

Attachment B

VMUS Renewable Energy Resources
Procurement Plan

Compliance Period 4 (2021-2024)

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

Compliance Period 4 (2021-2024)

November 19, 2024

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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 4, 5, 6, and all subsequent three years periods as follows:

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 Three Year Compliance Periods

For each subsequent three-year 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 on 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	$\geq 75\%$
PCC2	No Limitation
PCC3	$\leq 10\%$

Section 6. RPS PROCUREMENT

A. RPS Contracts Executed Prior to June 1, 2010

None.

B. RPS Procurement Acquired After June 1, 2010

VMUA signed a 25-year PPA with AM Wind Repower LLC (AM Wind) for the procurement of eleven megawatts of renewable energy from the Alta Mesa RP27 Wind Energy Center located in Riverside County. The scheduled “Commercial Operation Date” (COD) was January 1, 2022, and would interconnect to the California Independent System Operator (“CAISO”) grid as a Full Capacity Deliverability Status resource. With the continued delay in the completion of the interconnection the current forecasted COD is January 1, 2025. The PPA also provides the option of battery storage at the site. The current annual forecast generation of 44,944 megawatt-hours is 109% of the forecasted PCC 1 and PCC 2 requirements in 2025 (Compliance Period 5).

VMUS signed a 25-year PPA with RE Gaskell West 2 LLC for the procurement of eleven megawatts of renewable energy from the Gaskell West 2b coupled with a 20-year eight-megawatt Battery Energy Storage System located in Kern County. The scheduled COD was January 1, 2022, and would interconnect to the CAISO grid as a Full Capacity Deliverability Status resource. The COD was achieved on May 5, 2023. The current forecasted generation of 50,015 megawatt-hours through December 31, 2024, is 35% of the forecasted PCC 1 and PCC2 requirements in Compliance Period 4.

C. Planned RPS Procurement

Victorville currently has no additional planned RPS procurement.

Section 7. FORECAST OF RETAIL SALES AND RPS COMPLIANCE OBLIGATIONS

	Compliance Period 4					Compliance Period 5				Compliance Period 6			
Year	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2021- 2024	2025 Forecast	2026 Forecast	2027 Forecast	2025- 2027	2028 Forecast	2029 Forecast	2030 Forecast	2028-2030
Retail Sales (MWh)	99,676	102,678	99,816	99,816	401,986	99,816	99,816	99,816	299,448	99,816	99,816	99,816	299,418
RPS %	35.75%	38.5%	41.25%	44%		46%	50%	52%		54.67%	57.33%	60%	
RPS Procurement Requirement (MWh)	35,634	39,531	41,174	43,919	160,258	45,915	49,908	51,904	147,727	54,569	57,224	59,889	171,682

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 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 VMUS shall establish a cost limitation on the procurement expenditures for all

eligible renewable energy resources used to comply with the RPS and Victorville City Council shall set this limitation at a level that prevents disproportionate rate impacts to VMUS' ratepayers.

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*

The City of Victorville faces persistently high levels of poverty. In 2023, Victorville's poverty rate (averaged over the prior 5 years) was 19.5%,¹ which is significantly higher than the statewide average of 12%.² Further, for February 2024, Victorville's unemployment rate was 5.3%% compared to a statewide average of 8.1%.³ Many residents travel long distances to their place of employment. VMUS was established to attract and retain businesses to provide employment opportunities. In addition, property tax receipts fund essential City services, and VMUS provides electric service to several of the City's largest property taxpayers. VMUS' customers saw a significant impact from the COVID-19 pandemic, including the rising cost of inflation. Maintaining competitive electric rates is essential to keeping local businesses from relocating or shutting down.

Finding: The Victorville City Council finds that VMUS' cost limitation must be structured and set at a level that strengthens the local economy and reduces the unemployment rate.

2. *Customer Make-up*

While VMUS serves a diverse group of customer types, the vast majority of VMUS' total load is associated with just a few large customers. Three of VMUS' customers consume 78% of retail sales. To the extent that any one of these customers ceases to operate or relocates, VMUS' 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 unemployment rates in the City. In addition, 13% of VMUS' retail sales have contractual rate limitations. Considering these factors, VMUS' 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 (2023).

² *Id.*

³ Victorville Daily Press April 15, 2024

Through June 30, 2023, VMUS’ cumulative electric operating deficit was \$14.8 million. These losses were 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

In order to estimate the cost of full compliance for Compliance Period 4, VMUS relies on the cost data reported in the *2024 Padilla Report, Costs and Cost Savings for the RPS Program*, published May 2024 (“Padilla Report”).³ The Padilla Report includes aggregated cost information for the CPUC-jurisdictional entities. Based on the Padilla Report, VMUS assumes that the cost of a PCC1 electricity product is \$43/MWh in 2021, \$62/MWh in 2022, and \$58/MWh in both 2023 and 2024. Further, based on the Padilla Report, VMUS assumes that the cost of a PCC3 electricity product is \$12/MWh⁴ for 2021-2022 and \$10 for 2023-2024. Based on the relative complexity and reduced availability associated with PCC2 electricity products, VMUS assumes that full compliance would be based on maximizing PCC3 procurement (10%) and filling in the remaining 90% with PCC1 procurement. The following table shows the forecasted cost of full compliance based on these assumptions.

	PCC	Formula for Determining Cost		Compliance Cost
2021	PCC1	90% x 35,634 RECs x \$43/REC	=	\$1,379,036
	PCC3	10% x 35,634 RECs x \$12/REC	=	\$42,761
2022	PCC1	90% x 39,531 RECs x \$62/REC	=	\$2,205,830
	PCC3	10% x 39,531 RECs x \$12/REC	=	\$47,437
2023	PCC1	90% x 41,174 RECs x \$58/REC	=	\$2,149,283
	PCC3	10% x 41,174 RECs x \$10/REC	=	\$41,174
2024	PCC1	90% x 43,919 RECs x \$58/REC	=	\$2,292,572

³ Available at: <https://www.cpuc.ca.gov/-/media/cpuc-website/industries-and-topics/documents/energy/rps/2024/2024-padilla-reportvfinal.pdf>.

⁴ For PCC3 Electricity Products, Cerritos utilized the contract price data for Bear Valley Electric Service, which procures through REC-only contracts that approximate PCC3 transactions.

	PCC3	10% x 43,919 RECs x \$10/REC	=	\$43,919
Total			=	\$8,202,012

Therefore, the estimated cost of full compliance with the RPS Procurement Requirements is \$8,202,012.

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.

The following table provides actual and forecast data for VMUS' procurement expenditures to date in Compliance Period 4.

	2021	2022	2023	2024 Forecast
Gaskell West 2b	\$0	\$0	\$630,221	\$675,100
Alta Mesa Wind Repower	\$0	\$0	\$0	\$0
Total Expenses	\$0	\$0	\$630,221	\$675,100

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.

Thirteen 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-seven percent of sales to customers. The estimated cost of full compliance with the Compliance Period 4 RPS Procurement Requirements would have required a twelve percent (12%) increase in rates.

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 4, the VMUS' cost limitation shall be set at a level that allows VMUS to meet its long-term goal of reducing its negative Net Fund Position, while still offering competitive rates to support the economic health of its community (Cost Limitation Guideline). VMUS shall not be obligated to expend funds on RPS procurement greater than the Cost Limitation Guideline or RPS procurement targets. The Victorville City Council will be asked to approve cost-effective contracts for eligible renewable resources on a least cost, best fit basis that would not be expected to increase the negative Net Fund Position. 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 4

It was expected that the RE Gaskell West 2 LLC PPA contract price would be less than alternative market prices and VMUS purchased all its available generation. Pursuant to the methodology for calculating the cost limitation for Compliance Period 4, established above, the cost limitation for Compliance Period 4 is determined to be \$1,305,000.

SECTION 11. DELAYED RENEWABLE ENERGY PROCUREMENT

On June 9, 2020, VMUS signed a 25-year PPA with AM Wind Repower LLC for the procurement of eleven megawatts of renewable energy from the Alta Mesa RP27 Wind Energy Center located in Riverside County. The scheduled COD was January 1, 2022. The renewable energy from Alta Mesa was forecasted to meet 88% of VMUS' PCC 1 and PCC 2 RPS for Compliance Period 4. COVID-19 pandemic related issues delayed the timely receipt of required permits, significantly increased material availability and costs, and unforeseen interconnection related issues put the project's viability at risk. The Buyers took all reasonable operational measures to work with the permitting agency and interconnection owner to address the issues. During this period, the project Developer still anticipated that the project would reach COD, which would have enabled VMUS to meet its PCC1 and PCC2 RPS for Compliance Period 4. VMUS was continually informed of revised multiple delays which made it challenging to plan the procurement of eligible renewable certificates (RECs). The current forecast COD is January 1, 2025.

VMUS took all reasonable measures to meet the short-term and long-term RPS procurement requirements for Compliance Period 4 (2021-2024). VMUS entered into renewable energy power

purchase agreements to meet 143% of the forecast RPS procurement requirements for Compliance Period 4 (2021-2024). The continual revised delay in achieving COD for its largest renewable energy power purchase agreement made it challenging to procure eligible short-term and long-term RECs. Because of VMUS' limited customer load requirements, the size of available renewable energy projects and long-lead times to participate in these projects, it was not feasible to contract for additional projects to protect against project delay or failure, and VMUS could not have met the long-term RPS procurement requirements for Compliance Period 4 (2021-2024). Compliance Period 4 is an exception and the continual delay in achieving COD was outside VMUS' control. Once VMUS' largest renewable energy power purchase agreement achieves COD, VMUS will comply with future short-term and long-term RPS procurement requirements.

Based on these circumstances, VMUS anticipates utilizing its delay of timely compliance rules for Compliance Period 4, supported by the following findings:

1. **Prudently Managed Portfolio:** VMUS prudently procured a reasonable margin above its RPS procurement obligations by 43%, to protect against project delay or under-delivery. Because of VMUS' limited customer load requirements, the size of available renewable energy projects and long-lead times to participate in these projects, it was not feasible to contract for additional projects to protect against project delay or failure.
2. **VMUS Projects:** VMUS has contracted for a project incorporating energy storage.
3. **Minimum Margin of Overprocurement (MMoP):** VMUS utilized a MMoP of 43%, however, because of VMUS' limited customer load requirements, the size of available renewable energy projects and long-lead times to participate in these projects, it was not able to spread this margin over a number of projects.