VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 12

TO:	Board of Directors
FROM:	Edward Burnham, Director of Finance & Internal Operations Mitch Sears, Executive Officer
SUBJECT:	2024 Customer Rate Credit
DATE:	January 11, 2024

RECOMMENDATIONS

1. Approve a 1% average generation rate credit effective February 1, 2024, for VCE customer Standard Green customers.
2. Approve a 2024 Budget reduction in customer revenues by $1,000,000 (~5 operating days cash).

OVERVIEW

The purpose of this staff report is to consider 2024 customer rate credits for standard green customers based on updated financial information and additional scheduled PG&E rate increases on Transmission/Distribution scheduled for March.

BACKGROUND & ANALYSIS

As discussed during the 2024 Budget and Customer Rates adoption at the December Board meeting (Item 17), the adopted 2024 Budget forecasts a positive net income of $24.5M. The 2024 Budget allows VCE to reach its primary financial objectives of building reserves while maintaining competitive rates and executing additional local programs. VCE's longer-term outlook (2025+) indicates increased stability and cost certainty with VCE's long-term PPA's online combined with continued growth in cash reserves which would place VCE in a position to receive an initial investment grade credit rating within the next several years. Additional 2024 Budget information is provided in Attachment 1.

During the 2024 Budget and Customer Rates adoption, the Board discussed the ability to lower rates compared with PG&E and continue to meet key objectives. Staff is returning to the Board to recommend providing a 1% generation credit starting in 2024 for Standard Green customers. This is based in part on late 2023 monthly financial actuals continuing to track with forecasts (e.g. November 2023), providing greater confidence that VCE will maintain a solid financial position in 2024. This updated information, in combination with PG&E's additional Transmission/Distribution rate increase scheduled in March (projected +13%), prompted staff to continue to analyze VCE rates for 2024. If approved, this 1% rate credit would reduce projected revenue for 2024 by approximately $1M. Note: CARE and FERA customers would continue to receive their current 2.5% VCE credit on generation for 2024.

2024 Customer Rate Credits

As discussed during the 2024 Budget and Customer Rates adoption at the December Board meeting, the CPUC adopted the 2024 PG&E bundled rates at their December 2023 meeting. The updated analysis shown below is based on the best available information as of the writing of this report, with an effective rate change date of January 1, 2024, and following VCE's current rate policy and financial objectives.

VCE Rate Policy (Updated November 10, 2021)

Cost-Based Rate Policy: VCE will set customer rates to collect sufficient revenue from participating customers to fully fund VCE's Budget and establish sufficient operating reserve funds. VCE's 2023 Target was set to fully fund 180 days of operating cash reserves and incorporated into the 2024 rate setting.

2024 Customer Rates Drivers

Based on information from VCE and CalCCA's analysts on the proposed PG&E rates decision outlined above, VCE has incorporated the following assumptions in its updated financial forecasts for 2024:

- PCIA: 100% increase over 2023 PCIA (net zero charge)- Results in approximately ($2M) revenue for 2024
- PG&E Bundled rates (PCIA & Generation): 7% average increase – Results in approximately $6M revenue for 2024

NOTE: The proposed decision by the CPUC includes a 6-month amortization of 2023 under collection of revenues recovered in 2024. PG&E Rates will return to 2023 rates on July 1st as we enter the majority of peak season. This could be extended into peak season should PG&E have an outstanding under collection balance from 2023.

Staff recommends the expansion of rate credits by 1% generation credit for approximately $1,000,0000 starting in 2024 for Standard Green customers. Staff will return with additional analysis as part of the annual Customer Program and Dividend allocation scheduled for consideration by the Board in Q2 of 2024. As part of this process, Staff will evaluate possible power purchase agreement prepayment discounts and impacts on VCE's initial investment grade credit rating.

VCE Rates Recommendation

1. Standard Green Rates credits of 1% to PG&E 2024 generation rates.
2. Base Green Rate credits of 2.5% to PG&E 2024 generation rates
    a. Automatically provide CARE and FERA customers Base Green Rate (least cost option with standard green benefits)

Fiscal Effects

The rates approach allows VCE to build reserves for VCE's initial investment grade credit rating, fund current and additional VCE programs, and prepare for future PCIA increases and power market volatility to achieve long-term rate stability and competitiveness with PG&E generation rates.

Standard Green Rate credits are estimated at an average of 1%/$1.2 per month credit for residential customers on VCE's default Standard Green rate for an annual cumulative savings of approximately $1M. Staff recommends continuing base green rate credits of 2.5% on generation for low income and vulnerable customers (CARE, FERA, and Medical Baseline) that make up over 25% of VCE's residential customer base providing an additional savings of $650K. In total, if approved by the Board, VCE will provide approximately $1.65M in rate relief to VCE customers in 2024.

CONCLUSION

If approved by the Board, this accelerated rate adjustment (decrease) would be further analyzed in April 2024 as part of VCE's existing net margin and customer dividend program. Should significant regulatory or PG&E rate changes outside of VCE's control increase power costs, staff would return to the Board for direction under VCE's rate adjustment policy.

Overall, VCE's 2024 operational and financial objectives remain whole with the proposed revenue reduction associated with the recommended action. Staff believes this to be a disciplined and financially prudent approach to providing some level of rate relief balanced with building reserves. The longer-term outlook (2024+) shows increased stability and cost certainty due to VCE's fixed price long-term renewable power purchase contracts coming fully online combined with a cost-recovery based rate structure. Though buffered by the factors listed above, as discussed with the Board staff will continue to closely monitor financial risk factors outside of VCE's direct control such as changing Resource Adequacy (RA) rules, Power Charge Indifference Adjustment (PCIA), and power markets.

ATTACHMENT

1. VCE 2024 Budget information

Attachment 1

VCE 2024 Budget information

Background

Since early 2020, VCE has seen high volatility in the energy sector and overall economy. In recent years VCE's fiscal impacts were primarily driven by the uncertainty associated with the COVID-19 pandemic, 2021 Power Charge Indifference Adjustment (PCIA) increases, resource adequacy, and power market cost increases driven in part by the war in Ukraine. These factors required VCE to draw against reserves in the past two years to stabilize customer rates and maintain its rate policy to be competitive with PG&E generation rates. Beginning in 2022, VCE began to replenish its cash reserves and grow its financial strength (as envisioned in the Strategic Plan) for its initial investment grade credit rating.

The adopted 2024 budget and Customer Rates incorporated key financial objectives driven by VCE's Budget Policy, Financial Reserve Policy, Rate Policy, and the 2021-2025 Strategic plan. Key objectives included in developing the 2024 Budget & Customer Rates included:

- Operating Days Cash – Maintain the operating days cash target of +180 days (Increased from 90 days in 2023) as recommended by financial advisors for the credit rating.
- Debt Repayments – Early repayment of term loan with River City Bank in 2023. VCE's remaining use of RCB line of credit used for credit requirements pending VCE's initial investment grade credit rating.
- Power Cost Contingencies – Due to the inherent volatility in power costs, Staff continues to include 5%/$3.6M contingencies in 2024. Staff also incorporated a onetime additional $1.5M for 2024 Resource Adequacy and Renewable Energy Certificates compliance requirements.
- Power Purchase Agreement (PPA) Covenants – VCE will maintain the required PPA covenants without relying on letters of credit for operational PPAs.
- Investment Grade Credit Rating – VCE and the Financial Advisor, PFM, will re-evaluate the timeline to establish VCE's initial investment grade credit rating. An investment grade credit rating will reduce risks for banking institution lines of credit, CPUC provider of last resort financial requirements (POLR), and overall capital costs for VCE.
- Customer Programs and Dividends – $2M in programs budgeted for 2024 including to continue to grow its customer programs in 2024. VCE will evaluate 2023 audited financial results for possible customer dividends in Q2 of 2024.

Long-term Fixed Price Power Purchase Agreements

VCE's long-term fixed PPAs are anticipated to bring long-term financial stability for VCE in the 2025-2027 long-term outlook. As discussed at prior Board meetings, all electric utilities develop forecasts of cost and revenue requirements based upon informed technical estimates. These forecasts incorporate factors such as future weather, load, market power prices, and other business conditions. Actual outcomes inevitably vary and in extreme instances, outcomes may vary significantly. VCE's transition to longer-term renewable fixed-price power contracts over the past two years has significantly reduced the exposure to rising market prices and volatility as shown in Figures 1 & 2 below.

Figure 1 – VCE Power Purchase Agreement Contributions

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	PPAs provide 75 MW RA (approx. 36% of VCE annual req.)	*PPAs provide 143 MW RA (approx. 70% of VCE annual req.)

*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

Figure 2 - VCE Current Renewable Portfolio Trajectory