VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 16

TO:	Board of Directors
FROM:	Edward Burnham, Director of Finance & Internal Operations Mitch Sears, Executive Officer
SUBJECT:	2023 Operating Budget Update & 2024 Preliminary Budget
DATE:	October 12, 2023

RECOMMENDATION
Informational – no action requested.

OVERVIEW
This update is the first of three discussions leading to Board consideration of VCE's 2024 budget. The purpose of this staff report is to: (1) provide an update on the 2023 Operating Budget, (2) provide the 2024 Preliminary Operating Budget Update and Multi-year Outlook (2024 through 2027).

BACKGROUND
In December 2022, the Board approved the 2023 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 2023.

Key factors in the 2023 Operating Budget included the following:

- CARE / FERA – Incorporated a 2.5% rate credit
- Power Cost Contingencies – increased from 2.5% in 2022 to 5% in 2023 ($3.4M)
- Financial Reserves. Incorporated a 2023 target of 180 days for operating cash
- PG&E Rate Adjustments – 3% increase – Approximately $2M in revenue
- PCIA. PCIA: 88% reduction (net zero charge) – Approximately +$17M in net revenue.
- Long-term power contracts (PPAs). When VCE's two largest PPA's begin full deliveries in 2023: ~60% of VCE's load served, growing to 80%+ by 2024

Staff provided a mid-year financials update in June 2023 to track/report actual 2023 Operating Budget results. Customer load demand has remained lower than forecasted resulting in reduced revenues throughout 2023.

ANALYSIS
This report updates information previously provided to the Board during the June 2023 Mid-year Financials Update. The section below provides updates on: (1) 2023 Operating Budget and key factors influencing results and (2) 2024 Preliminary Operating Budget Update and Multi-year Outlook (2024 through 2027).

1. 2023 Operating Budget Update

In December 2022, the Board approved the 2023 Operating Budget with $109M of operating revenues and $78M of operating expenses for a net income of $31M. As detailed in the analysis section below, the net financial results are due primarily to a significantly lower load due to cooler weather and higher snowfall/rainfall than forecast. As presented to the Board in June, VCE experienced a ~$4M decline in net income compared to the Budget through April 2023. This resulted in a revised net estimated income of $27.8M for 2023. Based on the most recent financials that incorporate results through August 2023 and updated forecasts, the forecast has been revised downward by an additional ~$10M. The 2023 budget is estimated to have a total net income of $17M, $14M less than forecast in the adopted 2023 Budget. As shown in Table 1 below:

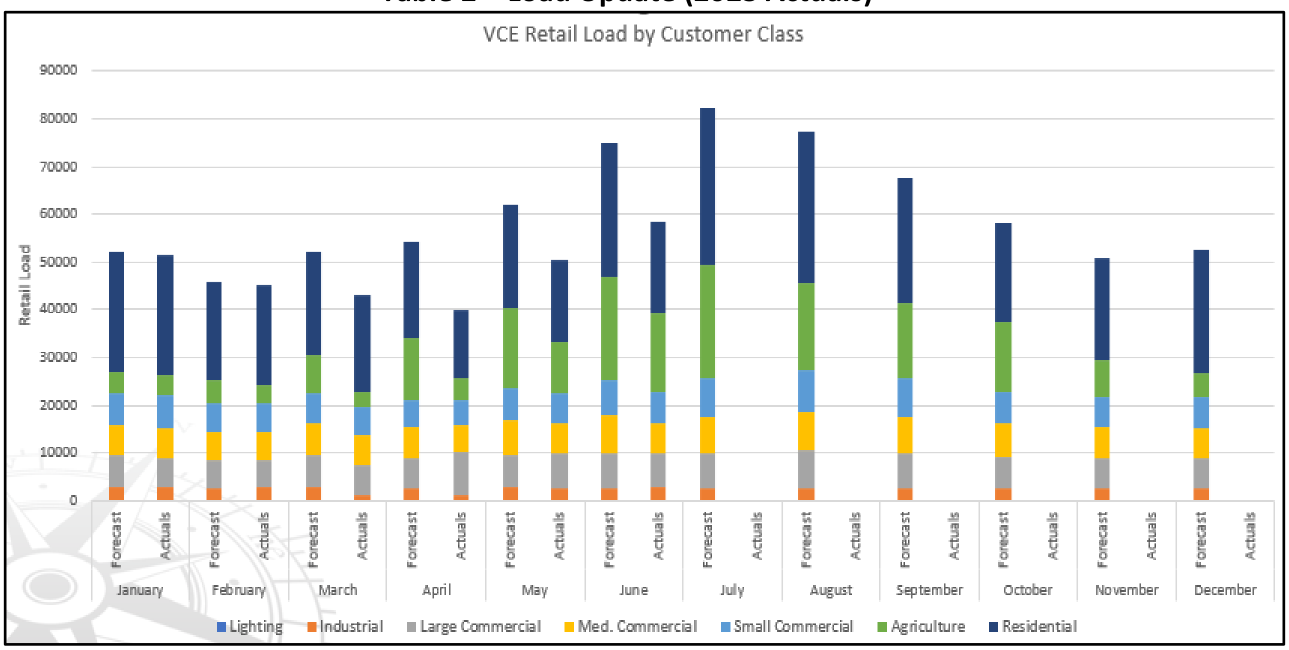
Table 1 - 2023 Proforma Budget (Unaudited)

Description	APPROVED 2023 BUDGET	2023 Proforma (8 Month Actuals + 4 Month forecast)	Variance
Revenue	$ 109,500	$ 98,800	$ (10,700)
Power Cost	$ 71,650	$ 75,200	$ (3,550)
Other Expenses	$ 6,430	$ 6,600	$ (170)
Net Income	$ 31,420	$ 17,000	$ (14,420)

Key factors influencing the 2023 Operating Budget results include:

- Load Forecast. As shown in Table 2, in the first half of 2023 energy use in most sectors have been lower than forecasted. For example, two large sectors showed lower than forecast energy use: (1) residential and (2) commercial use related to agriculture due to wet and long winter, lower overall summer temperatures, and reduced heat events.

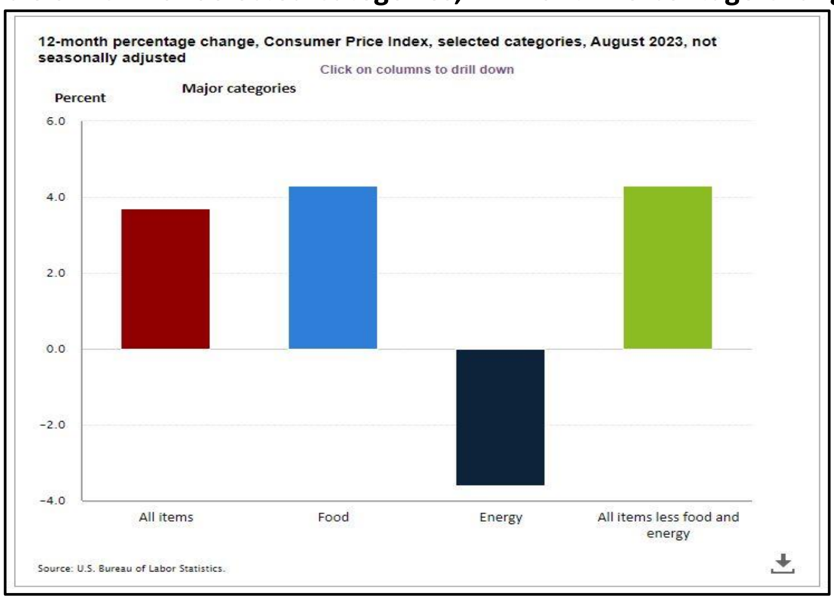
Table 2 – Load Update (2023 Actuals)



- Budgeted revenues. The 2023 Budget incorporated revenues associated with a normalized load. These revenues have not fully materialized in the actuals for 2023 due to the lower overall load as described above resulting in lower revenues throughout 2023.

- Power Costs. Average forward market power prices have decreased from the high 2022/23 winter costs due to an abnormally wet winter and increased hydro production. In September 2023, the CPUC authorized the use of additional natural gas storage to help with future winter demand. This has decreased total long-term energy hedging prices and day-ahead purchase prices in the recent months of 2023. Power prices are expected to remain at near current prices through 2024. Table 3 below helps illustrate the relative impact to energy sector prices compared 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 matching PG&E's rates that incorporated a 2.5% rate credit for CARE/FERA and Medical Baseline customers and PCIA forecasts. VCE's long-term renewable PPA contracts are forecasted 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.

Table 4 – 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	87,500	98,000	101,000	105,000
Power Cost	75,130	75,200	68,600	62,900	68,500	77,500
Other Expenses	4,469	6,600	6,800	7,100	7,500	7,900
Net Income	5,724	17,000	12,100	28,000	25,000	19,600

* The Multi-Year Forecast is based on analysis by CalCCA, MRW, and TEA, discounted based on power and PCIA volatility in previous years.

2024 Preliminary Operating Budget Key Factors:

- 2024 Customer Rates (VCE & PG&E Comparison) VCE will 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 2024 PG&E rates, VCE expects:

  - PCIA: 2024 PCIA to have a net zero change due to decreased energy cost recovery offset by increased recovery of resource adequacy costs and renewable energy credits.
  - PG&E Bundled rates (PCIA & Generation): 4% decrease – Results in approximately $4M reduced revenue for 2024

As noted above, lower power market prices are forecasted to continue into 2024 which will create upward pressure on the PCIA. Although power prices are lower, increased power costs for renewable energy credits and resource adequacy should off-set the lower energy costs. Currently, based on analysis by CalCCA, staff anticipate a near-zero impact on PCIA rates for 2024.

- Resource Adequacy (RA). Rising RA costs for calendar year 2024 will have negative fiscal impacts on VCE. TEA is currently filling VCE's remaining open RA positions for 2024 based on availability. VCE's two largest PPA's deliver approximately 60% of VCE's load lowering the cost of energy and RA. This amount will grow to 80%+ in 2024. This trend toward more stable power costs is shown in the updated multi-year forecast table below. Although there are significant increases in RA from VCE's PPAs, market cost increases have outpaced PPA savings for 2024. Recent updated filings from the CPUC for 2025 and 2026 have reduced VCE's RA requirements resulting in a long-term reduction to VCE's RA costs.

Table 5 – Resource Adequacy Costs

	(8 Month Actuals + 4 Month Budget)	Preliminary Forecast*			
	2023	2024	2025	2026	2027
Resource Adequacy (in thousands)	11,940	12,500	3,700	3,900	4,095

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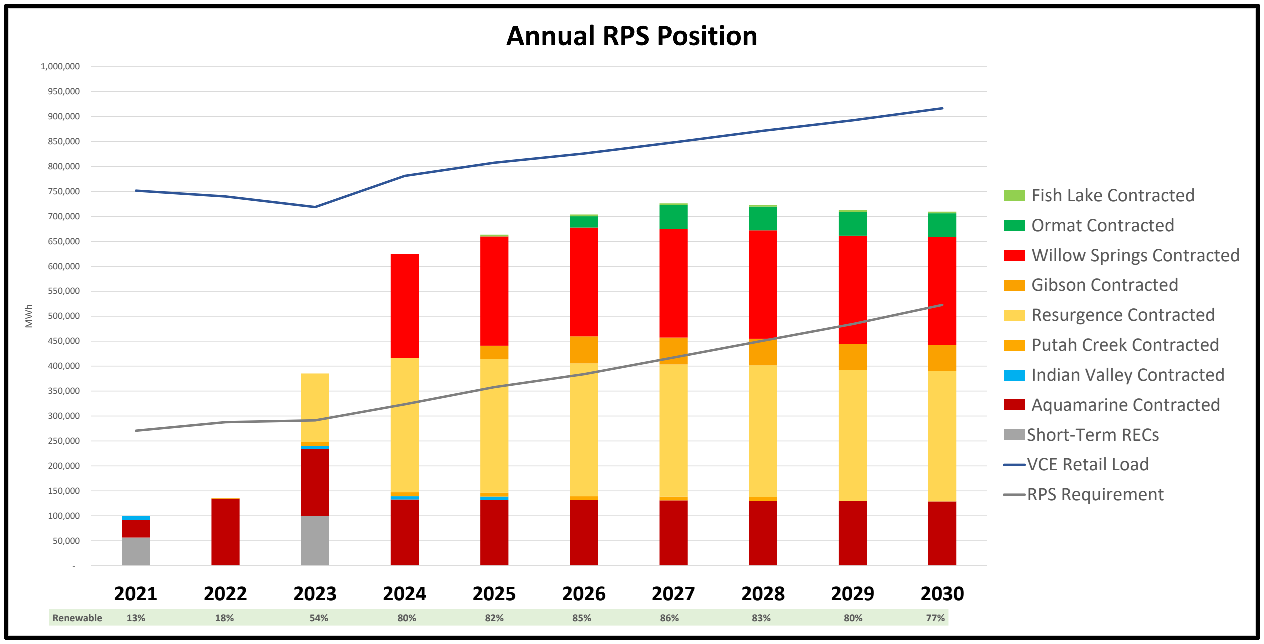
Table 6 – VCE Annual RPS Position



- 2024 Programs Costs – As VCE stabilizes its net income, VCE has been able to make significant contributions in support of customer programs. VCE anticipates reaching $1M in program contributions in 2024 from non-reimbursable programs and $4M including reimbursable programs (i.e. grants).

Additional Considerations – Preliminary 2024 Budget Other operating expenses (not including power costs) are nearly flat compared to the 2023 budget, reflecting only a 3% increase – lower than 2023 CPI at ~5%. The primary factors of increased costs in this category of expenses include salaries, programs, financing costs, and other administrative costs.

Multi-Year Forecast (2024-2027)

Table 4 above summarizes the preliminary 2024 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 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. VCE expects the updated forecasts from PG&E in October to complete the analysis for extending the rate credit program to additional customers while reaching the investment grade credit rating by the end of 2028 as established in VCE's updated 2021-2025 Strategic Plan.

CONCLUSION

Staff will update the 2024 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. Though the table above indicates continued profitability and building of reserves for our initial credit rating, staff notes that there continues to be likely market volatility that may change or delay expected results. VCE has adopted the Rate Adjustment System to assist in normalizing any customer rates for favorable and unfavorable results.