VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 15

TO:	Board of Directors
FROM:	Mitch Sears, Interim General Manager Edward Burnham, Director of Finance & Internal Operations
SUBJECT:	Fiscal Year 2021-2022 Operating Budget – UPDATED 6/7/21
DATE:	June 10, 2021

RECOMMENDATIONS

1. Extend the policy strategy adjustments approved by the Board last June one year to reduce procurement of short-term renewable resources (RECs) to partially mitigate financial impacts of rising Power Charge Indifference Adjustment (PCIA) and Resource Adequacy (RA) costs in fiscal year 2021-2022.

2. Approve FY 2021-2022 Operating Budget Option 1 with $51.2M of operating revenues and $58.1M of operating expenses.

OVERVIEW

This update is the final of three discussions leading to Board adoption of the FY 2021-2022 budget (FY 2022 Budget). The purpose of this staff report is to: (1) recommend extension of the Board policy approved last June to reduce procurement of short-term RECs to partially mitigate financial impacts of rising PCIA and RA costs in fiscal year 2021-2022 and (2) provide current fiscal year 2021 actuals, an overview of key factors influencing the draft 2022 Budget, and present analysis of three budget scenarios for Board consideration.

As detailed in the body of this report, the current FY 2021 is anticipated to be approximately $1.8M net more favorable compared to the approved budget. The recommended FY 2022 budget Option 1 is approximately $0.8M net more favorable than the financial forecast presented to the Board during the May 2021 budget update. When considered together, the two fiscal years result in a combined favorable impact compared to previous forecasts.

In addition, staff has prepared a supplemental technical report detailing the impacts associated with the long-term renewable power purchase agreements (PPA) that VCE has signed over the past two years. The supplemental report is included as Attachment 1 and provides context for the budget recommendation as well as power procurement decisions that the Board will be considering in the future.

BACKGROUND

As discussed in the previous two budget staff reports the past 18 months has seen high volatility in the energy sector and overall economy primarily driven by the uncertainty during the COVID-19 pandemic and possible long-term recession. In response and as part of the FY 2021 budget and monitoring process, VCE has taken the following key actions:

- In June 2020, the VCE Board adopted policy adjustments to scale back VCE's near-term acquisition of renewable and GHG-free power content. This policy was adopted by the Board to address: (1) the objective of aligning VCE's short and long-term power procurement efforts, (2) the increasing/unpredictable PCIA, and (3) volatility in Resource RA power pricing which have created uncertainty for CCA programs across the State. The policy adjustments partially mitigated the negative financial impacts that an increasing and volatile PCIA and more costly RA market have on VCE. The policy adjustments placed VCE in a better position to maintain competitive rates and clean power content for its customers while meeting its baseline compliance obligations. Staff is recommending a one-year extension of these policy adjustments for the reasons listed above. Analysis of the policy adjustments was provided to the Board last month – the May Board staff report is at: Item-15-Power-Content-Policy-Strategies-5-13-21.pdf (valleycleanenergy.org)

- In June 2020, the Board adopted a FY 2020-2021 budget which focused on minimizing use of reserves and includes the fiscal mitigation policy adjustments noted in the bullet point above. As a result, the projected fiscal year net loss was reduced from over $5M to $2.8M. As detailed in Analysis Section 1 below, actual financial performance over the past 10 months has further reduced the current fiscal year net loss to $1M.

- In October 2020, staff presented a mid-year budget update to monitor actual customer load demand, revenue, and expenses during the pandemic. The June 2020 forecasted net deficit for FY 2022 was approximately $6.0M; the follow up mid-year update in October 2020 showed a net $7.1M deficit due to rising RA, power, and PCIA costs.

- In May 2021, staff, in conjunction with SMUD, provided a budget update including the annual electricity demand forecast for VCE for a projected net income loss of approximately $7.70M for FY 2022. The three primary drivers include: (1) a load increase of 0.5% as the predicted dampening effects of a lasting recession from COVID are no longer anticipated, (2) 7% increase in market power costs compared to FY 2021 due primarily to the hot 2020 summer and its impacts on forward market power prices, and (3) Time of Use (TOU) rate transitions for non-residential customers are lower than anticipated due to the methodology applied by PG&E.

As noted in the attached supplemental report, renewable power and storage resource deliveries will begin later this year and greatly increase in 2022 and 2023. Because these are fixed price contracts covering a substantial portion of VCE's annual load, this will reduce price over current RPS and RA market costs and greatly reduce volatility going forward. As discussed with the Board last June and the lead-up to the budget adoption this year, the undesirable but necessary policy adjustments and utilization of reserves to stabilize customer rates allows VCE to bridge the gap until the long-term PPAs begin delivery.

<u>CAC Recommendation on policy strategy adjustments</u>
On May 27, 2021, the community advisory committee reviewed the staff recommendations for policy adjustments on VCE's near-term acquisition of renewable and GHG-free power content. Based on the current near term financial outlook for FY 2021-2022, the CAC unanimously recommended the following recommendation to the Board.

> "*The CAC after a sobering discussion, reluctantly recommends due to fiscal prudency, that the Board follow the recommendation of Staff to continue the near-term policy of lower renewable energy credit (REC) and carbon free content purchases in 2022 with the following addition: For the 2022 year the initial RPS target is a minimum of 20% and quarterly updates are given to both the Board and CAC on the status of long-term contracts, RPS progress and budget numbers with the intent of increasing this target up to 42% if at all feasible." Additionally, the CAC recommends that when taking this item back to the Board, that Staff provide the Board with financials from FY2018/19 and FY2019/20 as well as budget estimates for FY2022/23 and FY2023/24 to provide a fuller picture of the financial health of the organization. Lastly, the CAC would like to wait on a recommendation for the target RPS for the 2021-24 average and requests that Staff bring this item back to the CAC when the item needs to be determined."*

ANALYSIS
This report updates information provided to the Board in April and May and provides the basis for the staff recommended FY 2022 budget. The sections below provide updates on: (1) current fiscal year 2021 actuals (2) overview of key factors influencing the draft FY 2022 Budget, and (3) analysis of three budget scenarios considered by staff in making its final recommendation.

1. Current Operating Budget Update - FY 2021
As presented to the Board in May, VCE continues to see more favorable actuals through April 2021 than forecasted. The current fiscal year actuals grew by approximately $300K in April, resulting in a net loss estimate of $1.0M for the fiscal year – this is down from the original FY estimated loss of $2.8M. The key factors that resulted in the $1.8M difference between the FY 2021 adopted budget and the actual operating expenses for the 10 months ending April 30, 2021 include:

- +$1.385M due to a combination of increased revenues partially offset by increased power costs than forecasted during Covid-19.
- +$452K due to lower operating expenses related to marketing, support services, legal, and contingency.

The following table summarizes the FY 2021 actuals v. approved budget.

FY 2021	APPROVED BUDGET FY 2020-21		ACTUAL YTD April 30 (10 MO) + FORECAST (2 MO) FY 2020-21		Variance	
Revenue	$	49,638	$	55,410	$	(5,772)
Power Cost	$	47,670	$	52,056	$	(4,386)
Other Expenses	$	4,802	$	4,365	$	438
Net Income	$	(2,834)	$	(1,010)	$	(1,823)

Staff anticipates that this slightly favorable budget trend should continue through the remainder of the current fiscal year (i.e. May and June 2021 actuals) and is expected to provide a small offset of the net negative impacts forecast for FY 2022.

2. Key factors – FY 2022 Budget

Overall, the VCE financial outlook has not changed significantly since the Board approved the current fiscal year budget in June 2020. Staff and SMUD continue to forecast a significant loss in FY 2022 ($6.9M), resulting in the staff recommended budget that utilizes reserves to stabilize customer rates in the short-term before VCE's long-term PPA contracts come on-line in 2022 and 2023.

Key base-line factors that influenced the development of the budget options presented in Section 3 below include:

- Power Prices. Average forward market power prices have increased by approximately 7% since the April-2021 preliminary draft budget. This impacts the budget directly since VCE buys forward energy price hedges to manage energy price risk. Based on the Board approved procurement policy, SMUD is in the process of completing hedge purchases for 2022. Speculation in the energy markets on the potential for a repeat of the heat storm event of last summer are pushing forward market power prices significantly higher. This cost driver has increased total power costs by $3.3M for half of the hedges for 2022. Beyond 2022, a significant portion of these short-term energy costs and the associated price volatility will be mitigated by the commencement of our long-term PPA agreements – see Chart 4 in attachment 1 – Power Content Supplemental Report.
- Interest. Lower anticipated interest earnings of $83K as Federal Reserve rates are expected to remain low through calendar year 2022
- Time of Use (TOU) rate transitions. Time of Use (TOU) rate transitions for non-residential customers are lower than anticipated due to the methodology applied by PG&E by 20%. This has resulted in lower revenue from the customers who have remained on non-TOU rates. PG&E has confirmed customers will continue to transition but PG&E has not provided any details for the total percentage expected. Transition of 100% would result in ~$300K of additional revenues.
- Budget Contingency. Reduced budget contingency from 5% to 3% for a savings of $87K related to normalized cost structure for other operating costs. Contingency has not been utilized significantly since launch of operations in 2018.

- Extension of Procurement Policy Adjustments. If approved by the Board, continued Renewable and GHG free procurement policy adjustments in FY 2022 totaling a savings of approximately $550K.

In addition to the key factors listed above, the recommended FY 2022 budget carries forward the following assumption from the last budget cycle:

- Power costs close to, or exceeding, revenue – making it difficult to cover operating costs without experiencing negative net income
- Continued significant revenue erosion from PCIA
- Continued significant power cost increase due largely to increased RA costs
- Cash reserves being utilized to stabilize customer rates
- Reduced and more stable power costs as VCE long-term power purchase agreements (PPA's) start coming on-line in 2021, 2022, and 2023.

The results of various regulatory, legislative and/or market factors are expected lead to a greater normalization of PCIA and RA power costs in 2023 and beyond but are not factored into this budget cycle. Staff will continue to monitor and update the Board should conditions change. The FY 2022 Draft Budget options shown below are inclusive of the above factors.

3. FY 2022 Draft Budget Scenarios

Staff developed three budget scenarios to test the sensitivity of key variables that drive financial outcomes for VCE: PCIA and PG&E generation rates – all scenarios incorporate the same power cost assumptions based on the best available market information from SMUD and so are consistent in each scenario. The scenarios represent a best, worst, and most likely scenario that serve to bookend the analysis while offering a third "most likely" scenario that incorporates the best available information and forecasts for the PCIA and PG&E generation rates. These scenarios are presented below as budget options with the staff recommendation shown as Option 1 (most likely). In addition to consistent power cost assumptions, each budget option includes a continuation of the FY 2021 Renewable and GHG free procurement policy, forward power cost increases, TOU transition of 80% of our customers, reduced interest income, and reduced contingency.

Rate Forecasts and Revenue

VCE's current rates policy is to match PG&E's generation rates for its default energy product (Standard Green). VCE, along with all other California CCAs, receives PG&E generation rate forecasts from a consultant under contract with CalCCA. VCE has used this source of information in the last two budget cycles. The latest forecast from the consultant (May 2021), predicts significant increases in PG&E's generation rates over the FY 2022 time period. These price increases based on information from separate filings to the CPUC and are forecasted to occur in September 2021 and January 2022.

- September 2021 forecasted rate increase request is based on an expected application by PG&E requesting recovery of insurance costs recorded in its Wildfire Expense Memorandum Account (WEMA).

- January 2022 rate increases are related to the 2022 Annual Consolidated Rate Change and requesting to recover costs recorded in its Catastrophic Event Memorandum Account (CEMA). PG&E implements several rate changes at the start of each year to reflect the consolidation of authorized and pending revenue changes, including the implementation of the ERRA, PABA, GRC attrition years, and recovery of balances in various balancing accounts.

As with the volatility in costs, forecasted rate increases impacting FY 2022 are included in the budget options ranging from 2% to 13.5%. Option 1 (recommended) is structed by staff as a cautious blended rate of 5.5% in FY 2022, Option 2 as the lower end range of a 2% increase, and Option 3 as the high end of the range increase of the full 13.5%.

The budget options detailed below incorporate these rate forecasts as follows:

- Option 1: Moderately high discount of projected PG&E generation rate increases.
- Option 2: High discount of projected PG&E generation rate increases.
- Option 3: Low discount of projected PG&E generation rate increases.

Budget Option 1: FY 2021/2022

Budget option 1 incorporates rate changes of 1.5% for the first 6 months of FY 2022 related to the CPUC proceeding in September, and 4% for the last 6 months of FY 2022 related to the two proceedings for January. The net impact for FY 2022 is a loss of $6.9M, in line with previous forecasts from the last budget cycle.

Table 1 – Budget Option 1 (Recommended)

VALLEY CLEAN ENERGY DRAFT BUDGET SUMMARY FY2021 - BUDGET OPTION 1	APPROVED BUDGET FY 2020-21	ACTUAL YTD April 30 (10 MO) + FORECAST (2 MO) FY 2020-21	DRAFT BUDGET FY 2021-2022
Energy - Megawatt Hours	**717,987**	**753,546**	**773,652**
OPERATING REVENUE	**$ 49,638**	**$ 55,410**	**$ 51,188**
OPERATING EXPENSES:			
Cost of Electricity	47,670	52,056	53,210
Contract Services	2,723	2,511	2,591
Outreach & Marketing	241	207	241
Programs	12	1	135
Staffing	1,132	1,133	1,164
General, Administration and other	772	527	743
TOTAL OPERATING EXPENSES	**52,550**	**56,434**	**58,085**
TOTAL OPERATING INCOME	**(2,912)**	**(1,024)**	**(6,897)**
NONOPERATING REVENUES (EXPENSES)			
Interest income	135	70	56
Interest expense	(57)	(56)	(42)
TOTAL NONOPERATING REV/(EXPENSES)	**78**	**14**	**15**
NET MARGIN	**$ (2,834)**	**$ (1,010)**	**$ (6,882)**
NET MARGIN %	**-5.7%**	**-1.8%**	**-13.4%**

As shown in Table 4 below – Budget Option Comparison, approval of this option forecasts a stabilization of VCE's financials in 2023 and a return to positive net margins by 2024. Staff is recommending budget Option 1 as a relatively cautious financial approach as VCE transitions to longer-term power contracts in 2021, 2022, and 2023.

Budget Option 2: FY 2021/2022

Budget Option 2 continues the previous budget cycle's assumed rate increases of 2% starting in January 2022 for the FY 2022 budget. Given the rate increases experienced in actual and forward power costs and the best available forecasting information from the CalCCA consultant, staff believes this rate increase would be understated and represents an unlikely outcome for this budget cycle.

Table 2 – Budget Option 2 (low range)

VALLEY CLEAN ENERGY DRAFT BUDGET SUMMARY FY2021 - BUDGET OPTION 1	APPROVED BUDGET FY 2020-21	ACTUAL YTD April 30 (10 MO) + FORECAST (2 MO) FY 2020-21	DRAFT BUDGET FY 2021-2022
Energy - Megawatt Hours	**717,987**	**753,546**	**773,652**
OPERATING REVENUE	**$ 49,638**	**$ 55,410**	**$ 49,170**
OPERATING EXPENSES:			
Cost of Electricity	47,670	52,056	53,210
Contract Services	2,723	2,511	2,591
Outreach & Marketing	241	207	241
Programs	12	1	135
Staffing	1,132	1,133	1,164
General, Administration and other	772	527	743
TOTAL OPERATING EXPENSES	**52,550**	**56,434**	**58,085**
TOTAL OPERATING INCOME	**(2,912)**	**(1,024)**	**(8,915)**
NONOPERATING REVENUES (EXPENSES)			
Interest income	135	70	56
Interest expense	(57)	(56)	(42)
TOTAL NONOPERATING REV/(EXPENSES)	**78**	**14**	**15**
NET MARGIN	**$ (2,834)**	**$ (1,010)**	**$ (8,900)**
NET MARGIN %	**-5.7%**	**-1.8%**	**-18.1%**

As shown in Table 4 below – Budget Option Comparison, this option forecasts a greater net loss for VCE in FY 2022 but is a less likely outcome. However, even in this unlikely scenario, VCE has adequate reserves to stabilize VCE's financials through 2023 and is projected to return to low positive net margins by 2024. Staff is not recommending budget Option 2 as it is considered an unlikely scenario.

Budget Option 3: FY 2021/2022

Budget option 3 incorporates rate changes of ~4% for the first 6 months of FY 2022 related to the CPUC proceeding in September, and ~9.5% for the last 6 months of FY 2022 related to the two proceedings for January. This option incorporates the full rate increase from the CalCCA consultant which is considered by staff as an unlikely outcome based on additional customer cost burdens during the assumed period of recovery from the pandemic.

Table 3 – Budget Option 3 (high range)

VALLEY CLEAN ENERGY DRAFT BUDGET SUMMARY FY2021 - BUDGET OPTION 1	APPROVED BUDGET FY 2020-21	ACTUAL YTD April 30 (10 MO) + FORECAST (2 MO) FY 2020-21	DRAFT BUDGET FY 2021-2022
Energy - Megawatt Hours	**717,987**	**753,546**	**773,652**
OPERATING REVENUE	**$ 49,638**	**$ 55,410**	**$ 55,461**
OPERATING EXPENSES:			
Cost of Electricity	47,670	52,056	53,210
Contract Services	2,723	2,511	2,591
Outreach & Marketing	241	207	241
Programs	12	1	135
Staffing	1,132	1,133	1,164
General, Administration and other	772	527	743
TOTAL OPERATING EXPENSES	**52,550**	**56,434**	**58,085**
TOTAL OPERATING INCOME	**(2,912)**	**(1,024)**	**(2,623)**
NONOPERATING REVENUES (EXPENSES)			
Interest income	135	70	56
Interest expense	(57)	(56)	(42)
TOTAL NONOPERATING REV/(EXPENSES)	**78**	**14**	**15**
NET MARGIN	**$ (2,834)**	**$ (1,010)**	**$ (2,608)**
NET MARGIN %	**-5.7%**	**-1.8%**	**-4.7%**

As shown in Table 4 below – Budget Option Comparison, this option forecasts a lower net loss for VCE in FY 2022 but is considered a less likely outcome by staff. In this unlikely scenario, VCE shows robust net margins beginning in 2023. Staff is not recommending budget Option 3 as it is considered an unlikely scenario.

Table 4 – Budget Option Comparison

	Actuals		ACTUAL YTD April 30 (10 MO) + FORECAST (2 MO)	Budget Options	Forecasted	
OPTION 1	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Revenue	51,035	55,249	55,410	51,188	59,100	59,600
Power Cost	38,540	41,538	52,056	53,210	53,800	49,600
Other Expenses	3,850	4,346	4,365	4,859	5,100	5,200
Net Income	8,646	9,365	(1,010)	(6,882)	200	4,700
OPTION 2	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Revenue	51,035	55,249	55,410	49,170	56,000	56,500
Power Cost	38,540	41,538	52,056	53,210	53,800	49,600
Other Expenses	3,850	4,346	4,365	4,859	5,100	5,200
Net Income	8,646	9,365	(1,010)	(8,900)	(2,900)	1,600
OPTION 3	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Revenue	51,035	55,249	55,410	55,461	66,300	66,800
Power Cost	38,540	41,538	52,056	53,210	53,800	49,600
Other Expenses	3,850	4,346	4,365	4,859	5,100	5,200
Net Income	8,646	9,365	(1,010)	(2,608)	7,400	11,900

Note: 2023 and 2024 forecasted financials are based on most current available data and continuation of assumptions in 2022 budget options with a CPI factor of 1.5%.

CONCLUSION

Staff is recommending that the Board extend the policy strategy adjustments approved last June one year to reduce procurement of short-term renewable resources (RECs) to partially mitigate current financial impacts and approve FY 2021-2022 Operating Budget Option 1 with $51.2M of operating revenues and $58.1M of operating expenses. Staff believes the recommended budget:

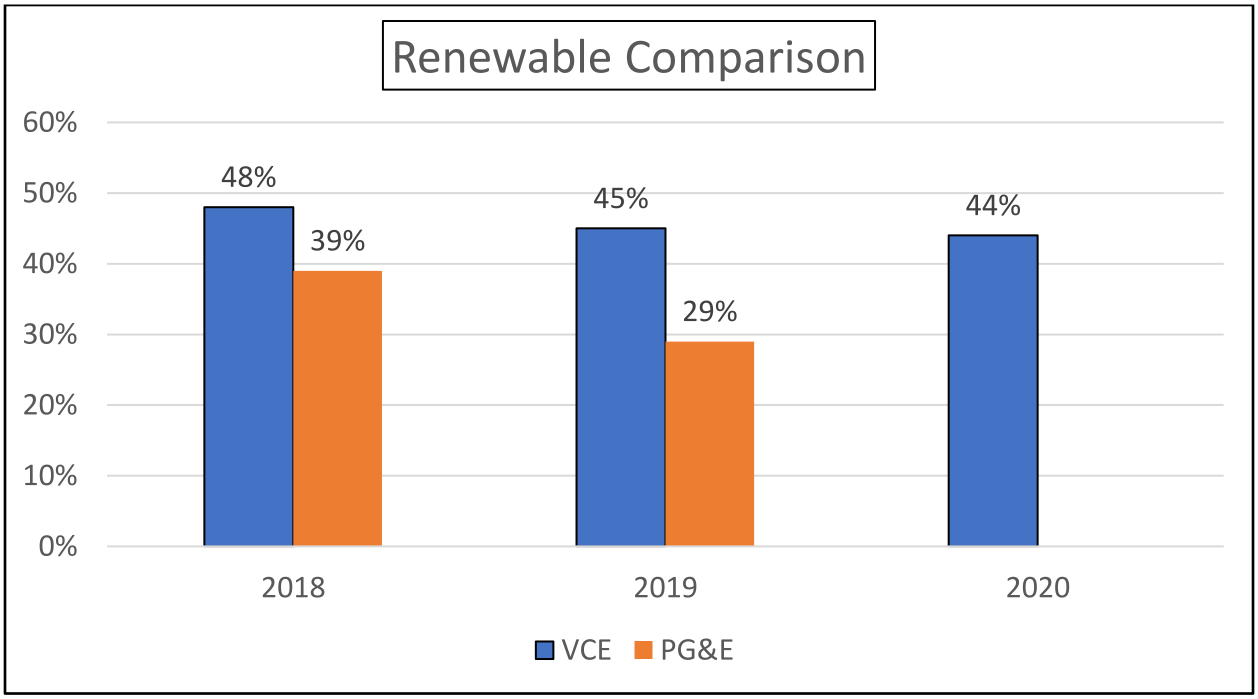
- Helps effectively manage budgeted revenues and costs during the transition from the pandemic and to long-term PPAs;
- In combination with reserves, it helps stabilizes customer rates; and
- Does not utilize VCE's current $7 million Revolving Line Of Credit with River City Bank.

ATTACHMENTS

1. Power Content Supplemental report
2. Operational Budget for Fiscal Year 2021-2022
3. Resolution

BACKGROUND AND DISCUSSION RELATED TO THE POWER PORTFOLIO
In June 2020, the VCE Board adopted policy adjustments to scale back VCE's near-term acquisition of renewable and GHG-free power content. This policy was adopted by the Board to address: (1) the objective of aligning VCE's short and long-term power procurement efforts, (2) the increasing/unpredictable Power Charge Indifference Adjustment (PCIA), and (3) volatility in Resource Adequacy (RA) power pricing which have created uncertainty for CCA programs across the State. The policy adjustments partially mitigated the negative financial impacts that an increasing and volatile PCIA and more costly RA market have on VCE. The policy adjustments placed VCE in a better position to maintain competitive rates and clean power content for its customers while meeting its baseline compliance obligations.

Chart 1 below is a comparison of renewable power content for both VCE and PG&E to provide a historical context of where VCE has been so that the Board can assess the past, current and future content (shown later in this report). Note: VCE's 2020 renewable content is preliminary and PG&E for 2020 is not yet available.



Fiscal Impact Considerations
The renewable and GHG free procurement policy adjustments adopted by the Board in June 2020 performed as expected, saving an estimated $2.25M in the current fiscal year (FY 2020-2021). The drivers of the need for this policy (listed above) have not diminished, therefore staff has incorporated the policy adjustment savings into the budget forecasts over the past year and in the draft FY 2021-2022 budget.

If the policy adjustments are not extended and VCE maintains its 42% RPS procurement approach for 2022, the power costs in the draft FY 2021-2022 budget will increase by approximately $1.5M; this is less than the savings from the current fiscal year since VCE's long-term PPAs will begin providing lower cost renewable energy in FY 2021-2022, displacing a portion of the higher cost short-term RECs that would otherwise be procured by VCE.

<u>Approved Power Content Policy Strategy Adjustments for 2021</u>

Board approval of the policy in June 2020 resulted in a 2021 power content target of 10% renewable, 10% large hydro for a combined 20% carbon free. Staff and SMUD have procured to these adopted targets for 2021. Table 1 shows the current outlook for 2021. Note: the totals of 11% for renewable and large hydro supply provide a buffer for variability in production.

Table 1 - 2021 RPS/GHG Free Power Outlook

VCEA Retail Load-		**719,098**	
Renewable Supply		**77,458**	**11%**
	Aquamarine Solar	23,028	
	Indian Valley	1,500	
	Putah Creek Energy Farm	930	
	Short Term RECs	52,000	
Large Hydro		**79,427**	**11%**
	Hydro Contract	29,427	
	PG&E Allocation Estimate	50,000	
System Power		**562,213**	**78%**

<u>Recommended Power Content Policy Strategy Adjustments for 2022</u>

If approved, the power content policy strategy adjustments for 2022 are projected to result in in a 2022 power content of approximately 20% renewable and 7% large hydro for a combined 27% carbon free as shown in Table 2.

Table 2 - Proposed 2022 RPS/GHG Free Power Outlook

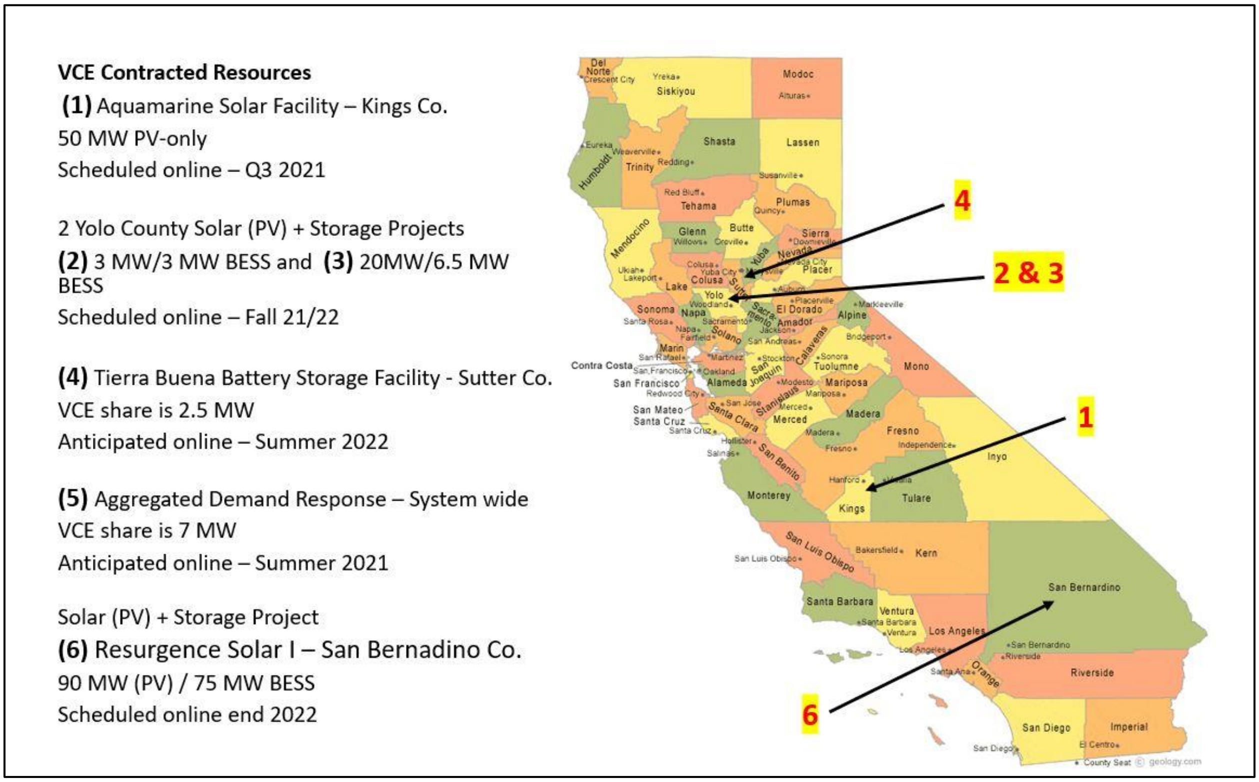
VCEA Retail Load		**728,826**	
Renewable Supply		**145,807**	**20%**
	Aquamarine Solar	131,991	
	Indian Valley	6,448	
	Putah Creek Energy Farm	6,956	
	Resurgence Solar I	412	
Large Hydro		**50,000**	**7%**
	PG&E Allocation Estimate	50,000	
System Power		**533,019**	**73%**

Note: over the period discussed in this report, VCE does not plan to contract for additional large hydro (GHG-free) other than the allocations received from PG&E (approx. 5-10%).

<u>Contracted Resources</u>

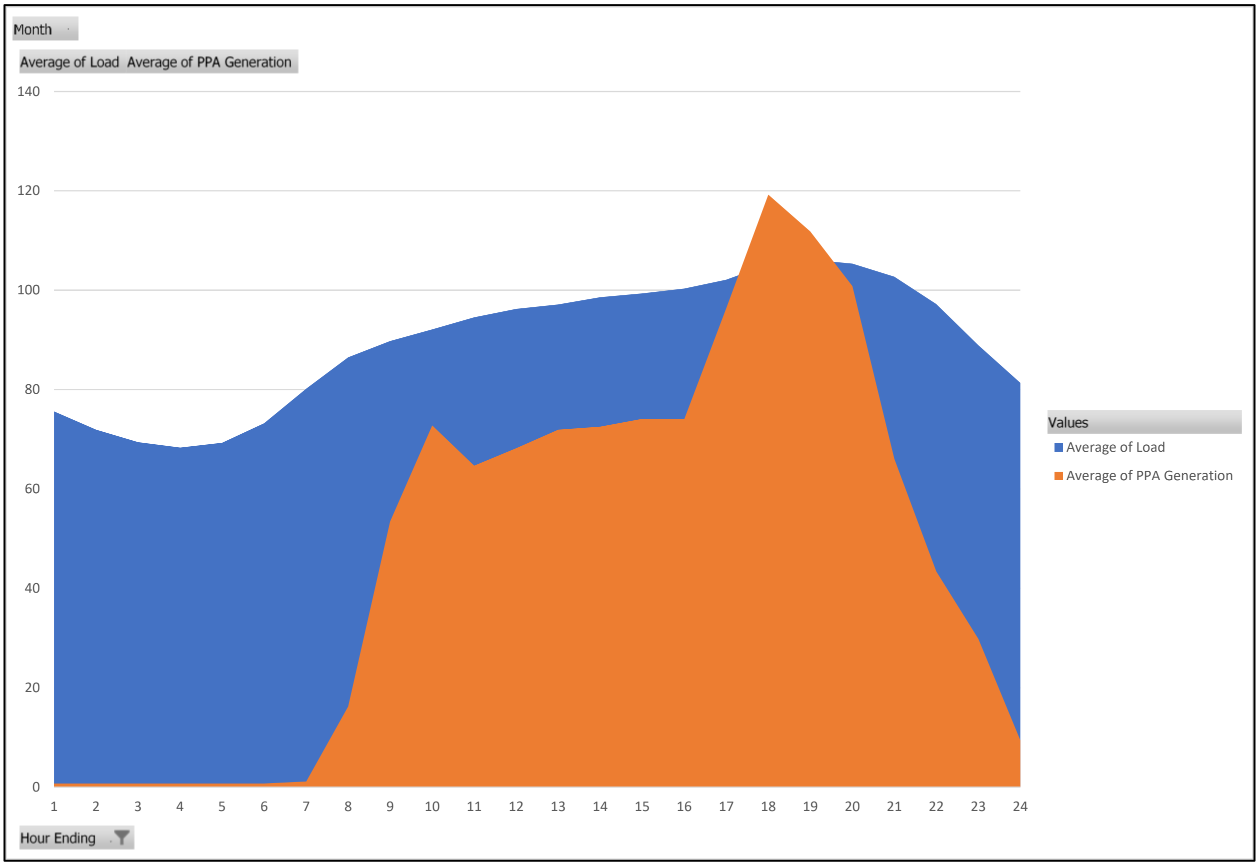
As the Board is aware, VCE has been active in negotiating long term PPAs and managing the exact date on which power begins to serve VCE's customers can fluctuate. VCE has entered into six agreements (four provide energy and RA capacity and two provide RA capacity only) and the online dates range from the 3rd quarter of 2021 through the end of 2022, totaling over 450,000 MWhs (approximately 60% of VCE's demand). The on-line timing of these projects is important since they factor into VCEs short-term procurement strategy. For reference, Figure 1 below shows general information on these projects and anticipated on-line dates.

Figure 1 – VCE Contracted Resources



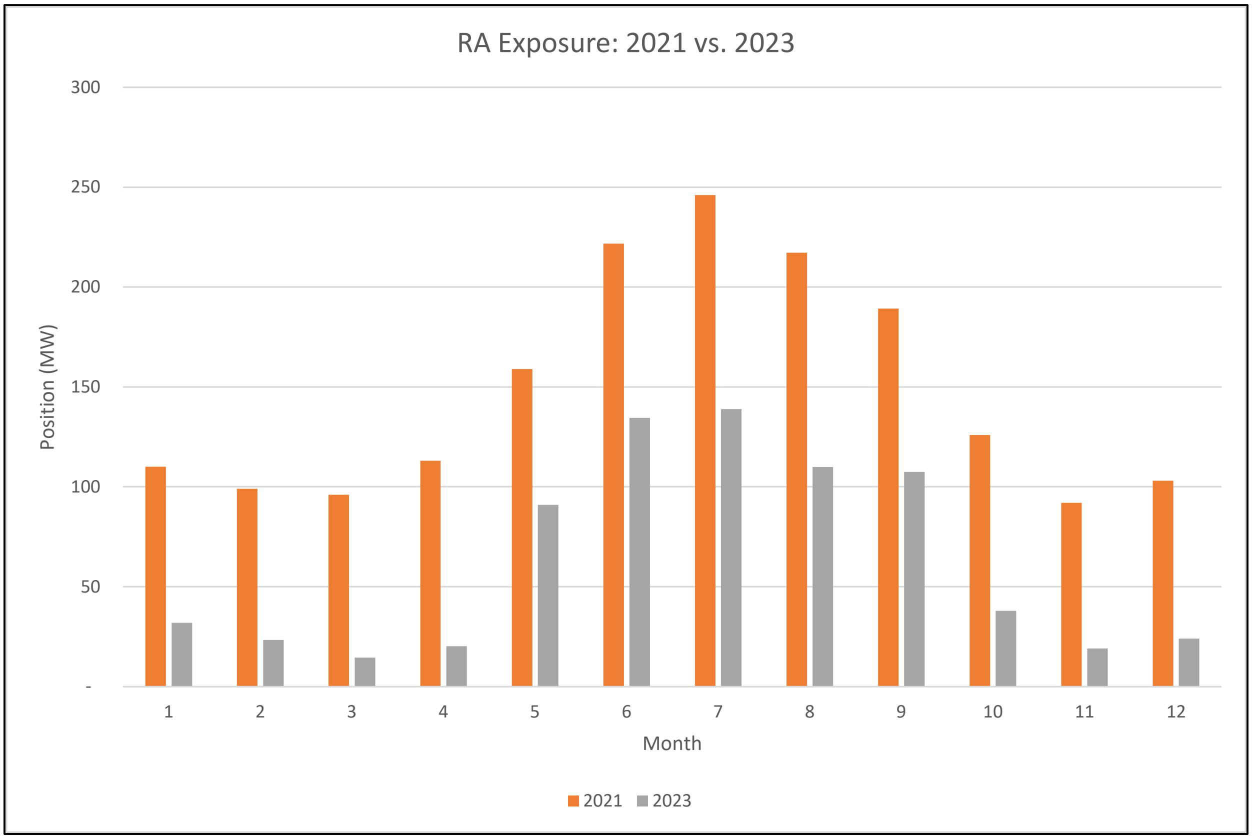
The future projects will bring price and volume (MWHs) stability. Since VCE was launched, 100% of the needed energy and capacity has been procured in the short-term market which is very typical of a newly formed CCA. The long-term agreements will reduce VCE's exposure to the market in both VCE's energy hedges and RA position. Chart 2 below illustrates VCE's average load shape as well as the anticipated output from the future PPAs that will meet this demand. Today VCE meets the demand with short term purchases and hedges against that shape. In the future, only the area not met with the PPAs will require purchases and hedges.

Chart 2 – Avg load shape and avg PPA generation



As mentioned in this report and prior reports to the Board, RA pricing has been volatile and at times difficult to procure. For 2021, VCE has procured volumes to meet the exposure shown below in Chart 3 (orange bars). Going -forward, VCE will only need to procure to the “grey” bars which is significantly less as a result of the PPAs coming on-line. Although there are still “short” positions in 2023, this will be roughly 50% of 2021. In addition, the amount procured through VCE’s PPAs is approximately 20% less than current pricing.

Chart 3 – RA exposure 2021 vs 2023



Power Content Policy Strategy – Alignment with RPS Compliance Requirements

All California Load Serving Entities (LSEs), including VCE, are required to meet minimum levels of renewable content in their respective portfolios. This Renewables Portfolio Standard (RPS) is measured as an average percentage over a 4-year compliance period. The current compliance period runs from 2021 through the end of 2024 and requires an average of 40% renewable content. Because VCE's larger long-term PPAs will come on-line half-way through the current compliance period, it allows for procurement of a lower amount of relatively expensive short-term renewable resources (RECs) in the first half of the compliance period.

In approving the power content policy strategy last June, VCE opted to reduce the amount of short-term RECs purchased in 2021 which resulted in the cost savings outlined earlier in this report. If this fiscal mitigation strategy were to be adopted for 2022, this would require VCE to be well above the state renewable standard in years 2023 and 2024 in order to meet the targets for this compliance period ('21-'24). Chart 4 below illustrates implementation of the strategy combined with VCEs signed long-term PPA's coming on-line over this period. This is the 42% average strategy with approximately 20% renewable in 2022 and approximately 70% in years 2023 and 2024.

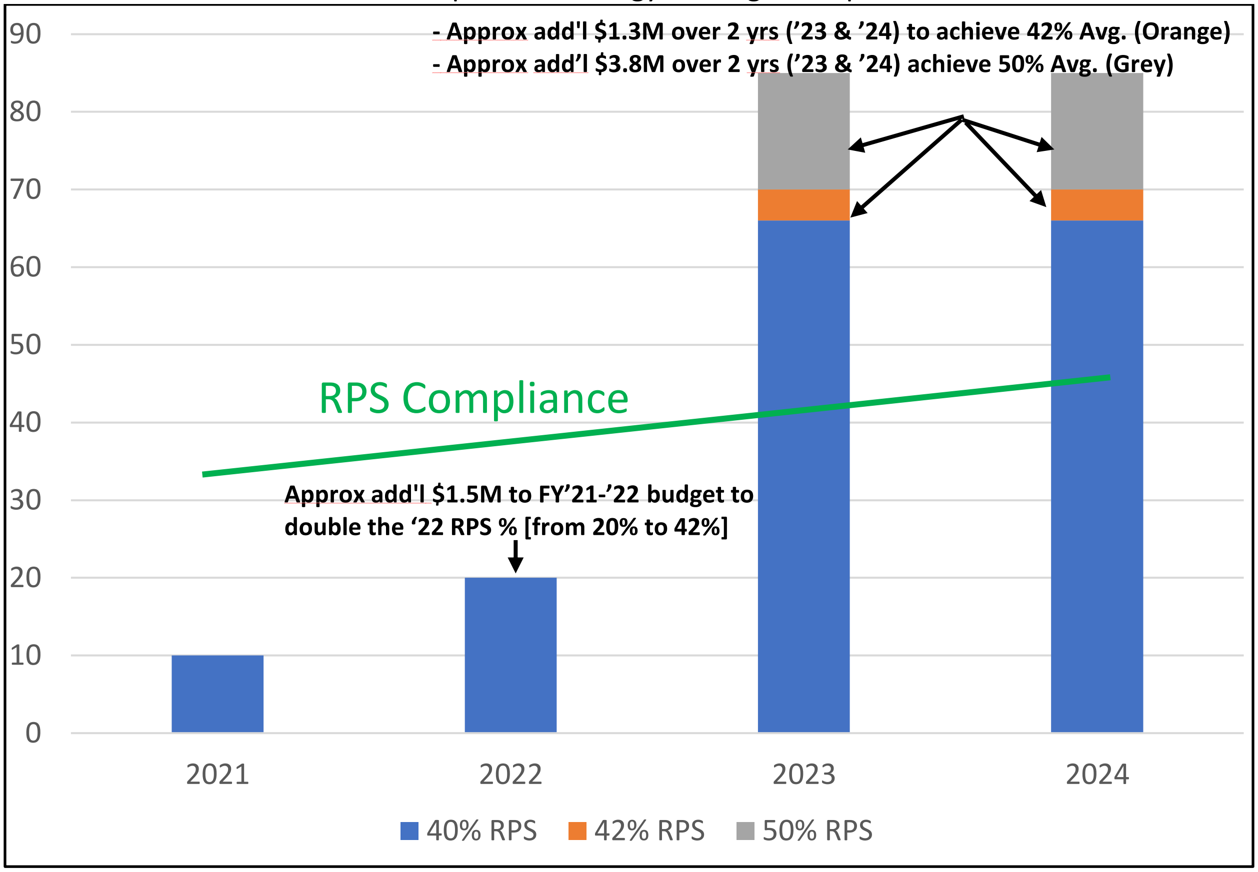
Policy Options

Under the strategy outlined above and shown in Chart 4, VCE would average 42% renewable content over the 21'-24' compliance period. If the Board opted to increase its renewable content target to 50%, VCE would exceed the State requirements by 10% with costs rising approximately $3.86M over the four-year compliance period.

ATTACHMENT 1 – Power Content Supplemental Report

As noted earlier in this report, staff is recommending a continuation of the near-term policy adopted by the Board last year for a lower carbon free content percentage in VCE's portfolio in 2022 while VCE's long-term renewable power purchase agreements (PPAs) come on-line over the next several years. Projected budget impacts to achieve an average of 42% and 50% over the compliance period are shown in Chart 4 below.

Chart 4 – VCE 2021-2024 RPS Compliance Strategy –% Avg RPS Options



Community Advisory Committee (CAC) Feedback

At the May 27, 2021 CAC meeting, staff presented the above scenarios to the CAC. A robust discussion on power portfolio content and the corresponding budgetary considerations took place and staff received valuable feedback. The below Motion was brought forward and unanimously approved by the CAC:

> *The CAC after a sobering discussion, reluctantly recommends due to fiscal prudency, that the Board follow the recommendation of Staff to continue the near-term policy of lower renewable energy credit (REC) and carbon free content purchases in 2022 with the following addition: For the 2022 year the initial RPS target is a minimum of 20% and quarterly updates are given to both the Board and CAC on the status of long-term contracts, RPS progress and budget numbers with the intent of increasing this target up to 42% if at all feasible."*

Staff is in support of the above CAC position.

VALLEY CLEAN ENERGY - OPERATING BUDGET
FISCAL YEAR 2021-2022

Description	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	TOTAL FY 2022
Electric Revenue	6,293,035	5,406,330	3,567,185	2,901,418	3,325,344	3,244,037	2,721,456	2,705,106	2,541,641	4,120,030	7,134,973	7,227,015	$ 51,187,571
Interest Revenues	4,700	4,700	4,700	4,700	4,700	4,700	4,700	4,700	4,700	4,700	4,700	4,700	$ 56,400
Purchased Power	6,473,870	5,690,932	4,643,717	3,697,309	3,317,457	3,620,218	4,334,060	3,785,031	3,867,086	3,734,564	4,534,747	5,511,198	$ 53,210,189
Labor & Benefits	97,567	97,567	97,567	95,625	95,625	95,625	96,677	96,677	97,640	97,640	98,010	98,010	$ 1,164,231
Salaries & Wages/Benefits	81,457	81,457	81,457	81,457	81,457	81,457	82,186	82,186	83,061	83,061	83,397	83,397	$ 986,027
Contract Labor	4,855	4,855	4,855	2,913	2,913	2,913	2,913	2,913	2,913	2,913	2,913	2,913	$ 40,778
Human Resources & Payroll	11,256	11,256	11,256	11,256	11,256	11,256	11,579	11,579	11,666	11,666	11,700	11,700	$ 137,427
Office Supplies & Other Expenses	15,704	15,704	15,704	15,704	15,704	15,704	15,704	15,704	15,704	15,704	15,704	20,180	$ 192,923
Technology Costs	2,836	2,836	2,836	2,836	2,836	2,836	2,836	2,836	2,836	2,836	2,836	7,312	$ 38,509
Office Supplies	192	192	192	192	192	192	192	192	192	192	192	192	$ 2,304
Travel	508	508	508	508	508	508	508	508	508	508	508	508	$ 6,096
CalCCA Dues	10,351	10,351	10,351	10,351	10,351	10,351	10,351	10,351	10,351	10,351	10,351	10,351	$ 124,214
CC Power	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	$ 20,000
Memberships	150	150	150	150	150	150	150	150	150	150	150	150	$ 1,800
Contractual Services	213,761	209,617	222,560	278,889	226,529	217,640	206,591	203,396	206,472	206,170	198,761	200,262	$ 2,590,650
Other Contract Services	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	$ 24,000
Don Dame	833	833	833	833	833	833	833	833	833	833	833	833	$ 10,000
SMUD - Credit Support	36,833	46,798	59,658	68,647	63,494	54,546	43,459	40,226	43,264	42,925	35,478	36,941	$ 572,269
SMUD - Wholesale Energy Services	48,831	48,831	48,831	48,831	48,831	48,831	48,831	48,831	48,831	48,831	48,831	48,831	$ 585,972
SMUD - Call Center	65,440	65,515	65,597	65,659	65,731	65,790	65,827	65,865	65,903	65,941	65,979	66,017	$ 789,264
SMUD - Operating Services	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	$ 60,000
Commercial Legal Support	-	-	-	-	-	-	-	-	-	-	-	-	$ -
Legal General Counsel	12,608	12,608	12,608	12,608	12,608	12,608	12,608	12,608	12,608	12,608	12,608	12,608	$ 151,290
Regulatory Counsel	16,222	16,222	16,222	16,222	16,222	16,222	16,222	16,222	16,222	16,222	16,222	16,222	$ 194,660
Joint CCA Regulatory counsel	2,627	2,627	2,627	2,627	2,627	2,627	2,627	2,627	2,627	2,627	2,627	2,627	$ 31,519
Legislative - (Lobbiest)	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	$ 60,000
Accounting Services	2,101	2,101	2,101	2,101	2,101	2,101	2,101	2,101	2,101	2,101	2,101	2,101	$ 25,215
Financial Consultant	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	$ 25,000
Audit Fees	14,183	-	-	47,278	-	-	-	-	-	-	-	-	$ 61,462
Marketing	19,473	19,498	19,509	19,521	19,533	19,545	20,165	20,367	20,569	20,770	20,972	21,174	$ 241,097
Marketing Collateral	18,961	18,972	18,984	18,996	19,008	19,019	19,640	19,842	20,044	20,245	20,447	20,649	$ 234,806
Community Engagement Activities & Sponsorships	513	525	525	525	525	525	525	525	525	525	525	525	$ 6,291
Programs	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250	$ 135,000
Program Costs	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250	$ 135,000
Rents & Leases	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010	$ 24,120
Hunt Boyer Mansion	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010	$ 24,120
Other A&G	33,993	34,005	34,018	34,030	34,043	34,056	30,252	30,469	30,686	30,903	31,120	31,337	$ 388,911
Development - New Members	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	$ 24,000
Strategic Plan Implementation	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	$ 75,000
PG&E Data Fees	24,993	25,006	25,019	25,031	25,044	25,056	21,252	21,469	21,687	21,903	22,121	22,338	$ 280,919
Insurance	644	644	644	644	644	644	644	644	644	644	644	644	$ 7,731
Banking Fees	105	105	105	105	105	105	105	105	105	105	105	105	$ 1,261
Miscellaneous Operating Expenses	537	537	537	537	537	537	537	537	537	537	537	548	$ 6,453
Contingency	10,907	10,783	11,172	12,804	11,233	10,967	10,553	10,464	10,591	10,589	10,384	10,570	$ 131,019
TOTAL OPERATING EXPENSES	6,879,073	6,091,903	5,058,044	4,167,680	3,733,921	4,027,552	4,727,799	4,175,904	4,262,545	4,130,137	4,923,496	5,906,538	$ 58,084,594
Interest on RCB loan	4,018	4,051	3,950	3,724	3,747	3,528	3,443	3,019	3,241	3,038	3,038	2,842	$ 41,640
NET INCOME	(585,356)	(684,924)	(1,490,109)	(1,265,286)	(407,625)	(782,343)	(2,005,086)	(1,469,117)	(1,719,445)	(8,445)	2,213,139	1,322,335	$ (6,882,263)

RESOLUTION NO. 2021-____

RESOLUTION OF THE BOARD OF DIRECTORS OF THE VALLEY CLEAN ENERGY ALLIANCE ADOPTING THE OPERATING BUDGET FOR FISCAL YEAR 2021-2022

WHEREAS, the VCE Operating Budget Option 1 for Fiscal year 2021-2022 includes Operating Revenues totaling $51.2M and purchased power and other operating expenses, totaling $58.1M;

NOW, THEREFORE, the Board of Directors of the Valley Clean Energy Alliance hereby adopts the Operating Budget Option 1 for Fiscal Year 2021-2022.

PASSED, APPROVED AND ADOPTED, at a regular meeting of the Valley Clean Energy Alliance, held on the ____ day of _______________, 2021, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

____
Dan Carson, VCE Chair

____
Alisa M. Lembke, VCE Board Secretary