VALLEY CLEAN ENERGY ALLIANCE
COMMUNITY ADVISORY COMMITTEE

Staff Report – Item 10

TO: Community Advisory Committee (CAC)

FROM: Mitch Sears, Interim General Manager
Edward Burnham, Director of Finance & Internal Operations

SUBJECT: Operating Budget Update

DATE: September 23, 2021

RECOMMENDATIONS
Informational – no action requested.

OVERVIEW
The purpose of this staff report is to: (1) provide an overview of key factors influencing VCE Operating Budget Results and (2) provide an Operational Budget Update for the FY 2020/21 and FY 2021/22.

As detailed in the body of this report, actual costs and revenues for the final two months of last fiscal year resulted in an additional loss of $2.4M more than anticipated in June-21. Actuals for the first month of the current fiscal year (July) are approximately $350K better than forecast.

BACKGROUND
Since March 2020, the overall economy has been highly unpredictable due to COVID-19 impacting all sectors, including the energy sector. Due to the unprecedented circumstances from the Pandemic, regulatory decisions related to PCIA and RA, and weather conditions resulting in a highly volatile energy sector, Staff has had to present several variations in Operating Budgets and forecasts over the past 18 months. This included a mid-year update in the Fall of 2020 to track/report actual customer load demand and revenue during the COVID Pandemic. As directed by the Board, Staff has provided additional updates to both the CAC and the Board, such as this report, as financial conditions and results change. Staff will continue a minimum of quarterly updates as directed by the Board.

Adopted Budgets
In June 2020, the Board approved a $52.5 M Operating Budget for FY 2020-21, which included a net loss of $2.8M after factoring in fiscal mitigation policy adjustments. In June 2021, the Board approved a $58.1 M Operating Budget for FY 2021-22, which included a net loss of $6.9M after factoring in fiscal mitigation policy adjustments.

As detailed in the analysis section below, the net financial results are due primarily to power cost increases above revenues across the past fiscal year (2021) and the current fiscal year (2022).

ANALYSIS
This report updates information previously provided to the Board during the June 2021 Budget Adoption for FY 2021/22. The section below provides updates on: (1) an overview of key factors influencing VCE Operating Budget Results and (2) FY 2020/21 and FY 2021/22 Operating Budget Updates.

1. Key factors – Operating Budget Results
Key factors included in the FY 2020/21 and FY2021/22 Budget Adoptions include:

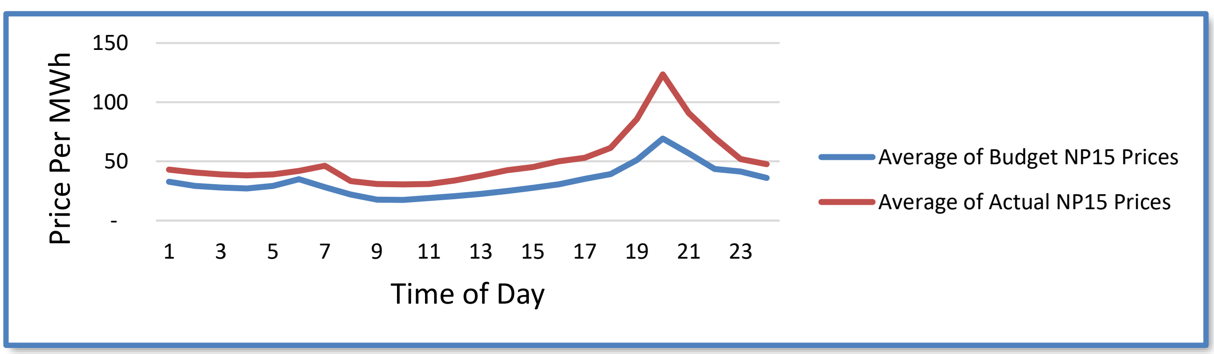
- Load Forecast. As anticipated, load forecast uncertainty related to Covid-19 is likely through at least the first 3-6 months of the 2021/22 fiscal year. Additionally, changes in long-term load requirements related to residential energy use (e.g. remote work, remote learning, etc.), and commercial energy use related to agriculture (e.g. droughts, TOU transition, weather), may occur.

Table 1 – Load Forecast vs. Actual January-21 – June-21

Month	Residential	Sm. Commercial	Med. Commercial	Lg. Commercial	Industrial	Agriculture	Street Lights
Jan-21	88%	92%	97%	95%	101%	83%	83%
Feb-21	89%	96%	97%	97%	101%	83%	91%
Mar-21	90%	95%	96%	99%	111%	136%	96%
Apr-21	92%	103%	102%	111%	108%	198%	102%
May-21	105%	113%	103%	109%	107%	149%	109%
Jun-21	107%	115%	102%	123%	97%	123%	113%

- Power Prices. Average forward market power prices have increased significantly in the current months due to repeated heat storm events. This cost driver has increased total long-term energy hedging prices for the calendar year 2022 and day-ahead purchase prices in the recent and remaining months of 2021. The chart below gives a general view into the difference between hourly prices we anticipated during budgeting in early 2021 vs. actual prices in the heatwave month of July-2021.

Table 2 – July Hourly Actual Prices vs. Budgeted



- PCIA. A net 39% increase in the PCIA from 2020/21 continues to have significant revenue erosion for approximately $21M for the 6-months of the current calendar through July.
- Resource Adequacy (RA). Continued significant power cost increases due to increasing regulatory penalty structures, shifting/increased RA market demand, and real and perceived RA supply driven by climate-related events (e.g., increased wildfire activity, drought impacts on hydroelectricity production).
- Fiscal Year and Budget adoption timing. The budget adoption process occurs during the load forecast updates and the beginning of the hedging process for the following calendar year. Additionally, the Fiscal Year ends during the peak season, which splits peak energy season of financial forecasts that include most of the cost volatility.
- VCE's current rates policy matches PG&E's generation rates for its default energy product (Standard Green). The PG&E generation rate forecast from the consultant (May 2021) predicts significant increases for PG&E impacting FY 2021/22. These generation rate price increases are based on information from separate filings to the CPUC and are forecasted to occur in September 2021 and January 2022.

The results of various regulatory, legislative, and/or market factors are anticipated to lead to a more significant normalization of PCIA and RA power costs in 2023 if successful. The regulatory changes and VCE's long-term PPA contracts are forecasted to provide long-term price advantages and cost savings to VCE while increasing our renewable content.

2. Operating Budget Update - (Unaudited)

As presented to the Board in June, VCE anticipated continued favorable actuals through June 2021 than budgeted for a reduced net loss estimated at $1.1M for FY 2020/21. This better than expected outcome did not materialize due to under forecasting load associated with the COVID-19 Pandemic and prolonged expectation for recessionary recovery. VCE’s energy hedges for June were outstripped by the higher demand resulting in the need to purchase more power in the relatively expensive day-ahead energy market. Due to these factors, the FY 2020/21 actuals for May and June grew by approximately $2.4M for a total net loss of $3.5M for the fiscal year ending in June. The key factors that resulted in the $2.5M difference include:

- Wholesale Load Requirements – May wholesale energy load increased by 15% and June by 10%. Note: largest increases were in the agricultural sector due to earlier than normal irrigation needs and continued high demand in the residential sector.
- Total Power Costs – May Increased by 8% and June increased by 48%

Based on these two primary factors, total power costs for May increased by 9% and June by 37% resulting in the additional loss of $2.4M.

Operating Budget Update Notes:

- Though the $3.5M net loss for FY 2020/21 is greater than anticipated, it is generally in line with the $2.8M net loss budget forecast completed in October 2020.

- Current Fiscal Year actuals for July are approximately $350K better than forecast. Staff will continue to provide quarterly updates as the fiscal year progresses.

3. Additional Factors

- Resource Adequacy (RA). Rising RA costs for the calendar year 2022 are anticipated to have additional negative fiscal impacts on VCE. SMUD is currently filling VCE's open RA positions for 2022, and prices have exceeded the budget by approximately $1.6M. Approximately 10% of VCE's open RA positions still need to be filled, which will result in additional costs that will be reported in the next quarterly update.
- Long-term power contracts (PPAs). When full delivery of VCE's executed power purchase agreements begins in 2023, approximately 60% of VCE's load will be met with lower-cost energy and RA. The updated multi-year forecast below shows this trend toward more stable power costs (Table 2).

The following table summarizes the preliminary long-term financial forecast as presented during the FY 2022 Budget approval with YTD Actuals through July 2021.

Table 3 – Multi-Year Forecast

	Actuals		ACTUALS UNAUDITED	ACTUAL YTD July 31 (1 MO) + FORECAST (11 MO)	Forecasted	
Description	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Revenue	51,035	55,249	55,080	51,887	59,100	59,600
Power Cost	38,540	41,538	54,318	53,563	53,800	49,600
Other Expenses	3,850	4,346	4,267	4,771	5,100	5,200
Net Income	8,646	9,365	(3,505)	(6,447)	200	4,700

Note: The table does not account for the forward power market price fluctuation and resource adequacy costs described above.

CONCLUSION

Staff will continue to provide quarterly financial updates to the CAC and Board as the fiscal year progresses. Though the table above indicates a return to profitability in FY 2023 and FY 2024, Staff notes that this depends on drawing heavily on VCE's reserves to maintain fiscal stability. A companion item on this CAC agenda related to VCE customer rate structure addresses this challenge and examines possible fiscal mitigation strategies.