VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 16

TO: Board of Directors

FROM: Mitch Sears, Interim General Manager
Edward Burnham, Director of Finance and Operations

SUBJECT: Discussion on the possible change in the accounting year

DATE: October 14, 2021

RECOMMENDATION
Provide feedback and direction on the possible change in accounting year from the current Fiscal Year ending on June 30 to a Calendar Year ending on December 31.

BACKGROUND
Since its formation, Valley Clean Energy has operated with a fiscal accounting year ending on June 30, aligned with the Member Jurisdictions' Fiscal Year. Over the past two years, VCE has experienced high volatility in the energy sector and overall economy, primarily driven by the uncertainty during the COVID-19 pandemic and possible long-term recession. VCE has experienced other financial impacts compared to the adopted budgets driven by forces outside VCE's direct control, including the forward market pricing for energy costs, PG&E generation rate adjustments, and power charge indifference adjustments (PCIA). VCE should consider the optimal timeline of financial milestones to reduce the risks of operating budget performance.

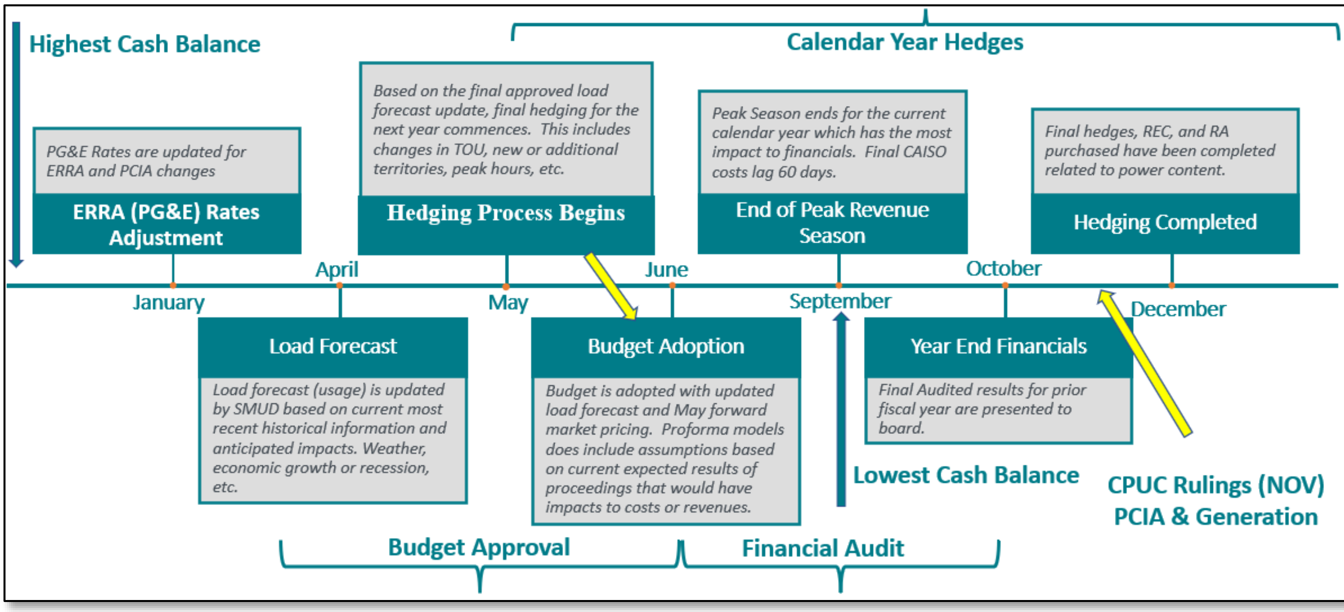
ANALYSIS
As described above, VCE has maintained a Fiscal Year ending June 30. Staff outlines below a comparison timeline of the current Fiscal Year ending June 30 and a Calendar Year ending on December 31. The Accounting Year options below are based on a timeline based on significant financial milestones that are incorporated into the budget and audit processes and impact both costs and revenues.

As part of this analysis, VCE did find that the accounting years were not standardized throughout California (including CCA's) and had no regulatory requirements.

<u>Option 1 – Fiscal Year Ending June 30:</u>Option 1 continues with the current accounting year based on the Fiscal Year ending June 30. The Fiscal Year option includes no changes, modifications, and additional audits. The VCE Fiscal Year is aligned with VCE Member Fiscal Year.
Historically, the Fiscal Year timeline has experienced risks associated with the closeness of VCE's load update, completion of hedging for the adopted budget, and separates the peak energy season

(summer) into two Fiscal Years. A Fiscal Year budget incorporates additional assumptions for future regulatory decisions impacting our most significant inputs for generation rate and PCIA rate adjustments increasing the risk of operating budget performance.

FISCAL YEAR TIMELINE OF FINANCIAL MILESTONES



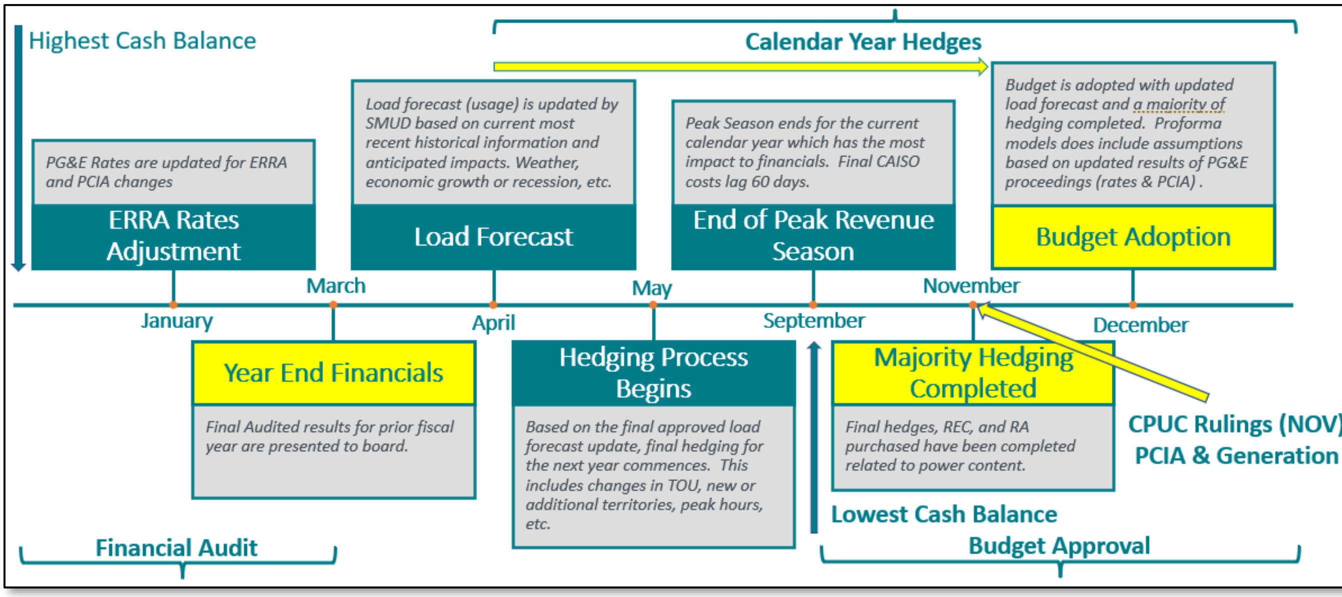
Option 2 – Calendar Year ending December 31 (preferred): Option 2 would transition VCE to a Calendar Year ending on December 31. VCE adoption of a Calendar Year could be beneficial by allowing additional time for internal decisions and reviewing the external decisions that impact our operating budget performance, as displayed in the updated timeline below.

Internal and external advantages are as follows:

- Power Contracts are based on CY (Internal)
- Regulatory Compliance Reporting is based on CY (External)
- Peak Revenue Season (May-September) would not be split (External)
- Increased fixed Power Costs by hedging completion (Both)
- Accuracy of Customer Rates (PG&E filings and VCE costs – External)
- Additional Review Time for Load Update - (Internal)
- Reduced Risks of uncontrollable or variable financial impacts (Internal)

The long-term impact of a Calendar Year will also support stabilizing the rate-setting process (Companion Board Item). The implementation process would require VCE to amending the current Fiscal Year 2022 budget to end as of December 31, 2021, the board adoption of a Calendar Year budget ending December 31, 2022, and an audit to be completed the first quarter of 2022. VCE could delay the transition for one year.

CALENDAR YEAR TIMELINE OF FINANCIAL MILESTONES



*Note: Highlighted headings in the time-line indicate shifts in key budget milestones compared to the existing fiscal year calendar (i.e. July to June)

CONCLUSION

As described above, the transition of our accounting year to a Calendar Year ending December 31 compared to the Fiscal Year ending June 30 reduces the risks of operational budget performance. Staff is seeking direction from the Board on potential implementation and timing for a possible change in accounting year from the current Fiscal Year ending on June 30 to a Calendar Year ending on December 31. If the Board provides direction to make the change, staff believes it is feasible to bring back a calendar year based budget structure and draft 2022 budget for Board consideration in December.