

# VALLEY CLEAN ENERGY ALLIANCE

## Staff Report – Item 16

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**TO:** Board of Directors

**FROM:** Mitch Sears, Interim General Manager  
George Vaughn, Director of Finance & Internal Operations

**SUBJECT:** Update on Load and Financial Forecast

**DATE:** November 12, 2020

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### **PURPOSE**

Provide an updated outlook to the Board on load, revenue and cash flow. This item is informational - No decision is requested.

### **OVERVIEW**

In May staff presented a modified forecast for the next several years due to COVID and the anticipated recessionary period associated with the pandemic. As communicated in May, staff is returning to the Board with an updated set of forecasts based on actuals. This report presents those updated forecasts and specifically addresses two topics related to the fiscal outlook for VCE: (1) updated electricity demand forecast for COVID/recessionary period and beyond (calendar year 2020 to 2022); and (2) updated high-level look at the profitability and cash outlooks for fiscal years ending June 30, 2021 and June 30, 2022.

This report also provides information to assist the Board in a related agenda item of considering how to allocate net margin between cash reserves, dividends, and local program reserves (Agenda Item 17).

### **BACKGROUND AND ANALYSIS**

#### **Section 1A. Load Forecast Presented in May 2020**

At the May 14 Board Meeting staff, assisted by SMUD, presented various scenarios showing forecast impacts resulting from the COVID-19 global pandemic, shelter-in-place orders to protect public health, and the predicted economic recession.

Given the degree of uncertainty in May, VCE developed three load scenarios to analyze potential budgetary impacts: (1) best case, (2) most likely case, and (3) worst-case. The FY 2020-21 Operating Budget was based on the most likely load scenario.

Brief descriptions of the best-case, most likely, and worst-case load scenarios presented in May are described below and summarized in Table 1 for reference.

### May 2020 Scenario 1 Forecast - Best Case

This scenario assumed a consistent load recovery rate between June 2020 and the end of 2021. The recovery timeline acknowledged that reopening would be phased, and we will not reach a complete “back to normal” until a vaccine or therapeutics are widely available. This scenario assumed that once all restrictions are lifted, there is no recessionary impact to VCE’s load.

### May 2020 Scenario 2 Forecast - Most Likely

This scenario assumed a phased reopening, with phases moving more slowly and/or a lesser degree of shelter-in-place being implemented as hotspots emerge. It showed commercial loads stagnating 2-6% below normal between 2021-2022 due to an economic recession, with the recession impact continuing to a lesser degree through 2024. This scenario also included a decline in residential load due to extended periods of unoccupied housing stock during the recession.

Note: Scenario 2 was adopted by the Board and used to prepare the FY 2020/21 Budget.

### May 2020 Scenario 3 Forecast - Worst Case

This scenario assumed an extended recession impact to all commercial classes with no load recovery in 2020 due to a second complete shutdown in fall and/or extended public concern driving businesses not to reopen regardless of policy. This scenario incorporated recessionary impacts to both ag and industrial load as well as earlier/deeper drops in residential load.

**Table 1 – Scenario Comparison, Impact on Power Costs & Revenue v. Base Case**

		Best Case*	Most Likely*	Worst Case
2020	Retail Load	-3.8%	-3.8%	-8.0%
	Power Costs	-1.9%	-1.9%	-4.0%
	Revenue	-4.2%	-4.2%	-8.3%
2021	Retail Load	-2.3%	-3.6%	-8.7%
	Power Costs	-1.6%	-2.7%	-6.0%
	Revenue	-2.3%	-3.7%	-8.5%

\*Forecast retail load, power cost, and revenue match for 2020 in the Best and Most likely scenarios due to assumed drop related to the COVID stay at home orders being gradually lifted over 2020.

At the time of the May Board Meeting there was widespread recognition of the remaining uncertainty. Information was changing daily, which resulted in some assumptions being outdated quickly. As communicated to the Board at the May meeting and during the FY budget adoption in June, VCE and SMUD have continued to closely monitor and adjust the load forecast as warranted by additional data.

### **Section 1B. October 2020 Load Forecast Update**

In late October, SMUD updated the 2020-2022 load forecast for VCE. This update considered a number of factors, many of which were not available in May, including:

- Original, weather normalized, pre-COVID load forecast produced by the SMUD load forecasting department in 1<sup>st</sup> quarter of 2020

- January through mid-August actual load data
- SMUD estimation of weather versus COVID shutdown load impact
- Reforecast of COVID shutdown/recessionary impact to future load
- Consideration of National Oceanic and Atmospheric Administration (NOAA) forecast of a warm California winter

In assessing load to date in 2020, the estimated impact for April to September 2020 is shown below:

	Total Impact	COVID Shutdown	Weather
Residential	12%	4%	8%
Small Commercial	-13%	-16%	3%
Medium Commercial	-11%	-13%	2%
Large Commercial	-7%	-9%	2%

To summarize the findings since May:

- Weather has had significant impacts on the forecast, offsetting the COVID reductions due to the unusually hot summer.
- The updated 2020 load forecast is 2.5% higher than the original pre-COVID baseline for 2020; in May this was a 3.8% estimated load reduction. The difference is a 6.3% improvement from May to October estimates.
- The updated 2021 load forecast is 0.8% lower than the original pre-COVID baseline for 2021; in May this was a 3.6% estimated load reduction. The difference is a 2.8% improvement from May to October estimates.
- The forecast residential load increase offsets almost all of the commercial load reductions.

The overall financial impact of the increased load estimate has been relatively minor. As revenue has increased, so has power cost. For the two years of FY2021 and FY2022, revenue has increased \$5.3 million while power cost is increasing \$5.9 million, for a two-year reduction in net income of \$0.6 million.

## **Section 2. P&L and Cash Outlook**

Overall, the FY2021 and FY2022 P&L and cash outlook has not changed significantly since the Board approved the budget in June 2020. VCE still anticipates the following dynamics, which were also present when the budget was approved:

- Significant operating losses in both FY2021 and FY2022
- Power costs close to, or exceeding, revenue – making it impossible to cover operating costs without experiencing negative net income
- Significant revenue erosion from PCIA both years
- Significant power cost increase due largely to increased Resource Adequacy (RA) costs
- Cash reserves being utilized to stabilize customer rates until it nears a zero balance by the end of FY2022 (these numbers do not reflect any borrowing from the line of credit)

The expectation is that various regulatory, legislative or market factors will lead to a normalization of PCIA and power costs in 2023 and beyond, but margins will be very low or negative until that occurs. Some of these potentially helpful interventions may include:

- PCIA costs normalizing due to regulatory/legislative decisions
- Reduced power costs as VCE long-term power purchase agreements (PPA's) start coming on-line
- Change in market factors, such as Diablo Canyon units coming off the books for PG&E
- Favorable regulatory decisions

For purposes of strategic cash flow decisions, staff believes that VCE should not rely on positive outcomes from these interventions for the next several years and that the organization should make financial decisions through a lens of prudence.

The table below summarizes the May forecast and October forecast:

	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>
<b>May 2020 Forecast</b>			
Revenue	\$ 55,249	\$ 49,467	\$ 49,400
Power Cost	\$ 41,538	\$ 47,695	\$ 50,335
Other Expenses	\$ 4,346	\$ 4,611	\$ 4,992
Net Income	\$ 9,365	\$ (2,839)	\$ (5,927)
<b>Oct 2020 Forecast</b>			
Revenue	\$ 55,249	\$ 53,038	\$ 51,159
Power Cost	\$ 41,538	\$ 50,630	\$ 53,288
Other Expenses	\$ 4,346	\$ 4,671	\$ 4,990
Net Income	\$ 9,365	\$ (2,263)	\$ (7,119)
<b>Difference</b>			
Revenue	\$ -	\$ 3,571	\$ 1,759
Power Cost	\$ -	\$ 2,935	\$ 2,953
Other Expenses	\$ -	\$ 60	\$ (2)
Net Income	\$ -	\$ 576	\$ (1,192)
Unrestricted Cash	\$ 13,334	\$ 9,397	\$ 363
Load (Kwh)	690,231	689,988	721,345

## CONCLUSION

Although no decision is requested based on this information, staff strongly suggests that the Board continue to take VCE's financial position into account when making key decisions, including allocation of net margin and dividends.