VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 17

TO: Board of Directors

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

SUBJECT: Allocation of Fiscal Year 2020 Net Margin

DATE: November 12, 2020

RECOMMENDATION
Adopt a resolution approving the allocation of fiscal year 2020/21 (FY2020) net margin between cash reserves, dividends, and local program reserve (LPR).

OVERVIEW
This staff report presents the various options the Board has in determining how to allocate audited net margin for FY2020. Taking into account the Dividend Program parameters, as well as available and forecast cash reserves, staff recommends the following allocation of VCE's $6.318 million net margin for FY2020:

- $138,000 to the Local Programs Reserve (LPR)
- $0 to dividends, given the current cash reserve forecast
- The balance ($6,180,000) to cash reserves to help stabilize customer rates over the next two fiscal years.

BACKGROUND AND ANALYSIS
The Board adopted the VCE Rate Structure & Dividend Program Guidelines (Dividend Program, attached) on June 17, 2019, to be effective starting at the beginning of the following fiscal year on July 1, 2019. Key aspects of the Dividend Program are:

- Every fiscal year, the audited Net Margin (Less Principal Debt Payments) is to be allocated amongst Cash Reserves, LPR, and Cash Dividends, at the Board's discretion
- VCE is to match PG&E's generation rates, less PCIA
- Require a minimum 5% net margin before any dividends are paid
- Require the enrollment process for legacy Net Energy Metering (NEM) accounts to have begun before any dividends are paid

For audited FY 2019/20, the conditions above have all been met. Therefore, consideration of the allocation of net margin is before the Board. Note: as noted when the Board adopted the Dividend Program Policy in June 2019, a 5% minimum net margin is in the lower range of typical net margin goals for the electricity and most other industries.

<u>Dividend Program Formula</u>
The adopted Dividend Program formula recommends allocating the net margin as follows:

- Net Margin up to 5% is to be allocated as follows:
  - At least 5% (of the 5%) goes to LPR
  - The balance goes to cash reserves

- Net Margin above 5% is to be allocated as follows:
  - At least 50% to cash reserves
  - Remainder allocated amongst dividends and LPR

FY2020 produced an audited net margin of $6.318 million, or 11.4%. Based on the formula above, the calculation for FY2020 results in the following ranges for Board consideration:

- LPR at least $138,000
- Dividends $0 to $1,778,000
- The balance goes to cash reserves

Considerations

Actual and forecast cash reserves is an important consideration. Although VCE has strong cash reserves at June 30, 2020, it is expected to experience significant cash challenges in the next two fiscal years due to continuing regulatory pressures related to the Power Charge Indifference Adjustment (PCIA/Exit Fee) and changing Resource Adequacy requirements. The forecast of these primary drivers of increasing costs and uncertainty are expected to result in VCE dipping below the adopted Board goal of 90 days of cash on hand. As the Board is aware, the cash reserves are utilized primarily to enhance rate stability for customers to help meet VCE rate objectives (i.e. match PG&E rates). The following are the expected days cash on hand under current fiscal projections and VCE's recently adopted budget:

- June 30, 2020: 103 days cash on hand (current)
- June 30, 2021: 70 days cash on hand
- June 30, 2022: 3 days cash on hand

Based on the cash reserve forecast in the coming years, staff recommends that the Board allocates $138,000 to LPR, $0 to dividends, and the balance to cash reserves for audited FY2020. Though a fiscally cautious approach, staff believes the dividend can be implemented in future years when market and regulatory factors improve enough to improve cash forecasts.

For reference, if the Board decided to institute a small dividend this year, rather than the $0 recommended by staff, the effects would be:

- A 1% dividend in FY2020 would be a $800,000 reduction in cash reserves and reduce days cash on hand going forward by approximately 6 days
- A 2% dividend in FY2020 would be a $1,600,000 reduction in cash reserves and reduce days cash on hand going forward by approximately 12 days

Notes: (1) a 1% dividend would be approximately $1.50/month reduction in the average residential customer bill and an approximately $3.75/month reduction in the average small commercial customer bill; (2) anecdotal information from other CCA's indicate that these levels of customer dividends/discounts while helpful in communicating a CCA's value do not have significant effects on customer retention or new customer recruitment; (3) a stronger cash reserve helps demonstrate VCE's fiscal standing with outside entities (e.g. financial institutions).

Local Program Reserve Prior to FY2020

Prior to the introduction of the Dividend Program, VCE simply set aside 1% of net income as funds for local program development. This was based on the Board's Financial Reserve Policy (attached) adopted on December 14, 2017.

Based on the Financial Reserve Policy's 1% calculation, VCE has approximately $86,500 set aside as of June 30, 2019 for programs. Any LPR approved for FY2020 would add to this existing total.

Below is a summary of VCE's current financial standing:

	Audited 2020 Results	
Electricity Sales	$ 55,248,868	
Operating Expense	$ 45,887,956	
Principal Debt Payments	$ 3,042,674	
Net Margin Less Principal Debt Payments	$ 6,318,238	
Net Margin %	11.4%	
5% Net Margin	$ 2,762,443	
Amount > 5% NM	$ 3,555,794	
Disposition of First 5% Net Margin	$ 2,762,443	
At least 5%: Local Programs Reserve (LPR)	$ 138,122	Minimum
Up to 95% to Cash Reserves	$ 2,624,321	Maximum
Disposition of Net Margin >5%	$ 3,555,794	
At least 50% to Cash Reserves	$ 1,777,897	Minimum
Remaining (after Cash Reserves) - Split between LPR and Dividends	$ 1,777,897	Maximum
FY 2020 Summary		
Minimum Amount to LPR	$ 138,122	
Minimum Amount to Dividends	$ -	
Maximum Amount to Dividends	$ 1,777,897	
FY 2019 Summary		
Minimum Amount to LPR	$ 86,463	
Total 2019-20 (2 Years)	$ 224,585	
Days Cash on Hand at 6/30/2020	103	
Projected Days Cash on Hand at 6/30/2021	70	
Projected Days Cash on Hand at 6/30/2022	3	

CONCLUSION

Staff recommends that the Board adopt a resolution approving the staff's recommended allocation of fiscal year ending 2020 (FY2020) net margin between cash reserves, dividends, and local program reserve (LPR) as follows:

- $138,000 to the Local Programs Reserve (LPR)
- $0 to dividends, given the current cash reserve forecast
- The balance ($6,180,000) to cash reserves to help stabilize customer rates over the next two fiscal years.

ATTACHMENTS:

1. Rate Structure & Dividend Program Guidelines
2. Financial Reserve Policy
3. Resolution

RESOLUTION NO. 2019-007

A RESOLUTION OF THE VALLEY CLEAN ENERGY ALLIANCE ADOPTING A NEW RATE STRUCTURE AND DIVIDEND PROGRAM GUIDELINES AND APPROVING AMENDMENT 11 TO TASK ORDER 2 (DATA MANAGEMENT AND CALL CENTER SERVICES) TO THE SACRAMENTO MUNICIPAL UTILITIES DISTRICT PROFESSIONAL SERVICES AGREEMENT

WHEREAS, the Valley Clean Energy Alliance ("VCEA") is a joint powers agency established under the Joint Exercise of Powers Act of the State of California (Government Code Section 6500 et seq.) ("Act"), and pursuant to a Joint Exercise of Powers Agreement Relating to and Creating the Valley Clean Energy Alliance between the County of Yolo ("County"), the City of Davis ("Davis"), and the City of Woodland ("City") (the "JPA Agreement"), to collectively study, promote, develop, conduct, operate, and manage energy programs; and

WHEREAS, initially VCEA's rate structure provided customers with a pre-determined, up front rate discount relative to PG&E service; and

WHEREAS, an alternative would be to generally match PG&E rates and move from a monthly fixed rate discount structure to an annual dividend rate structure; and

WHEREAS, the New Rate Structure and Dividend Program Guidelines will help VCEA improve financial stability and maintain focus on its primary goals: a cleaner environment, meeting the members' climate action goals, building agency reserves, offering custom tailored programs and awarding customers for their loyalty and trust.

WHEREAS, on August 31, 2017, the VCEA Board considered a proposal by the Sacramento Municipal Utilities District ("SMUD") to provide program launch and operational services and subsequently directed VCEA staff to negotiate a services agreement between VCEA and SMUD for consideration and action by the VCEA Board;

WHEREAS, on September 21, 2017, the SMUD Board of Directors authorized its CEO to enter into a contract with VCEA to provide CCA support services;

WHEREAS, on October 12, 2017 the VCEA Board approved the Master Professional Services Agreement and Task Order 1 and Task Order 2 to provide program launch and operational services consistent with the SMUD proposal and VCEA Board direction;

WHEREAS, on April 11, 2019 the VCEA Board approved Amendment 10 to Task Order 2 (data management and call center services) adding detail to SMUD's invoicing methodologies in the Compensation for Services section; and,

NOW, THEREFORE, the Board of Directors of the Valley Clean Energy Alliance resolves as follows:

1. Adoption of the New Rate Structure and Dividend Program Guidelines, effective July 1, 2019 (Exhibit A).

2. Authorizes VCEA Interim General Manager to approve and execute Amendment 11 to Task Order 2 (Data Management and Call Center Services) for the development of the technology enhancement to support VCE's annual dividend program.

PASSED, APPROVED AND ADOPTED at a regular meeting of the Valley Clean Energy Alliance, held on the 17th day of June, 2019, by the following vote:

AYES: STALLARD, SANDY, FRERICHS, SAYLOR, CARSON
NOES: NONE
ABSENT: BARAJAS
ABSTAIN: NONE

Tom Stallard, VCEA Chair

ATTEST:

Alisa M. Lembke, VCEA Secretary

EXHIBIT A – New Rate Structure and Dividend Program Guidelines
EXHIBIT B - Amendment 11 to SMUD Master Professional Services Agreement Task Order 2

EXHIBIT A

New Rate Structure and Dividend Program Guidelines

Valley Clean Energy Alliance

New Rate Structure and Dividend Program Guidelines

Purpose: VCE is setting a new rate structure and dividend program to help VCE improve financial stability and maintain focus on its primary goals: a cleaner environment, meeting the members' climate action goals, building agency reserves, offering custom tailored programs, and awarding customers for their loyalty and trust.

Program Guidelines:

- Match PG&E electric generation rates less PCIA exit fee

- Require a minimum 5% annual net margin (less principal debt payments) before any dividends are paid to VCE customers

- Require the enrollment process for the legacy NEM accounts (accounts with solar installation prior to June 2018) in the VCE service area has begun before any dividends are paid to VCE customers

- Annually based on the audited financial statements:

    - Calculate the Annual Net margin less principal debt payments

    - If Annual Net margin < 5% - no customer dividends and Board determine allocation of net margin to Cash reserves and & Local Program reserves

    - If Annual Net margin > 5% - Board determine allocation of any surplus (over 5%) to Cash reserves, Local Program reserves and Customer Dividends

- Guidelines of Allocation of Annual Net Margin

    - Annual Net Margin <= 5%

        - Up to 95% to Cash Reserves (Until 90-days of cash reserves met)
        - At least 5% to Local Program Reserves

    - Annual Net Margin > 5%

        - Follow guidelines for Annual Net Margin up to 5%
        - Annual Net margin in excess of 5%:
            - At least 50% to Cash Reserves (Until 90-days cash reserves met)
            - Remaining excess allocated between Cash Dividends and Local Programs Reserve at the discretion of the Board annually

Adopted: June 17, 2019

- Board approves allocation of Annual Net Margin on or around the September Board meeting
- Any surplus allocation to customer dividends will appear as bill credits or the customer may have the option to apply their dividend to the Local Program Reserve. Any customer dividends will appear as bill credits as follows:
    - Residential customers – annually in October bill
    - Non-residential customers – bi-annually in October and April bills

Adopted: June 17, 2019

EXHIBIT B

Amendment 11 to SMUD Master Professional Services Agreement Task Order 2

AMENDMENT 11 TO EXHIBIT A: Scope of Services

A.4 Task Order 2 – Data Management and Customer Call Center Services

SMUD and VCEA agree to the following services, terms, and conditions described in this Amendment 11 to Exhibit A, Task Order No. 2 (Amendment 11), the provisions of which are subject to the terms and conditions of the Master Professional Services Agreement (Agreement) between the Parties. If any specific provisions of this Amendment 11 conflict with any general provisions in the Agreement or Task Order 2, the provisions of this Amendment 11, shall take precedence. Capitalized terms used in this Amendment which are not defined in this Amendment will have the respective meanings ascribed to them in the Agreement or a previous Amendment thereof.

The Effective Date of this Amendment 11 is the date of last signature below.

1. **<u>Section 1, SCOPE OF WORK, is amended to include Sections 1.9 below:</u>**

" 1.9 ANNUAL DIVIDEND PROGRAM IMPLEMENTATION

SMUD will implement a technology solution to support VCE's dividend policy.

1.9.1 If a dividend is earned, a bill credit will be applied annually on the October bill for residential customers and applied in two payments of 50% each on the October and April bills for non-residential customers.

1.9.2 The bill line item will state "Your VCE dividend is $#.##".

1.9.3 The dividend value will be provided by VCE to SMUD as percentage multiplier to apply to payments received during VCE's fiscal year, defined as July 1 through June 30, regardless of the associated bill periods. VCE will provide the dividend percentage no later than September 20. The bill credit amounts will be calculated and staged in the billing system for application to the appropriate bills:

- 100% in October for residential customers
- 50% in October and 50% in April for non-residential customers.

1.9.4 Credits are only applied for DA_XREFs that are still active as of defined dividend month(s). Customers who move out or opt out prior to the dividend months will not receive that portion of their dividend payment.

1.9.5 The dividend floor will be configurable but set by default to $0.00. If VCE chooses to set a floor greater than $0.00, the floor value must be provided to SMUD no later than September 20. There will be no negative dividend for NEM customers.

1.9.6 The dividend amount will only be applied to the dividend payment month bills. A running balance will not be maintained for application to future bills if the dividend amount exceeds the bill amount.

1.9.7 Dividends will show in accounting reports when applied to the bill (when usage data is received from PG&E), not when they are staged in the billing system. Therefore, dividend amounts that are calculated but never applied, due to a move out or opt out, will not show on accounting reports.

1.9.8 Customers with no payment remitted to VCE will receive no dividend.

1.9.9 NEM customers receive no special treatment. Customers with an annual net payment remitted to VCE will receive a dividend. Customers with no payment remitted will not receive a dividend. Their benefit will be from the retail and wholesale $0.01 adders.

Deliverables and Due Dates

The schedule for the implementation of the Annual Dividend Program is estimated to be twelve (12) months, and includes the following milestones and due dates:

Milestone	Responsible Party	Due Date
Development complete	SMUD	June 12, 2020
User testing complete	SMUD	June 26, 2020
Enhancement release date	SMUD	June 30, 2020
Provide dividend amount and floor to SMUD	VCE	September 20, 2020
Dividends begin appearing on customer bills	SMUD	October 1, 2020

Section 4, COMPENSATION FOR SERVICES is amended to add Section 4.5, *Annual Dividend Program Implementation,* as follows:

"The fixed fee for the Annual Dividend Program Implementation is $75,000. Ongoing support of the Annual Dividend Program is included in the fixed fee for Data Management and Call Center Services as described in Section 4.1 of this Task Order 2."

Section 5, PAYMENT TERMS, is amended to add the following.

"SMUD will invoice the fixed fee for the Annual Dividend Program Implementation upon completion, and payment will be due net thirty (30) days from date of the invoice."

[Signature Page follows]

SIGNATURES

The Parties have executed this Amendment 11, and it is effective as of the date of last signature below.

	Valley Clean Energy Alliance
By:	
Name:	Mitch Sears
Title:	Interim General Manager
Date:	June 18, 2019

	Sacramento Municipal Utility District
By:	
Name:	Arlen Orchard
Title:	CEO
Date:	June 23, 2019
Approved as to Form:	

VALLEY CLEAN ENERGY ALLIANCE

RESOLUTION NO. 2017- 012

A RESOLUTION OF THE VALLEY CLEAN ENERGY ALLIANCE ADOPTING A FINANCIAL RESERVE POLICY

WHEREAS, the Valley Clean Energy Alliance ("VCEA") is a joint powers agency established under the Joint Exercise of Powers Act of the State of California (Government Code Section 6500 et seq.) ("Act"), and pursuant to a Joint Exercise of Powers Agreement Relating to and Creating the Valley Clean Energy Alliance between the County of Yolo ("County"), the City of Davis ("Davis"), and the City of Woodland ("City") (the "JPA Agreement"), to collectively study, promote, develop, conduct, operate, and manage energy programs; and

WHEREAS, in order to achieve its strategic goals, VCEA must maintain liquidity for day-to-day operations and develop access to capital markets to fund long-term investments in local clean energy development and customer programs; and

WHEREAS, setting a target Financial Reserve level also provides a reference point to use when evaluating the financial impacts of various policy decisions, such as portfolio mix and rate setting.

NOW, THEREFORE, the Board of Directors of the Valley Clean Energy Alliance hereby adopts a Financial Reserve Policy (Exhibit A).

ADOPTED, this 14th day of December 2017, by the following vote:

AYES:	Barajas, Chamberlain, Davis, Frerichs, Saylor, Stallard
NOES:	None
ABSENT:	None
ABSTAIN:	None

Don Saylor, Board Chair

VCEA Board Secretary

Approved as to form:

N/A

Interim VCEA Counsel

EXHIBIT A - VCEA Financial Reserve Policy

EXHIBIT A

VCEA Financial Reserve Policy

VCEA Financial Reserve Policy

Adopted: December 14, 2017
Amended:

The VCEA Board recognizes the importance of developing reserves to:

- Ensure financial stability
- Ensure access to credit at competitive rates
- Ensure rate stability
- Set aside monies for local programs

To achieve these objectives, VCEA targets an operating reserve account minimum balance of 30 days operating expenses, with a goal of building to a reserve of 90 days operating expenses.

Additionally, VCEA will set aside a reserve fund for local programs, equal to 1% of net income.

VCEA will initially build a reserve fund of 30 days operating expenses. Once this is funded, VCEA will begin paying off debt and building cash reserves to meet a 90-day operating reserve level.

Rates, Power Portfolio Resource mix, and Operating Budget will be adjusted as needed to meet VCEA's target reserves schedule.

VALLEY CLEAN ENERGY ALLIANCE

RESOLUTION NO. 2020 - ___

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE VALLEY CLEAN ENERGY ALLIANCE APPROVING THE RECOMMENDED ALLOCATION OF NET MARGIN FOR THE AUDITED FISCAL YEAR ENDED JUNE 30, 2020

WHEREAS, the Board adopted a Rate Structure & Dividend Program Guidelines (Dividend Program) on June 17, 2019, to be effective starting at the beginning of the following fiscal year on July 1, 2019; and

WHEREAS, the Dividend Program specifies how audited positive Net Margin for each fiscal year can be allocated amongst cash reserves, customer dividends, and local program reserve (LPR), at the Board's discretion; and

WHEREAS, VCE staff calculated the allocation options for the Board based on the final, audited Net Margin for the fiscal year ended June 30, 2020.

NOW, THEREFORE, the Board of Directors of the Valley Clean Energy Alliance resolves as follows:

1. For the audited fiscal year ended June 30, 2020, allocate the Net Margin of $6.318 million as follows: $138,000 to local program reserve, $0 to cash dividends, and the $6.18 million balance to cash reserves.

PASSED, APPROVED AND ADOPTED, at a regular meeting of the Valley Clean Energy Alliance, held on the ____ day of _______________, 2020, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

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Don Saylor, VCE Chair

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Alisa M. Lembke, VCE Board Secretary