

VALLEY CLEAN ENERGY ALLIANCE**Staff Report – Item 15**

TO: Board of Directors

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

SUBJECT: 2024 Operating Budget Update & 2025 Preliminary Budget

DATE: October 10, 2024

RECOMMENDATION

Informational – no action requested.

OVERVIEW

This update is the first of three discussions leading to Board consideration of VCE's 2025 budget. The purpose of this staff report is to: (1) provide an update on the 2024 Operating Budget, and (2) provide the 2025 Preliminary Operating Budget Update and Multi-year Outlook (2026 through 2028).

BACKGROUND

In December 2023, the Board approved the [2024 Operating Budget](#) taking into account matching PG&E's proposed rates, incorporated a 2.5% rate credit for CARE/FERA and Medical Baseline customers, and directed all other revenues to cash reserves for a target of ~180+ days cash on hand by the end of 2024. At the January 11, 2024 Board meeting, the Board approved [Item 12](#) to expand discounts to all VCE customers by 1% compared to PG&E in addition to 2.5% discount for CARE/FERA and medical baseline customers. At the April 11, 2024, the Board approved [Item 18](#) to increase the 1% discount to 2% for all customers.

Key factors in the 2024 Operating Budget included the following:

- 2024 Customer Rates (VCE & PG&E Comparison) were set to collect sufficient revenue from participating customers to fully fund VCE's Budget and continue to contribute to reserve funds to obtain an initial investment grade credit rating while providing discounts.
- 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 5-7% generation rate increase.
- VCE's Multi-Year Forecast included increases for PCIA, VCE's long-term renewable PPA contracts 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 by 2028).

Staff provided a mid-year financials update in June 2024 to track/report actual 2024 Operating Budget results. Customer load demand has remained lower than forecasted resulting in reduced revenues throughout 2024. The California Public Utilities Commission (CPUC) slice of

day resource adequacy (RA) requirements for 2025 have increased price volatility in the forward curve for RA costs. Staff has provided updates in July and September on power cost strategies for optimizing the sale of renewable energy credits (RECs) above compliance requirements and to help maintain long-term positive financial outlooks. This power cost management approach is similar across the CCA community for above compliance portfolio RA, RECs, Energy, etc. attributes.

ANALYSIS

This report updates information previously provided to the Board during the June 2024 Mid-year Financials Update. The section below provides updates on: (1) 2024 Operating Budget and (2) 2025 Preliminary Operating Budget Update and Multi-year Outlook (2025 through 2028).

1. 2024 Operating Budget Update

The approved 2024 Operating Budget with adjustments includes \$103.9M of operating revenues and \$82M of operating expenses for a net income of \$21.9M (Table 1). As detailed in the analysis section below, the net financial results are different from the budget forecast and are due primarily to a significantly lower load due to cooler weather and higher snowfall/rainfall than forecast for 2024. Note: VCE is subject to these effects from summer weather/water availability due to the high AC loads and agricultural pumping loads in VCE's service territory.

As presented to the Board in June, VCE experienced a ~\$4M decline in net income compared to the Budget through April 2024. This resulted in a revised net estimated income of \$17.9M for 2024. Based on the most recent financials that incorporate results through August 2024 and updated forecasts, the forecast has been further revised downward by an additional ~\$1.1M. As noted for the board in June, these net income reductions are driven primarily by load volatility outside of VCE's direct control (weather, power market prices, and regulatory changes). The 2024 budget is estimated to have a total net income of \$16.8M, \$5.1M less than forecast in the adopted 2024 Budget. As shown in Table 1 below:

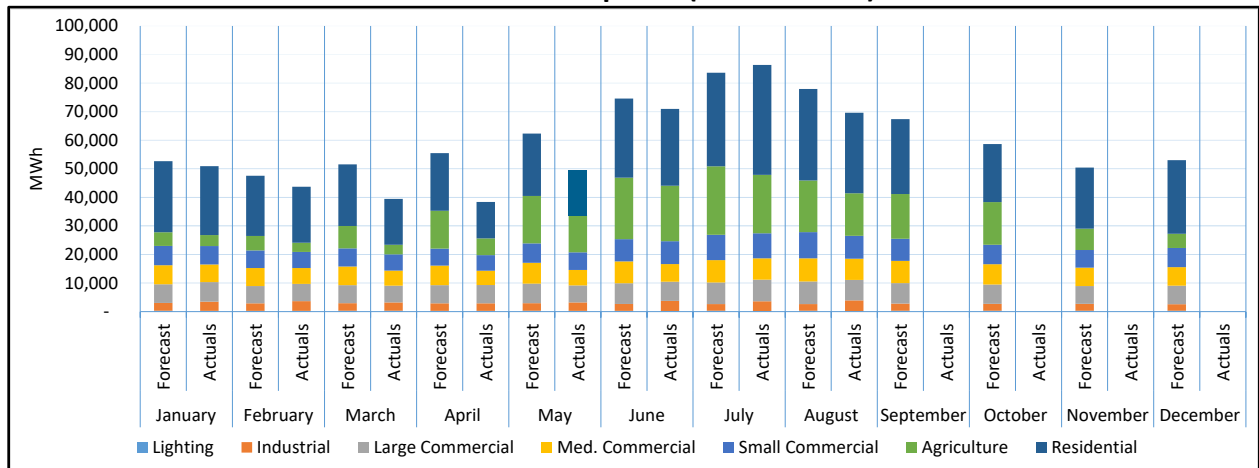
Table 1 - 2024 Proforma Budget (Unaudited)

Description	APPROVED 2024 BUDGET	2024 Proforma (8 Month Actuals + 4 Month Budget)	Variance
Revenue	\$ 103,881	\$ 103,478	\$ (403)
Power Cost	\$ 75,200	\$ 80,490	\$ (5,290)
Other Expenses	\$ 6,800	\$ 6,250	\$ 550
Net Income	\$ 21,881	\$ 16,738	\$ (5,143)

Key factors influencing the 2024 Operating Budget results include:

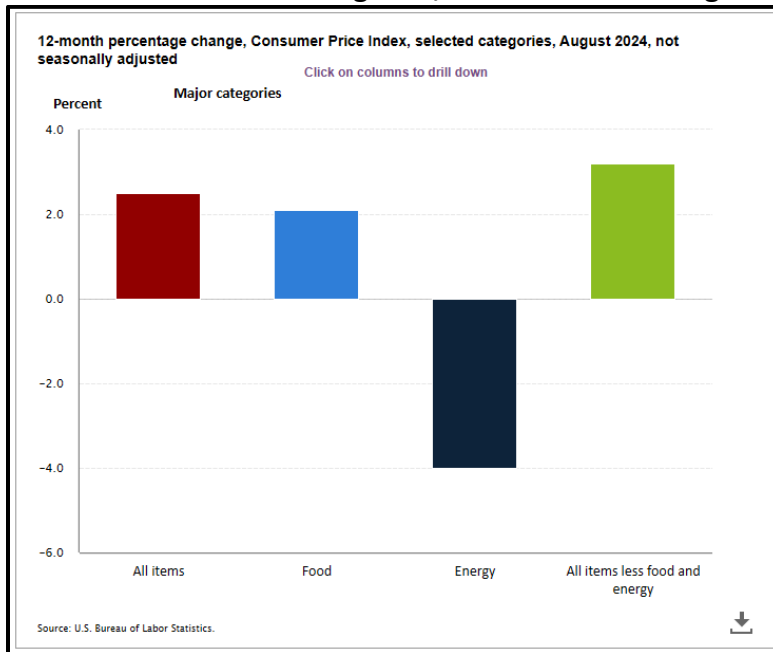
- **Load Forecast.** As shown in Table 2, in the first half of 2024 energy use in most sectors has been lower than forecasted. The overall load for the first 8 months has come in approximately 11% lower than forecasted. VCE's two largest sectors showed lower than forecast energy use: (1) residential (AC load) and (2) commercial use related to agriculture due to a relatively wet and long winter, lower overall summer temperatures, and reduced extreme heat events.

Table 2 – Load Update (2024 Actuals)



- Budgeted revenues. The 2024 Budget incorporated revenues associated with a normalized load. These revenues have not fully materialized in the actuals for 2024 due to the lower overall load as described above, resulting in lower revenues throughout 2024.
- Power Costs. Average forward market power prices have decreased from the high from prior 2022/2023 winter highest levels. They have remained fairly consistent throughout 2024 despite lower load demand, stable natural gas storage levels and lower natural gas prices for an overall decrease of 4%. Table 3 below helps illustrate the relative impact to energy sector prices vs. other major categories in the US economy resulting from economy wide financial impacts.

Table 3 – CPI for Selected Categories, 12 Month Percentage Change



2. 2024 operating Budget Update and Multi-year Outlook (2025 through 2027).

Staff has incorporated current forecasts for revenues and costs as shown in Table 4 below, to include the current 2% discount to PG&E’s rates for all customers and an additional 2.5% rate credit for CARE/FERA and Medical Baseline customers and PCIA forecasts. VCE’s long-term renewable PPA

contracts are forecasted to continue to provide near/long-term financial relief. VCE continues building reserves for VCE's initial investment grade credit rating, and increased ability to implement programmatic objectives. Based on the direction received from the Board at the July meeting, 2025 incorporates the initial sale of renewable energy credits (RECs). VCE's forecasted 2025 net margin is above VCE's minimum target of 5% due to the lower actual RA costs than previously forecasted and the favorable REC sale price.

Table 4 – Multi-Year Forecast

Description	Actuals		(8 Month Actuals + 4 Month Budget)	Preliminary Forecast*			
	2022	2023	2024	2025	2026	2027	2028
Customer Revenue	85,323	95,430	103,478	88,900	97,500	99,900	100,400
Power Cost	75,130	68,528	80,490	67,420	79,400	75,800	72,900
Other Expenses	4,469	6,030	6,250	7,200	7,200	7,920	8,712
Net Income	5,724	20,872	16,738	14,280	10,900	16,180	18,788

* The Multi-Year Forecast is based on analysis by CalCCA, MRW, and TEA, discounted based on power and PCIA volatility in previous years. Note: 2026 increase in power costs based on current forwards.

2025 Preliminary Operating Budget Key Factors:

To construct the initial 2025 preliminary operating budget estimates staff has incorporated the following assumptions: 2025 Customer Rates (VCE & PG&E Comparison): VCE will continue to set customer rates to collect sufficient revenue from participating customers to fully fund VCE's Budget and continue to contribute to reserve funds to obtain an initial investment grade credit rating.

Based on information from VCE and CalCCA's analysts on the proposed 2025 PG&E rates, VCE expects changes to three key drivers that are outside VCE's direct control:

1. 2025 Power Charge Indifference Adjustment (PCIA) (Revenue reducing): significant increase due to under-collection in 2024 and lower power cost forwards for 2025.

As previously forecasted, lower power market prices have created upward pressure on the Power Charge Indifference Adjustment (PCIA). Although power prices are lower, increased power costs for renewable energy credits and resource adequacy have partially offset the lower energy costs. Currently, based on analysis by CalCCA, staff anticipate PCIA rates to increase by more than 150% (\$14M increase /\$20M total) for VCE. PCIA rate increases are included in PG&E's bundled rate comparison.

2. PG&E Bundled rates (PCIA & Generation): 2% decrease – Results in approximately \$2M reduced gross revenue for 2025
3. Resource Adequacy (RA). Rising RA costs for the calendar year 2025 have negatively impacted VCE's power costs (Table 5). VCE's procurement consultant TEA is currently filling VCE's remaining open RA positions for 2025 based on availability. VCE's PPA's have grown to deliver approximately 80%+ in 2025. Although there are significant increases in RA from VCE's PPAs, the slice-of-day RA model and market cost increases have outpaced PPA savings for 2025.

Table 5 – Resource Adequacy Costs

	(8 Month Actuals + 4 Month Budget)	Preliminary Forecast			
	2024	2025	2026	2027	2027
Resource Adequacy (in thousands)	21,255	16,100	18,700	13,800	11,500

- 2025 Programs Expenditures – VCE has been able to make significant contributions in support of customer programs. VCE anticipates spending \$1M in designated program funds in 2025 from non-reimbursable programs and \$2M including reimbursable programs (i.e. grants).

Additional Considerations – Preliminary 2025 Budget Other operating expenses (not including power costs) are nearly flat compared to the 2024 budget, reflecting only a 3% increase – equal to 2024 CPI at ~3.5%. The primary factors of increased costs are related to programs and the addition of one full-time analyst position to power cost management and financial analysis. Other categories include strategic plan development and execution, initial investment grade credit rating, consultants, and other administrative costs.

Multi-Year Forecast (2024-2027)

Table 4 above summarizes the preliminary 2025 Operating Budget Estimate and long-term financial forecast. VCE's long-term renewable contracts will also have rate stabilization effects while significantly increasing VCE's renewable content. As shown in the table, VCE is expected to continue to recover costs and build healthy cash reserves for VCE's initial investment-grade credit rating. VCE expects the updated forecasts from PG&E in October to complete the analysis for maintaining its financial strength, renewable portfolio standards, and customer rate discounts.

CONCLUSION

Staff will update the 2025 Draft Operating Budget and Multi-Year Forecast for the Board in November. The draft budget will incorporate financial results from September and PG&E's forecasts from its annual rate and PCIA proceeding with the CPUC. Staff continues to analyze options to further optimize the value of power portfolio attributes (e.g. REC sales), which will inform the staff recommended draft budget in November. Though the table above indicates continued profitability and building of reserves for VCE's initial credit rating, staff notes that there continues to be significant market and regulatory volatility that may change or delay expected results.