

Attachment B

VICTORVILLE MUNICIPAL UTILITY SERVICES (VMUS)
RENEWABLE ENERGY RESOURCES PROCUREMENT PLAN
COMPLIANCE PERIOD 3 (2017-2020)

**VICTORVILLE MUNICIPAL UTILITY
SERVICES (VMUS)
RENEWABLE ENERGY RESOURCES
PROCUREMENT PLAN**

Compliance Period 3 (2017-2020)

December 1, 2020

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Section 1. POLICY STATEMENT

California Public Utilities Code § 399.30(a) requires all publicly owned electric utilities (“POUs”), including the City of Victorville, operating through its publicly owned utility (Victorville Municipal Utility Services (VMUS)), to “adopt and implement a renewable energy resources procurement plan” that requires the POU to procure a minimum quantity of electricity and/or renewable energy credits (“RECs”) from eligible renewable energy resources, as a percentage of total retail sales. This document comprises VMUS’ renewable energy resources procurement plan (“RPS Procurement Plan”). This RPS Procurement Plan describes how VMUS will achieve its RPS procurement requirements in each compliance period.

Section 2. DEFINITIONS

The definitions set forth in Public Resources Code (“PRC”) § 25741 and Public Utilities Code (“PUC”) § 399.12 are incorporated herein. Capitalized terms in this RPS Procurement Plan, as first identified in parentheses, shall have the meaning given to such term in the body of this RPS Procurement Plan.

Section 3. RPS ENFORCEMENT PROGRAM

As required by PUC § 399.30, the Victorville City Council (VMUS’ Governing Board) adopted the Renewable Energy Resources Enforcement Program (“RPS Enforcement Program”) on December 6, 2011. Through the RPS Enforcement Program, the Victorville City Council established compliance periods, adopted RPS-eligible procurement targets, and described the framework for how VMUS would implement its RPS program. Section 10 of the RPS Enforcement Program directed the City Manager or his duly authorized designee to develop and present an RPS Procurement Plan to the VMUS Governing Board.

Section 4. SPECIFIED RPS PROCUREMENT TARGETS

In the RPS Enforcement Program, the Victorville City Council adopted general RPS procurement targets for each of the initial three compliance periods. Pursuant to PUC § 399.30(b) and (c), the Victorville City Council adopts and further specifies the RPS procurement targets for Compliance Periods 3, 4, 5, 6, and all subsequent periods as follows:

Compliance Period 3

For the four-year period beginning January 1, 2017 and ending December 31, 2020, VMUS shall procure sufficient RPS-eligible resources to equal the sum of the following: (27 percent of 2017 retail sales) + (29 percent of 2018 retail sales) + (31 percent of 2019 retail sales) + (33 percent of 2020 retail sales). VMUS shall not be required to procure a specific quantity of RPS-eligible resources in any individual year during this compliance period.

Compliance Period 4

For the four-year period beginning January 1, 2021 and ending December 31, 2024, VMUS shall procure sufficient RPS-eligible resources to equal the sum of the following: (35.75 percent of 2021 retail sales) + (38.5 percent of 2022 retail sales) + (41.25 percent of 2023 retail sales) + (44 percent of 2024 retail sales). VMUS shall not be required to procure a specific quantity of RPS-eligible resources in any individual year during this compliance period.

Compliance Period 5

For the three-year period beginning January 1, 2025 and ending December 31, 2027, VMUS shall procure sufficient RPS-eligible resources to equal the sum of the following: (46 percent of 2025 retail sales) + (50 percent of 2026 retail sales) + (52 percent of 2027 retail sales). VMUS shall not be required to procure a specific quantity of RPS-eligible resources in any individual year during this compliance period.

Compliance Period 6

For the three-year period beginning January 1, 2028 and ending December 31, 2030, VMUS shall procure sufficient RPS-eligible resources to equal the sum of the following: (54.67 percent of 2028 retail sales) + (57.33 percent of 2029 retail sales) + (60 percent of 2030 retail sales). VMUS shall not be required to procure a specific quantity of RPS-eligible resources in any individual year during this compliance period.

Subsequent Compliance Periods

For each subsequent compliance period, VMUS shall procure sufficient RPS-eligible resources to equal an average of 60 percent of retail sales.

Section 5. RPS PROCUREMENT REQUIREMENTS

PUC § 399.30(c)(3), consistent with PUC § 399.16, as implemented by the Energy Commission's RPS Regulations specifies certain procurement requirements that are applicable to "electricity products," which refers to either: (1) electricity and the associated renewable energy credit ("REC") generated by an eligible renewable energy resource; or (2) an unbundled REC.

A. Procurement Associated with Pre-June 2010 Contracts and Ownership Agreements

Pursuant to PUC § 399.16(d), electricity products associated with contracts or ownership agreements that were executed prior to June 1, 2010 and which met certain specified eligibility requirements, must count toward the POU's RPS Procurement Targets without regard to the portfolio content categories ("PCCs").

B. Procurement Associated with Post June 2010 Contracts and Ownership Agreements

Pursuant to PUC § 399.16(b)-(c), as implemented by the Energy Commission’s RPS Regulations, electricity products associated with contracts or ownership agreements that were executed after June 1, 2010 must be classified into the following three PCCs:

PCC1: Electricity products that are procured as bundled and that are associated with an eligible renewable energy resource that either: (1) has its first point of interconnection within a California balancing authority (“BA”); (2) has its first point of interconnection to a distribution system used to serve end users within a California BA; (3) is scheduled into a California BA without substituting electricity from another source; or (4) is dynamically transferred into a California BA.

PCC2: Electricity products that are procured as bundled and that are associated with an eligible renewable energy resource that is located within the WECC but outside of a California BA, and for which the renewable energy is matched with an equal amount of incremental energy that is scheduled into a California BA.

PCC3: All electricity products that are associated with eligible renewable energy resources, but that do not meet the definition of PCC1 or PCC2.

C. Portfolio Balance Requirements Applicable to Procurement Associated with Post June 1, 2010 Contracts and Ownership Agreements

Pursuant to PUC § 399.16(c), as implemented by the Energy Commission’s RPS Regulations, the following portfolio balance requirements are applicable to all electricity products that are credited towards the RPS Procurement Quantity Requirements that are associated with contracts or ownership agreements executed after June 1, 2010:

	Compliance Period 3 and All Subsequent Compliance Periods
PCC1	≥ 75%
PCC2	No Limitation
PCC3	≤ 10%

Section 6. RPS PROCUREMENT

A. RPS Contracts Executed Prior to June 1, 2010

None.

B. RPS Procurement Acquired After June 1, 2010

Victorville has entered into a Power Purchase Agreement (“PPA”) with AM Wind Repower LLC (AM Wind) for the acquisition of renewable energy from the Alta Mesa RP27 Wind Energy Center located in Riverside County. AM Wind is required to obtain the CEC Certification that the plant is an Eligible Renewable Energy Resource (ERER) for purposes of the RPS Program and that all output produced by the plant qualifies as generation from an ERER. The scheduled “Commercial Operation Date” is January 1, 2022, and will interconnect to the California Independent System Operator (“CAISO”) grid as a Full Capacity Deliverability Status resource. The PPA term is 25-years. The PPA also provides for the option of battery storage at the site. The forecasted first year generation of 41,380 megawatt-hours is 99.4% of the forecasted PCC 1 requirements in Compliance Period 4.

C. Planned RPS Procurement

Victorville is currently negotiating an 11 MW photovoltaic power purchase agreement. The forecasted first year generation is 33,740 megawatt-hours of renewable energy. As with any solar photovoltaic generating facility, the annual output is expected to decline at a rate of about 0.5% per year due to solar panel degradation effects. The expected “Commercial Operation Date” is December 31, 2022.

Section 7. FORECAST OF RETAIL SALES AND RPS COMPLIANCE OBLIGATIONS

Compliance Period 3					
Year	2017 Actual	2018 Actual	2019 Actual	2020 Forecast	2017-2020
Retail Sales (MWh)	87,819	90,492	86,564	97,076	361,951
RPS %	27%	29%	31%	33%	
RPS Procurement Requirement (MWh)	23,711	26,243	26,835	32,035	108,824

Year	Compliance Period 4					Compliance Period 5				Compliance Period 6			
	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2021- 2024	2025 Forecast	2026 Forecast	2027 Forecast	2025- 2027	2028 Forecast	2029 Forecast	2030 Forecast	2028-2030
Retail Sales (MWh)	104,368	104,368	104,368	104,368	417,472	104,368	104,368	104,368	313,104	104,368	104,368	104,368	313,104
RPS %	35.75%	38.5%	41.25%	44%		46%	50%	52%		54.67%	57.33%	60%	
RPS Procurement Requirement (MWh)	37,312	40,182	43,052	45,922	166,468	48,009	52,184	54,271	154,464	57,058	59,834	62,621	179,513

Notes:

* Individual year targets are for planning purposes only.

Section 8. EXCESS PROCUREMENT RULES

A. The following rules for excess procurement shall apply for Compliance Period 3:

1. VMUS may apply excess procurement in one compliance period to a subsequent compliance period, subject to the following limitations:
 - (a) Electricity products that exceed the maximum limit for PCC3, as specified in PUC § 399.16(c), must be subtracted from the calculation of excess procurement.
 - (b) Electricity products procured under contracts of less than 10 years in duration shall be subtracted from the calculation of excess procurement, unless the electricity product meets the grandfathering requirements of PUC § 399.16(d).
2. VMUS may begin accruing excess procurement as of January 1, 2011.
3. Excess procurement meeting these requirements may be applied to any future compliance period and shall not expire, subject to the limitation in the following paragraph.
4. Excess procurement that is classified as PCC2 must be used for compliance by no later than Compliance Period 5. Starting in Compliance Period 6, any previously accumulated excess procurement classified as PCC2 will no longer be eligible to count towards the RPS procurement requirements.

B. The following rules for excess procurement shall apply for Compliance Period 4 and all subsequent Compliance Periods:

1. VMUS may apply excess procurement in one compliance period to a subsequent compliance period, subject to the following limitations:
 - (a) Electricity products that are classified as PCC2 or PCC3 may not be counted as excess procurement.
 - (b) Electricity products that exceed the maximum limit for PCC3, as specified in PUC § 399.16(c), must be subtracted from the calculation of excess procurement.
2. Excess procurement meeting these requirements may be applied to any future compliance period and shall not expire.

Section 9. DELAY OF TIMELY COMPLIANCE RULES

A. Delay of Timely Compliance Rule

Pursuant to PUC § 399.30(d)(2)(A), and consistent with Section 7 of the RPS Enforcement Program, the Victorville City Council may adopt measures permitting VMUS to delay timely compliance with the RPS procurement requirements. Victorville City Council adopts the following delay of timely compliance rules.

If any of the conditions listed below occurs and is beyond the control of VMUS and causes VMUS to not be reasonably able to comply with the RPS procurement requirements, VMUS may delay timely compliance with the RPS procurement requirements.

1. Transmission Constraints

There is inadequate transmission capacity to allow sufficient electricity to be delivered from eligible renewable energy resources, or proposed eligible renewable energy resource projects, to the extent applicable, using the current operational protocols of the BA in which the VMUS operates. If VMUS owns transmission or has transmission rights, then VMUS shall demonstrate that:

- VMUS undertook all reasonable measures under its control and consistent with its obligations under local, state, and federal laws and regulations to develop and construct new transmission lines or upgrades to existing lines intended to transmit electricity generated by eligible renewable energy resources, in light of its expectation for cost recovery.
- VMUS took all reasonable operational measures to maximize cost-effective purchases of electricity from eligible renewable energy resources in advance of transmission availability.

2. Permitting, Interconnection, or Other Circumstances

Permitting, interconnection, or other circumstance have delayed the procurement of eligible renewable energy resource projects, or there is an insufficient supply of eligible renewable energy resources available to VMUS. To utilize this condition, VMUS must show that the permitting, interconnection, or other circumstance caused the delay or insufficient supply and that:

- VMUS prudently managed portfolio risks, including, but not limited to, holding solicitations for RPS-eligible resources with outreach to market participants and relying on a sufficient number of viable projects to achieve RPS procurement requirements.
- VMUS sought to develop either its own eligible renewable energy resources, transmission to interconnect to eligible renewable energy resources, or energy storage used to integrate eligible renewable energy resources.

- If the cause for delay or insufficient supply was foreseeable, VMUS procured an appropriate minimum margin of procurement above the level necessary to comply with the RPS to compensate for foreseeable delays or insufficient supply.
- VMUS took reasonable measures to procure cost-effective distributed generation and allowable unbundled RECs.

3. Unanticipated Curtailment

Unanticipated curtailment of eligible renewable energy resources, if the delay of timely compliance would not result in an increase in greenhouse gas emissions.

4. Transportation Electrification

Unanticipated increase in retail sales due to transportation electrification. To utilize this condition, VMUS must consider whether transportation electrification significantly exceeded forecasts in VMUS' service territory based on the best and most recently available information available to VMUS. Further, VMUS must take reasonable measures to procure sufficient resources to account for unanticipated increases in retail sales due to transportation electrification.

Section 10. COST LIMITATION

A. Cost Limitation Rule

Pursuant to PUC § 399.30(d)(2)(B), and consistent with Section 9 of the RPS Enforcement Program, the Victorville City Council shall rely on the following information to establish a limitation on the procurement expenditures for all RPS-eligible resources:

1. The information contained in this RPS Procurement Plan.
2. Procurement expenditures that approximate the expected cost of building, owning, and operating eligible renewable energy resources.
3. The potential that some planned resource additions may be delayed or canceled.

In developing the cost limitation, the Victorville City Council shall ensure that:

1. The limitation is set at a level that prevents disproportionate rate impacts.
2. The costs of all procurement credited toward achieving the renewables portfolio standard are counted towards the limitation.
3. Procurement expenditures do not include any indirect expenses, including imbalance energy charges, sale of excess energy, decreased generation from

existing resources, transmission upgrades, or the costs associated with relicensing any utility-owned hydroelectric facilities.

If the cost limitation is insufficient to support the projected costs of meeting VMUS' RPS targets, as specified above, VMUS may refrain from executing any further contracts for eligible renewable energy resources, beyond what can be procured within the cost limitation.

B. Relevant Factors and Findings

To determine what cost limitation is necessary to prevent disproportionate rate impacts, the Victorville City Council has considered the following factors and made the following findings:

1. *Economic Conditions*

A significant number of the City's residents live below the poverty level. In 2018, Victorville's poverty rate (averaged over the prior 5 years) was 19.5%,¹ which is nearly double the statewide average of 10.4%.² Further, over the same period, Victorville's unemployment rate was 13.6% compared to a statewide average of 6.7%. The State of California Labor Market Information Data Library lists a preliminary 13.4% unemployment rate in the City of Victorville as of September 30, 2020.

Property tax receipts fund essential City services. VMUS provides electric service to several of the City's largest property taxpayers. Competitive electric rates are essential to expanding employment opportunities by encouraging existing businesses to remain and expand their facilities and attracting new businesses.

Finding: The Victorville City Council finds that VMUS' cost limitation must be structured and set at a level that avoids harm to the local economy, limits impacts on economically vulnerable residents, and avoids increasing the unemployment rate.

2. *Customer Make-up*

While VMUS serves a diverse group of customer types, the vast majority of VMUS's total load is associated with just a few large customers. Three of VMUS' customers consume 76% of retail sales. To the extent that any one of these customers ceases to operate or relocates, VMUS's remaining customers would bear the costs of any stranded investments. Shifting these costs to other customers could have cascading consequences by threatening the viability of other customers and further exacerbating the high poverty and unemployment rates in the City. In light of these factors, VMUS's customers could be disproportionately harmed by rate increases.

Finding: The Victorville City Council finds that VMUS' cost limitation must be designed so that it does not overly burden any one-customer class.

3. *Improving the Financial Condition of VMUS*

¹ American Community Survey (2018).

² *Id.*

Through June 30, 2019, VMUS’ cumulative electric operating deficit was \$26.2 million. These losses have been funded primarily through transfers and loans from the City’s General Fund. VMUS incurred significant start-up costs, including payment of exit fees to Southern California Edison and outstanding indebtedness associated with the unanticipated failure of the Foxborough Cogeneration Facility. Significant capital expenditures are also required by VMUS to improve electric service reliability and expand capacity to serve new businesses.

Finding: The Victorville City Council finds that VMUS’ cost limitation should be set at a level that does not threaten the long-term financial stability of VMUS by reducing its existing customer base and that VMUS’ cost limitation is also set at a level that allows VMUS to reduce its negative Net Fund Position.

C. Cost of Full Compliance

To estimate the cost of full compliance for Compliance Period 3, VMUS relies on the cost data from completed transactions by another small POU. Based on the completed transactions by another POU, VMUS assumes that the cost of the electricity product would have been for: PCC1 is \$15.50/MWh; PCC3 is \$0.95; and PCC2 is \$6.00. The following table shows the forecasted cost of full compliance based on these assumptions.

Year	PCC	Formula to Calculate Cost	Compliance Cost
2017	PCC1	23,711 PCC1 RECS x 75% x \$15.50/PCC1 REC	\$275,637
	PCC3	23,711 PCC3 RECS x 10% x \$0.95/PCC3 REC	\$2,252
	PCC2	23,711 PCC2 RECS x 15% x \$6.00/PCC2 REC	\$21,342
2018	PCC1	26,243 PCC1 RECS x 75% x \$15.50/PCC1 REC	\$305,071
	PCC3	26,243 PCC3 RECS x 10% x \$0.95/PCC3 REC	\$2,493
	PCC2	26,243 PCC2 RECS x 15% x \$6.00/PCC2 REC	\$23,616
2019	PCC1	26,835 PCC1 RECS x 75% x \$15.50/PCC1 REC	\$311,953
	PCC3	26,835 PCC3 RECS x 10% x \$0.95/PCC3 REC	\$2,550
	PCC2	26,835 PCC2 RECS x 15% x \$6.00/PCC2 REC	\$24,150
2020	PCC1	32,035 PCC1 RECS x 75% x \$15.50/PCC1 REC	\$372,403
	PCC3	32,035 PCC3 RECS x 10% x \$0.95/PCC3 REC	\$3,044
	PCC2	32,035 PCC2 RECS x 15% x \$6.00/PCC3 REC	\$28,830
Total			\$1,373,341

Therefore, the estimated cost of full compliance with the Compliance Period 3 RPS Procurement Requirements is \$1,373,341.

D. Expenditures that Will Count Toward the VMUS' Cost Limitation

To determine if VMUS' expenditures have met or exceeded the cost limitation established in this RPS Procurement Plan, VMUS will include all direct costs associated with procurement from executed contracts and owned resources. Where applicable, this will include the contract price multiplied by electricity products delivered during the Compliance Period. For any contract where the associated electricity is resold, VMUS will still count towards its Cost Limitation the total cost of the combined electricity and REC.

E. Explanation of How VMUS Developed a Cost Limitation Methodology and How Such Cost Limitation Prevents Disproportionate Rate Impacts.

In developing its Cost Limitation methodology, VMUS has reviewed the potential impacts of the factors, findings, and considerations described above. Specifically, VMUS has evaluated what would occur if VMUS expended the amount of the full cost of compliance and estimated the impacts to customers on a rate basis and total bill basis under different scenarios.

Eighteen percent of VMUS' sales to its retail customers have contractual rate limitations. Potential rate increases for the purpose of RPS compliance would be applicable to the remaining eighty-two percent of sales to customers. The estimated cost of full compliance with the Compliance Period 3 RPS Procurement Requirements would have required a thirteen percent (13%) increase in rates and VMUS' rates would have been greater than Southern California Edison's applicable tariff schedules.

VMUS staff have determined that setting the Cost Limitation using the methodology described below is necessary to prevent an unfair burden and disproportionate rate impact for applicable VMUS customers.

F. Adoption of Methodology for Calculating Cost Limitation for Compliance Period.

To avoid disproportionate rate impacts for Compliance Period 3, the Victorville City Council will require that during the annual budget approval process, VMUS will calculate the revenues less expenses and cumulative operating deficit (before the incremental cost of procuring electricity products to satisfy the RPS requirements) and identify the funds available from such amount to concurrently satisfy the applicable RPS requirement and maintain prudent reserves (Cost Limitation Guideline). VMUS shall not be obligated to expend funds on RPS procurement greater than the Cost Limitation Guideline or RPS procurement targets. Once VMUS recovers its

operating deficit, VMUS will seek contracts for eligible renewable resources on a least cost, best fit basis. Procurement considerations will include availability of resources, financial feasibility, transmission availability and any other relevant factors to ensure procurement contracts fit the VMUS' risk profile as a small publicly owned utility.

G. Adoption of Cost Limitation for Compliance Period 3

Pursuant to the methodology for calculating the cost limitation for Compliance Period 3, established above, VMUS is forecasted to have a cumulative operating deficit through December 31, 2020, and the cost of procuring electricity products to satisfy RPS requirements is greater than zero, the cost limitation for Compliance Period 3 is determined to be \$0.