VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 11

TO:	Board of Directors
FROM:	Edward Burnham, Director of Finance & Internal Operations Mitch Sears, Executive Officer
SUBJECT:	2024 Operating Budget Update
DATE:	November 9, 2023

RECOMMENDATION: Informational – no action requested.

OVERVIEW

This update is the second of three discussions leading to the Board's consideration of VCE's 2024 budget. The purpose of this staff report is to update the 2024 operating budget and multi-year forecast (2025 through 2027) in preparation for the 2024 Budget adoption and rate setting.

At the VCE board meeting on October 12, 2023, Staff introduced the key factors influencing the 2023 and 2024 Operating Budgets in Item 16 (e.g. Load Actuals vs Forecast). VCE's 2023 actuals continue to increase cash reserves while providing competitive rates compared to PG&E that incorporated a 2.5% rate credit for CARE/FERA and Medical Baseline customers.

BACKGROUND

At the October Board meeting, staff introduced the 2024 budget forecast and a multi-year outlook (through 2027). The VCE 2024 financial forecast, informed by VCE's analysts (CalCCA, MRW), indicates that continued lower Power Charge Indifference Adjustment (PCIA) rates and stabilized customer rates will allow VCE to continue to be competitive to PG&E rates, build cash reserves, and grow customer programs. VCE is poised to meet its current target of 180+ days operating cash and the initial investment grade credit rating by 2028.

Generally, forecasts include risks such as weather, regulatory, and market volatility from external influences outside of the VCE's control that impact power costs and revenues. Several of VCE's long-term renewable Power Purchase Agreements (PPAs) have begun operations since 2021, helping to significantly mitigate these risks and contribute to VCE's ability to continue to build reserves and maintain positive margins for the longer term.

ANALYSIS

This report updates information previously provided to the Board during the October 2023 Budget Update. The section below provides updates on the 2024 Budget Update and Multi-year Outlook.

2024 Operating Budget Update

As noted in the prior budget update, slightly reduced forward power market prices have been partially offset by significant increases in resource adequacy (RA) and renewable portfolio standard (RPS) eligible resources which contribute to a relatively stable 2024 PCIA. Based on analysis by CalCCA, Staff anticipates slightly higher PCIA and an increase in PG&E Customer rates. The net result is $8M+ in net income initially forecast for 2024.

Most recently, Staff has updated the forecasts to incorporate additional PG&E actuals reflecting an under-collection of 2023 revenues and the updated power cost forwards that include the increasing RA and RPS market price benchmarks. These factors are primary drivers leading to a revised forecast resulting in the 2024 PCIA stabilizing and a PG&E rate change going from a ~3% reduction to a ~6% increase for 2024. Additionally, VCE's long-term renewable contracts continue to have cost/rate stabilization effects while significantly increasing VCE's renewable content. As displayed in Table 1 – 2023 & 2024 Financial Risk Summary provides a summary of key changes in VCE's financial strength through building cash reserves and the value created with VCE's fixed priced PPAs coming online.

Table 1 – 2023 & 2024 Financial Risk Summary

Description	2023	2024
Power Costs	Began 2023 with PPAs for ~150+ GWh (approx. 13% of VCE annual Load)	*Begin 2024 with PPAs for ~400+ GWh (approx. 50% of VCE annual Load)
Power Cost Contingencies	5% / $3.4M	5% / $3.7M
Cash Reserves	Began with ~$6M 30+ Days Operating Cash (Min)	Begin with ~$20M 90+ Days Operating Cash
Resource Adequacy	PPAs provide 75 MW RA (approx. 36% of VCE annual req.)	*PPAs provide 143 MW RA (approx. 70% of VCE annual req.)
Debts – Term Loan Due April 2024	$700K Outstanding	$180K Outstanding Balance

*Willy 9 Chap 2 (formerly Willow Springs Solar 3) Solar PV + Storage Project (72 MW PV /36 BESS / approx. 215,000+ MWhs) expected to come online in January of 2024

Multi-Year Forecast

As displayed below in Table 2 – Multi-Year Forecast, the changes to PCIA and VCE's long-term renewable PPA contracts are forecasted to provide near/long-term financial stability, allowing VCE to continue to build reserves to 180+ days of operating cash that will support VCE's movement towards an investment grade credit rating (estimated in 2028).

Key Assumptions included in the 2023 Budget and Multi-year forecast (Table 2):

- 2024 PCIA Forecast –The updated PCIA increased from ~.002 KW/$2M to .004 KW/$4M
- 2024 Customer Rates Forecast – The updated forecast for PG&E rates results in a projected 6% generation rate increase (higher increases currently being considered by the CPUC are associated with non-VCE portions of the bill such as transmission and distribution charges).

Table 2 – Multi-Year Forecast**

	Actuals	(8 Month Actuals + 4 Month Budget)	Preliminary Forecast*			
Description	2022	2023	2024	2025	2026	2027
Customer Revenue	85,323	98,800	105,400	104,600	108,700	111,600
Power Cost	75,130	75,200	78,050	65,900	70,200	72,250
Other Expenses	4,469	6,600	6,800	7,100	7,500	7,900
Net Income	5,724	17,000	20,550	31,600	31,000	31,450
Gross Margin	12%	24%	26%	37%	35%	35%
Net Margin	7%	17%	19%	30%	29%	28%

(* and ** - see below)

*2022 Proforma includes eight months of actual financial results and three months of updated power cost forecasts.

** The preliminary forecast is based on analysis by CalCCA and MRW and power cost forwards.

As shown in Table 2, VCE is projected to continue to recover costs and build healthy cash reserves over the forecast period. VCE adopted the 2022 and 2023 budget, which incorporated a 2.5% rate credit for CARE/FERA and Medical Baseline customers and directed all other revenues to cash reserves. The expected revenue reductions for extending the rate credit program to additional customers while reaching the investment grade would be approximately $1,000,000 per 1%. Staff will also evaluate the 2023 net margin allocation as part of the Customer Program and Dividend Policy in Q2 of 2024.

CONCLUSION

Staff will present the 2024 draft rates and budget options for Board consideration in December. The draft budget will incorporate financial results through October and the final analysis of PG&E's annual rate and PCIA proceeding with the CPUC. Though the table above indicates continued profitability and building of reserves for our credit rating by 2028, staff notes that regulatory impacts and market volatility may change or delay expected results.