

**VALLEY CLEAN ENERGY ALLIANCE****Staff Report – Item 13**

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**TO:** Board of Directors

**FROM:** Edward Burnham, Director of Finance & Internal Operations  
Mitch Sears, Executive Officer

**SUBJECT:** 2023 Operating Budget Update

**DATE:** November 10, 2022

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**RECOMMENDATION**

Informational – no action requested.

**OVERVIEW**

This update is the second of three discussions leading to the Board's consideration of VCE's 2023 budget. The purpose of this staff report is to update the 2023 operating budget and multi-year forecast (2023 through 2025) in preparation of the 2023 Budget Adoption and rate setting.

At the VCE board meeting on October 13, 2022, Staff introduced the key factors influencing the 2022 and 2023 Operating Budgets on [Item 16](#) (e.g. Ukrainian conflict). In 2022 VCE has been able to mitigate the financial impacts from these factors, provide competitive rates compared to PG&E, and continue to increase cash reserves.

**BACKGROUND**

At the October Board meeting, staff provided an introduction to the 2023 budget forecast and a multi-year outlook. The VCE 2023 financial forecast, informed by VCE's analysts (CalCCA, MRW), indicates that lower Power Charge Indifference Adjustment (PCIA) and stabilized customer rates will allow VCE to reestablish strong reserve levels in 2023.

As noted in the October Board staff report, the utility sector, including VCE, has experienced significant volatility during 2020-2022 in power market prices due to the COVID-19 pandemic, climate change impacts, and global events. These events have created financial challenges to maintain reserves and competitive customer rates. In contrast, the near and longer-term outlook from 2023 to 2025 shows VCE continuing to overcome the increased power market price forecasts and building reserves to support establishing an investment-grade credit rating. Beginning in 2023, additional significant long-term renewable Power Purchase Agreements (PPAs) will be coming online, helping mitigate power market volatility and contributing to VCE's ability to continue to build reserves and maintain positive margins for the longer term (2024+).

**ANALYSIS**

This report updates information previously provided to the Board during the October 2022 Budget Update. The section below provides updates on the 2023 Budget Update and Multi-year Outlook.

**2023 Operating Budget Update**

As noted in the prior budget update, 2022 actual power cost increases and high forward power market prices create downward pressure on the PCIA. Based on analysis by CalCCA, Staff

anticipates a near zero to negative PCIA rate for 2023. The net result is \$10M+ in net income initially forecast for 2022, being recovered in 2023.

Most recently, Staff has updated the forecasts to incorporate additional PG&E actuals, an error by PG&E's in their cost information, and the impacts of September's heat storm on PG&E's power costs. These factors result in a revised forecast resulting in the 2023 PCIA dropping to zero and PG&E rate changes from a 3% reduction to 0% for 2023. As displayed below in Table 1 – Multi-Year Forecast, the changes to PCIA and VCE's long-term renewable PPA contracts are forecasted to provide near/long-term financial relief, allowing the establishment of stronger reserves. VCE's long-term renewable contracts will also have rate stabilization effects while significantly increasing VCE's renewable content.

Key Assumptions included in the 2023 Budget and Multi-year forecast (Table 1):

- 2023 PCIA decrease Forecast –The updated PCIA decreased to zero. Although current PCIA rates are forecasted to go negative, this requires approval by the CPUC and is not assumed in the table below.
- 2023 Customer Rates Forecast – The updated forecast for PG&E rates results in no change for 2023.
- 2023-2025 Power Costs Contingencies – Staff has increased power cost contingencies from 2.5% for 2022 to 5% for 2023-2025. This results in an approximately \$3M contingency that allows for additional buffers for impacts outside of VCE's control (e.g. power cost increases due to heat storms).

Table 1 – Multi-Year Forecast

Description	Actuals				2022 Proforma*	2023 Budget	Preliminary Forecast**	
	FY2019	FY2020	FY2021	FY2022	2022	2023	2024	2025
Customer Revenue	51,035	55,249	54,657	29,366	86,760	107,040	73,500	71,050
Power Cost	38,540	41,538	54,234	30,139	75,050	69,500	52,800	55,600
Other Expenses	3,850	4,346	4,267	2,285	5,080	5,938	6,100	6,178
Net Income	8,646	9,365	(3,844)	(3,058)	6,630	31,602	14,600	9,272

\*2022 Proforma includes nine 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 the table, the loss in net income during 2022 would be recovered by the end of 2023 due to PCIA decreases and customer rate stabilization. Staff will provide additional detail in its informational presentation at the meeting, including background information/assumptions associated with the projected net income for 2024 to 2025.

## CONCLUSION

Staff will present the 2023 draft rates and budget for Board consideration in December. The draft budget will incorporate financial results from October and 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 in 2023 and 2024, staff notes that market volatility and PPAs coming online may change or delay expected results.