Guidelines shown in attached Exhibit A. Any single ECA which results in Desert Saver and or Carbon Free rate changes exceeding DCE's Rate Adjustment Guidelines in Exhibit A are to be brought to the Board for further consideration and approval and may not be implemented subject to this RSS. ~~The Desert Saver discount and Carbon Free product average total bill premium guidelines may be revised from time-to-time by the DCE Board. Any ECA implemented pursuant to this RSS shall be subject to the most current Desert Saver discount and Carbon Free premium levels approved by the Board. Application of a calculated ECA resulting in an average DCE generation rate change of less than +/- 2.0% may be delayed and combined with a subsequent ECA calculation.~~ DCE's Risk Management Team (RMT) must review and concur with any ECA prior to implementation.

The ECA formula, expressed to the nearest $0.00001 per kilowatt-hour (kWh):

$$\text{ECA} = \frac{(a)+(b)+(c)+(d)}{(e)}$$

Where:

(a) is the estimated change in total wholesale power supply cost for the 12-month period commencing with either: i) the current 12-month budget, or ii) the effective date of ECA implementation. ~~This cost increase or decrease is to be measured from the next prior ECA calculation date, if any. This~~

~~expense~~This amount shall include all charges associated with resource adequacy and other capacity requirements, transmission service, CAISO charges and fees, energy purchased by CCA from all sources including the CAISO, and any energy purchase prepayment expenses for which expenditures have been approved in advance by the DCE Board for inclusion in the purchased power component of the ECA.

(b) is the estimated change in total costs/expenses associated with procurement and acquisition of renewable portfolio standard (RPS) resources for the 12-month period commencing with either: i) the current 12-month budget, or ii) the effective date of ECA implementation. This cost increase or decrease is to be measured from the next prior ECA or the current rate calculation date, if any. This expense shall include all charges associated with renewable resource energy, capacity, RPS related prepayment expense, operation and maintenance, depreciation, and interest expenses for generation and or transmission as and which have been approved in advance by the DCE Board for inclusion in the RPS component of DCE's revenue requirement.

(c) is the estimated change in total Demand-Side Management (DSM) cost, reduced by funding received from other sources, for qualified DSM projects for the 12-month period commencing with either: i) the current 12-month budget, or ii) the effective date of the ECA implementation. This increase or decrease is to be measured from the next prior ECA calculation date, if any. DSM costs are those incurred for the acquisition and installation of devices and systems, including incentive payments, audit costs related to DSM, and administrative costs, which are part of those programs or projects designed to lower and control power system demand or consumption, and for which expenditures have been approved in advance by the DCE Board for inclusion in the Demand-Side Management component of the ECA.

(d) any unallocated balance in the ECA account, subject to currently approved ~~rate discount and premium guidelines.~~DCE Rate Adjustment Guidelines.

3. ~~An~~ A summary of any implemented ECA will be included in DCE's RSS implementation history log ~~shall be established and maintained by DCE staff.~~.

4. Any given ECA may result in an upward or downward adjustment to DCE average generation rates given the then existing economic and financial circumstances at the time of such ECA calculation. ECA implementation will utilize best reasonable efforts to maintain the same or similar relative DCE retail product average total bill differentials ~~(discounts, surcharges and or premiums)~~, as applicable, versus corresponding SCE bundled base product average total bills.

5. The ECA does not generally directly apply to DCE's Desert Saver retail ~~generation rate. The~~rates. Desert Saver ~~generation charge is currently~~charges are derived pursuant to ~~attain a 0.0% –~~Paragraph 1~~.0% average total residential bill discount versus SCE's average total base bundled residential bill, which is independent from, and may be unaffected by,~~ of the ~~calculated ECA. The Desert Saver average total bill discount guideline~~attached Exhibit A, Rate Adjustment Guidelines. Exhibit A may be revised from time-to-time by the DCE Board.

6. An information report describing any implemented ECA will be provided to the Board at the next regularly scheduled Board Meeting following such implementation.

B. IOU/CPUC ADJUSTMENT (ICA)

1. An ICA may be included in ~~DCE customer retail electric~~DCE's generation ~~rates~~rate to customers under CCA service schedules ~~on the basis of energy use. Such ICA may be included~~ as part of ~~applicable~~DCE's per kWh generation ~~rates~~charge or as a separate surcharge. The ICA is intended to recover and adjust DCE revenues and rates to maintain Board-authorized revenue requirements~~, Desert Saver average total bundled bill discounts, and Carbon Free average total bundled bill premiums versus corresponding SCE average total bundled base product bills for SCE customers.~~. Such adjustments may be necessary if and when SCE revises its costs and or other factors affecting the PCIA, SCE retail rate changes, collection of SCE balancing account charges, and or other SCE and or California Public Utilities Commission (CPUC) related regulatory actions which directly impact DCE's ~~applicable discounts or premiums,~~operating costs and or DCE revenue requirements. ~~Comparisons of DCE and SCE retail products shall be based on estimated average total residential customer bills for both DCE's Desert Saver and 100% Carbon Free retail product categories and attainment of necessary total DCE revenue requirements associated with DCE's Desert Saver and Carbon Free products.~~ ICA~~-~~related DCE rate adjustments shall be subject to Board~~-~~-authorized ~~Desert Saver discount and 100% Carbon Free premium levels~~Rate Adjustment Guidelines as outlined in ~~effect at the time of such ICA. The Desert Saver discount and 100% Carbon Free premium levels~~attached Exhibit A. Exhibit A may be ~~changed~~revised from time~~-~~ to~~-~~ time by the DCE Board.

An ~~The~~ ICA shall be calculated as warranted following such actions by SCE and or CPUC which result in material changes to DCE costs and or revenue levels~~, Desert Saver discount and / or Carbon Free premium.~~. DCE intends to calculate and implement any such ICA within 90 days following ~~SCE's implementation of any such action~~relevant actions affecting DCE. The timing, frequency, and financial impact of CPUC and SCE actions which may affect the ICA are not typically known in advance and may occur multiple times during any given year. DCE's RMT must review and concur with any ICA prior to implementation.

~~1. Board approved discount / premium ranges and revenue targets by DCE retail product:~~

~~(a) Desert Saver Product: the current average total bill discount guideline for DCE's Desert Saver product is 0.0% to 1.0% below SCE's corresponding bundled base product average total bill. The average total bill discount range may be changed from time to time by the DCE Board.~~

~~(b) 100% Carbon Free Product: DCE's 100% Carbon Free default product is for customers not otherwise opting down to DCE's Desert Saver product. DCE's 100% Carbon Free generation rate component is cost based and designed to recover DCE's cost of service for this product category including reserve accumulation and any required cost offsets and or credits associated with serving Desert Saver customers. The objective of the ICA is to maintain required DCE 100% Carbon Free total revenue levels following any SCE / CPUC actions which materially impact DCE revenues subject to complying with the 100% Carbon Free average total bill premium authorized by the Board, currently up to a 14% premium for the "Domestic" rate, when compared with SCE average total bundled base product bill. The 100% Carbon Free average total average bill premium percentage versus SCE's bundled average total base product bill may be changed from time to time by the DCE Board.~~

2. Any implemented ICA is subject to Board approved Rate Adjustment Guidelines outlined in attached Exhibit A.

~~2.~~3. ~~Note that d~~Due to the particulars of rate design, existing SCE rate schedules, and customer class and consumption characteristics, actual ~~discounts, premiums, and rates~~rate impacts experienced by any specific DCE customer may vary somewhat from overall average ~~discount and premium~~rate change percentages.

Commented [LM1]: This edited text was part of B(2) in the June 2023 version of the RSS.

~~3.~~4. Any given ICA may result in an upward or downward adjustment to DCE generation rates given the particular impacts of any one or combination of CPUC / SCE actions resulting in such ICA calculation.

~~2. ICA calculation and implementation are intended to maintain current Desert Saver product discount and the relative revenue requirement contributions of DCE's 100% Carbon Free customers.~~

~~4.~~5. A summary of any implemented ICA will be included in DCE's RSS implementation history log.

6. The ICA does not generally directly apply to DCE's Desert Saver retail rates. Desert Saver charges are derived pursuant to Paragraph 1 of the attached Exhibit A, Rate Adjustment Guidelines. Exhibit A may be revised from time-to-time by the DCE Board.

7. An information report describing any implemented ICA will be provided to the Board at the next regularly scheduled Board Meeting following ~~such~~ implementation.

Exhibit A
Rate Adjustment Guidelines

DCE sets rates in accordance with Board approved policies and procedures in order to assure revenue sufficiency to meet all financial responsibilities, build necessary reserves, to provide flexibility to respond to unplanned and or unexpected power supply and operating cost changes, and other factors that affect DCE's revenues and costs. DCE's Risk Management Team (RMT) must review and concur with any rate adjustments prior to implementation. The below Rate Adjustment Guidelines were approved by the Board on March 17, 2025. These Rate Adjustment Guidelines may be revised from time to time by the DCE Board.

1) Adjustments to Desert Saver Rates: Any RSS adjustments to Desert Saver rates are to be implemented in a manner to maintain an average 0.0 – 1.0 percent discount versus Southern California Edison's current non-CARE residential base product average total monthly bill.

~~1)~~2) Adjustments to Carbon Free Rates: Any given RSS adjustments to Carbon Free rates are to be implement in a manner such that Carbon Free Customers' average DCE generation rate does not increase or decrease by more than 5.0 percent.

ITEM 8A

DESERT COMMUNITY ENERGY BOARD
FY2024-2025 ATTENDANCE RECORD

Voting Members	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE
City of Palm Desert	*	*	*	✓	*	✓	*	*				
City of Palm Springs	*	*	*	✓	*	✓	*	*				

Absent	
No Meeting	*

ITEM 8B

Desert Community Energy Board
March 17, 2025

STAFF REPORT

Subject: **Summary of the Community Advisory Committee Activities**

Contact: Savannah Gil, Program Specialist (sgil@cvag.org)

Recommendation: **Information**

Background: In March 2019, the DCE Board established a Community Advisory Committee (CAC) to provide a structured opportunity for community members to participate in DCE, as well as help ensure that efforts to educate and inform member communities about DCE's efforts and programs are broad and inclusive. The CAC met at various times throughout the year to discuss a variety of topics and issues. The CAC, at one point, also had the Palm Springs Working Group that was advisory in nature and helped promote DCE in the City.

The CAC activities were dormant for some time until the fall of 2024. At the October and December Board meetings, the DCE re-evaluated the CAC membership and appointed eight members to the CAC for two-year terms, effectively relaunching the CAC through 2026. One member has since opted to resign, leaving a seven-member CAC of Donald Barrett, Erin Boyd, Noel Loughrin, and Bernard Rottner from Palm Springs, and Berlinda Blackburn, Paul Murphy, and Donald Zeigler from Palm Desert.

The new CAC first met on December 9, 2024, at the Demuth Community Center in Palm Springs. Members received an introduction to community choice aggregator programs, the background of DCE, and details regarding the CAC's scope of work and structure. They also elected Ms. Boyd as Chair and Ms. Loughrin as Vice Chair of the CAC.

The CAC engaged in a lively discussion about future meeting topics and the schedule for upcoming meetings. It was unanimously decided to rotate the meeting locations between Palm Springs and Palm Desert to promote accessibility in both member cities.

The CAC met on January 27, 2025, at the Coachella Valley Association of Governments' office in Palm Desert. The CAC members heard from The Energy Authority (TEA), which is a key consultant for DCE's energy procurement efforts, and discussed ideas for future initiatives, such as addressing extreme heat and its impact on the Coachella Valley.

DCE staff will continue to update the Board about CAC activities.

Fiscal Impact: The CAC is a volunteer group, and staff support for the CAC is covered under existing resources.

ITEM 8C

Desert Community Energy Board
March 17, 2025

DESERT COMMUNITY ENERGY
The POWER of choice

STAFF REPORT

Subject: **Summary of February 2025 Rate Adjustment**

Contact: Don Dame, DCE Energy Consultant

Recommendation: Information

Background: On November 16, 2020, the DCE Board adopted a Rate Stabilization Schedule (RSS). The RSS became effective on December 1, 2020, and was amended by the Board on May 12, 2023, with a June 1, 2023 effective date. The RSS authorizes staff to adjust DCE retail rates in response to changes in Southern California Edison (SCE) rates and/or Power Charge Indifference Adjustment (PCIA, or exit fee), to maintain DCE Board-approved rate guidelines.

The Board's currently approved rate policies include designing Desert Saver (DS) rates within a 0 – 1% average total bill discount versus SCE's comparable bundled non-California Alternative Rates for Energy (CARE) base product average total bill and designing DCE's 100% Carbon Free (CF) rates such that DCE's primary residential rate class (Domestic) does not exceed a 14% average total bill premium versus SCE's comparable non-CARE bundled base product average total bill. An amendment to the RSS is being recommended to the Board as a separate agenda item as well.

The RSS requires DCE staff to prepare a summary report describing RSS-related rate adjustments and provide this information at the next scheduled Board meeting after such adjustments are implemented. This staff report provides a summary for DCE's February 2025 rate adjustments, which are consistent with the existing RSS.

February 2025 Rate Adjustment Summary:

Effective January 1, 2025, SCE implemented a system-wide average rate increase of approximately 0.3% that included an average non-CARE residential customer rate increase of approximately 1.4%. SCE's average non-CARE bundled residential customer bill increased approximately $1.65 monthly, based on average monthly consumption of 541 kWh.[1] SCE is revising its methodology for calculating the CARE discount. For customers enrolled in CARE and Family Electric Rate Assistance (FERA) plans, SCE's average bundled residential customer bill decreased about $7.24 monthly inclusive of ongoing CARE/FERA average billing discounts of approximately 32.5% and 18%, respectively. As approved by the California Public Utilities Commission (CPUC), SCE's revised rates reflect changes to multiple components of its consolidated revenue requirement.

[1] January 2025 average monthly bill changes were derived from SCE's/DCE's Joint Rate Comparison tables for DCE's service area effective February 1, 2025, which assumes average residential usage of 541 kWh per month, and Table 9 of Southern California Edison Advice Letter 5449-E dated December 30, 2024.

Working within DCE Board-approved financial policies and procedures, the provisions of DCE's RSS, and the concurrence of DCE's Risk Management Team (RMT), DCE implemented a corresponding DCE DS rate adjustment commencing on February 1, 2025. There were no changes to the CF generation rates.

February 2025 DCE Rate Adjustment Details:

- Effective Date: February 1, 2025.
- RMT review and agreement: February 4, 2025.
- DS average total bill discount compared to SCE's non-CARE bundled base power product average total bill estimated to be within 0 – 1%.
- No change to DCE's CF generation rates.
- The rate forecast period utilized is January 1, 2025 – December 31, 2025.
- Calculations and estimates are based on known and forecast costs and revenues throughout the rate forecast period.
- Any individual customer's average bill impact may vary depending on enrolled rate schedule and monthly electricity usage.

SCE announced a delivery rate decrease on March 1, 2025, which does not reflect potential new wildfire-related costs. Staff will review DCE generation rates and assess any additional related DS rate adjustment., which would then be shared at the next Board meeting.

<u>Fiscal Analysis</u>: DCE's rate adjustments are designed to fully recover forecast power supply and operating costs, build financial reserves, address cash flow requirements, and exercise fiscal prudence.

SCE customer retail rates were revised effective January 1, 2025, and DCE DS customer retail rates were commensurately adjusted. The average monthly bill of SCE bundled non-CARE residential customers increased about $1.65; DCE non-CARE Desert Saver residential customer average monthly bill increased about $1.64 and DCE Carbon Free residential customer average monthly bill increased about $6.17 (based solely on changes to SCE delivery and PCIA rates).

Staff continues to work with the California Community Choice Association (CalCCA) and other Community Choice Aggregators (CCAs) to collectively address cost effectiveness, legislative matters, and CPUC actions impacting CCAs. In addition, DCE will continue to highlight DCE's retail product choices as part of its community engagement efforts. DCE's Desert Saver product continues to be the least cost retail electric service in Palm Springs, and DCE's Carbon Free product results in zero carbon emissions, augmenting electricity-related climate mitigation and helping the City of Palm Springs achieve its greenhouse gas reduction goals.

Desert Community Energy
Unaudited Statement of Net Position Prev Year Comparison
As of December 31, 2024

	Dec 31, 24	Dec 31, 23	$ Change	% Change
ASSETS				
Current Assets				
Checking/Savings				
1100 · Unrestricted Funds				
1103 · CAMP Account	14,158,763 [1]	-	14,158,763	100.0%
1104 · LAIF Account	6,377,761 [1]	-	6,377,761	100.0%
1105 · Operating Account -8099	199,405	199,749	(345)	(0.17%)
1109 · DDM Marketplace Sweep - 0991	3,379,147	8,649,244	(5,270,097)	(60.93%)
1115 · Lockbox -4446	3,715,957	9,171,887	(5,455,930)	(59.49%)
Total 1100 · Unrestricted Funds	27,831,033	18,020,880	9,810,154	54.44%
1145 · Fair Value Adjustment	(2,411)	-	(2,411)	(100.0%)
1199 · Restricted Funds				
1110 · Money Market -5470	405,773	405,775	(2)	0.0%
1120 · FSR Letter of Credit Collateral	147,000	147,000	-	0.0%
Total 1199 · Restricted Funds	552,773	552,775	(2)	0.0%
Total Checking/Savings	28,381,395	18,573,655	9,807,741	52.81%
Accounts Receivable				
1221 · Accounts Receivable	14,548,925	14,939,714	(390,789)	(2.62%)
1223 · Accrued Accounts Receivable	1,980,391	1,735,509	244,881	14.11%
1250 · Interest Receivable	70,000	-	70,000	100.0%
Total Accounts Receivable	16,599,316	16,675,223	(75,908)	(0.46%)
Other Current Assets				
1225 · Allowance for Doubtful Accounts	(2,586,535)	(4,347,091)	1,760,556	40.5%
1240 · Prepaid Expenses	5,770	32,705	(26,935)	(82.36%)
Total Other Current Assets	(2,580,765)	(4,314,387)	1,733,622	40.18%
Total Current Assets	42,399,946	30,934,491	11,465,455	37.06%
Other Assets				
1170 · Deposits/Bonds	710,584	610,584	100,000	16.38%
Total Other Assets	710,584	610,584	100,000	16.38%
TOTAL ASSETS	**43,110,530**	**31,545,075**	**11,565,455**	**36.66%**
LIABILITIES & NET POSITION				
Liabilities				
Current Liabilities				
Accounts Payable				
2110 · Accounts Payable	7,090,830 [2]	2,430,391	4,660,440	191.76%
2112 · Accrued Accounts Payable	2,993,710 [2]	1,690,043	1,303,667	77.14%
2120 · Due to Other Governments	378,753	1,035,104	(656,352)	(63.41%)
Total Accounts Payable	10,463,293	5,155,538	5,307,755	102.95%
Other Current Liabilities				
2115 · NEM Escrow Account	58,306	-	58,306	100.0%
2230 · Taxes payable				
2231 · Utility Users Tax (UUT)	91,703	80,170	11,533	14.39%
2232 · Electric Energy Surcharge	3,491	2,527	965	38.18%
Total 2230 · Taxes payable	95,194	82,696	12,498	15.11%
Total Other Current Liabilities	153,500	82,696	70,803	85.62%
Total Current Liabilities	10,616,793	5,238,234	5,378,558	102.68%
Long Term Liabilities				
2260 · Vendor Security Deposits				
2262 · PPA Development Security	225,000	225,000	-	0.0%
2263 · Contract Development Deposit	180,000	180,000	-	0.0%
Total 2260 · Vendor Security Deposits	405,000	405,000	-	0.0%
Total Long Term Liabilities	405,000	405,000	-	0.0%
Total Liabilities	11,021,793	5,643,234	5,378,558	95.31%
Net Position				
31000 · Restricted Net Position	147,000	147,000	-	0.0%
32000 · Unrestricted Net Position	35,039,779	19,167,378	15,872,401	82.81%
Net Income	(3,098,042) [3]	6,587,463	(9,685,505)	(147.03%)
Total Net Position	32,088,738	25,901,841	6,186,897	23.89%
TOTAL LIABILITIES & NET POSITION	**43,110,530**	**31,545,075**	**11,565,455**	**36.66%**

Desert Community Energy

Unaudited Statement of Net Position Prev Year Comparison

As of December 31, 2024

1	**Investment accounts with the California Asset Management Program (CAMP) and Local Agency Investment Fund (LAIF) were opened in line with DCE Policy 23-03 Investment Policy.**
2	**DCE continues to accure costs for Renewable Energy Certificates (RECs) delayed from a vendor due to Western Renewable Energy Generation Information System (WREGIS) system outages.**
3	**The net loss demonstrated through the second quarter is partly due to the timing of DCE's fiscal year and energy purchases compared to when the costs were budgeted and will partially offset in the future. Overall, costs actualized signifcantly higher than in the prior year particularly in the Resource Adequacey and Renewable Portfolio Standards markets. Another contributing factor is the implementation of a rate decrease. DCE staff are monitoring the financial situation closely and are presenting a proposed budget amendment to ensure adequate fixed charge coverage.**

Desert Community Energy
Unaudited Changes to Net Position Prev Year Comparison
July through December 2024

	Jul - Dec 24		Jul - Dec 23	$ Change	% Change
Ordinary Income/Expense					
Income					
5010 · Electricity Sales	40,836,861		42,036,097	(1,199,237)	(2.85%)
5100 · Other Revenue	2,705,466		694,155	2,011,312	289.75%
Total Income	43,542,327		42,730,252	812,075	1.9%
Expense					
4100 · Cost of Electricity					
4105 · Electricity Purchase	17,767,148		23,877,006	(6,109,858)	(25.59%)
4110 · Resource Adequacy Settlement	13,457,614	1	5,968,123	7,489,491	125.49%
4115 · Carbon Free Settlement	4,916,358	2	674,250	4,242,108	629.16%
4120 · Renewable Energy Cr. Settlement	3,910,276		-	3,910,276	100.0%
4125 · Market Charges	2,811,659		2,386,245	425,414	17.83%
4175 · CPUC YARA Penalty	1,750,159		650,105	1,100,054	169.21%
Total 4100 · Cost of Electricity	44,613,213		33,555,728	11,057,485	32.95%
4200 · Accounting / Bank Services	2,779		1,755	1,024	58.37%
4353 · Insurance	4,022		4,294	(272)	(6.34%)
4423 · Office Supplies	-		1,375	(1,375)	(100.0%)
4425 · Legal Services	32,117		88,356	(56,239)	(63.65%)
4431 · Professional Services	149,024		44,642	104,382	233.82%
4432 · Consultants	1,146,475		1,231,216	(84,741)	(6.88%)
4433 · Outreach Services	6,294		19,965	(13,671)	(68.48%)
4435 · Technology Costs (IT)	3,079		2,826	253	8.95%
4440 · Postage	7,016		9,682	(2,667)	(27.54%)
4441 · Printing	5,632		7,543	(1,911)	(25.34%)
4452 · Marketing	3,503		2,606	897	34.41%
4455 · Customer Programs	1,628		-	1,628	100.0%
4500 · Registrations/Memberships	43,790		47,597	(3,807)	(8.0%)
4750 · Bad Debt Expense	1,197,224		1,261,072	(63,848)	(5.06%)
Total Expense	47,215,795		36,278,658	10,937,137	30.15%
Net Ordinary Income	(3,673,468)		6,451,594	(10,125,062)	(156.94%)
Other Income/Expense					
Other Income					
5900 · Investment Revenue	553,999		136,859	417,140	304.8%
5925 · Gain/(Loss) in Investments	21,417		-	21,417	100.0%
Total Other Income	575,416		136,859	438,557	320.45%
Other Expense					
4610 · Interest Expense	(10)		990	(1,000)	(101.03%)
Total Other Expense	(10)		990	(1,000)	(101.03%)
Net Other Income	575,426		135,869	439,557	323.52%
Net Income	**(3,098,042)**	3	**6,587,463**	**(9,685,505)**	**(147.03%)**

1 **Costs for resource adequacy products have significantly increased in fiscal year 2024-25 in addition to DCE procuring more products in an effort to achieve compliance with CPUC regulations, especially with new Slice of Day RA requirements and the illiquid market it created.**

2 **Costs for renewable products increased significantly in fiscal year 2024-25 in addition to DCE procuring more products to be compliant with California Renewable Portfolio Standards.**

3 **The net loss demonstrated in the first quarter can be partially attributed to the timing of DCE's fiscal year start coinciding with when energy procurement is most voluminous and costly. These costs are expected to lessen in future quarters. It can also be attributed to a dramatic increase in cost and amount of resource adequacy and renewable products needed for DCE to operate and maintain complainant in a stringent regulatory environment. DCE staff are monitoring this closely and are presenting a budget amendment to the DCE Board of Directors to ensure adequate fixed charge coverages.**

Desert Community Energy
Unaudited Changes to Net Position Budget vs. Actual
July through December 2024

	Jul - Dec 24		Budget	$ Over Budget
Ordinary Revenue/Expense				
Revenue				
5010 · Electricity Sales	40,836,861	1	47,784,229	(6,947,368)
5100 · Other Revenue	2,705,466		-	2,705,466
Total Revenue	43,542,327		47,784,229	(4,241,902)
Expense				
4100 · Cost of Electricity				
4105 · Electricity Purchase	17,767,148		20,538,876	(2,771,728)
4110 · Resource Adequacy Settlement	13,457,614		5,188,634	8,268,980
4115 · Carbon Free Settlement	4,916,358	2	2,588,736	2,327,622
4120 · Renewable Energy Cr. Settlement	3,910,276		917,851	2,992,425
4125 · Market Charges	2,811,659		455,354	2,356,305
4175 · CPUC YARA Penalty	1,750,159		-	1,750,159
Total 4100 · Cost of Electricity	44,613,213		29,689,451	14,923,762
4200 · Accounting / Bank Services	2,779		1,800	979
4353 · Insurance	4,022		4,440	(418)
4423 · Office Supplies	-		1,600	(1,600)
4425 · Legal Services	32,117		60,000	(27,883)
4431 · Professional Services	149,024		157,845	(8,821)
4432 · Consultants	1,146,475		1,219,574	(73,098)
4433 · Outreach Services	6,294		23,410	(17,116)
4435 · Technology Costs (IT)	3,079		3,150	(71)
4440 · Postage	7,016		8,500	(1,484)
4441 · Printing	5,632		7,624	(1,992)
4452 · Marketing	3,503		9,250	(5,747)
4455 · Customer Programs	1,628		75,000	(73,372)
4500 · Registrations/Memberships	43,790		152,625	(108,835)
4750 · Bad Debt Expense	1,197,224	3	1,433,526	(236,302)
Total Expense	47,215,795		32,847,795	14,368,000
Net Ordinary Revenue	(3,673,468)		14,936,434	(18,609,902)
Other Revenue/Expense				
Other Revenue				
5900 · Investment Revenue	553,999		498,969	55,030
5925 · Gain/(Loss) in Investments	21,417		-	21,417
Total Other Revenue	575,416		498,969	76,447
Other Expense				
4610 · Interest Expense	(10)		-	(10)
Total Other Expense	(10)		-	(10)
Net Other Revenue	575,426		498,969	76,457
Net Revenue	**(3,098,042)**	4	**15,435,403**	**(18,533,445)**

Desert Community Energy
Unaudited Changes to Net Position Budget vs. Actual
July through December 2024

1	The projected retail revenues in the original budget, developed in May 2024, were based on SCE's 2025-2028 General Rate Case (GRC), which anticipated an 11% increase in the generation rate year-over-year from 2024 to 2025. DCE assumed an 8% increase in the generation rate during this period which were closely aligned with Southern California Edison's filings based on DCE's then current Rate Stabilization Schedule. However, SCE's final 2025 generation rates, submitted in AL 5449-E on December 30, 2024, showed a 9% decrease compared to SCE's 2024 generation rates due to an overcollection trigger by SCE. Considering this unexpected decrease in 2025 generation rates, DCE decided to maintain its carbon-free generation at October 2024 rates (representing two modest rate decreases), which are 30% lower than DCE's GRC generation rate budget assumptions. Other factors contributing to the decline in projected revenue were lower-than-expected load results for the first half of the fiscal year due to periods of milder weather than has historically been observed as well as an increase in behind the meter solar activity.
2	The cost of compliance with Resource Adequacy (RA) and Renewable Portfolio Standards (RPS) increased from budgeted amounts including new Slice of Day (SOD) RA requirements and the illiquid market it created. Most significantly though, publicly filed forecasts in the form of Market Price Benchmarks for certain RPS products procured by DCE were used during budget development yet saw increases of 72 to 152 percent with updated filings in December 2024. In addition, a contractual sale of renewable energy from DCE's portfolio was inadvertently budgeted as a negative expense of about $3.8 million which will be realized as revenue to DCE expected in the third quarter of fiscal year 24-25.
3	Reduction in bad debt expense mostly due to resumption of pre-Covid dunning processes by SCE as DCE's billing agent as well as to closed accounts being written off at the end of fiscal year 2023-2024 and updated methodology in line with DCE Policy 23-02 Delinquent Account, Collections and Bad Debt.
4	The net loss demonstrated through the second quarter is partly due to the timing of energy purchases compared to when the costs were budgeted and will partially offset in the future. Overall, as described above, costs actualized higher than budgeted particularly in the RA and RPS markets. Another contributing factor is that DCE had less usage than budgeted as well its implementation of a rate decrease. DCE staff are monitoring this closely and are presenting a proposed budget amendment to ensure adequate fixed charge coverage.

DESERT COMMUNITY ENERGY
INVESTMENT REPORT
FOR DECEMBER 31, 2024

Description	Carrying Amount	% of Total	Fair Market Value		% of Total	Annual %age Yield
CASH AND INVESTMENTS UNDER THE DIRECTION OF DCE						
River City Bank - Operating	$ 199,405	0.70%	$ 199,405		0.70%	N/A
River City Bank - DDM Marketplace Sweep	$ 3,379,147	11.91%	$ 3,379,147		11.91%	4.59%
River City Bank - Lockbox	$ 3,715,957	13.09%	$ 3,715,957		13.09%	N/A
River City Bank - Money Market	$ 405,773	1.43%	$ 405,773		1.43%	2.28%
River City Bank - Stand-by FSR Letter of Credit	$ 147,000	0.52%	$ 147,000		0.52%	N/A
Local Agency Investment Fund (LAIF)	$ 6,377,761	22.47%	$ 6,375,351	[a]	22.46%	4.43%
CAMP	$ 14,158,763	49.88%	$ 14,158,763		49.89%	4.65%
Overall Total	$ 28,383,806	100.00%	$ 28,381,395		100.00%	

Note:

[a] Source of Market Values - LAIF, State of California Pooled Money Investment Account Market Valuation - December 2024. Paper Gain/(Loss) was (0.038%). Fair market value includes accrued interest.

DCE's investment portfolio indicates its ability to meet its foreseeable liquidity requirements.

Duly submitted by:

Claude

Claude T. Kilgore, CPA
Director of Finance