

# VALLEY CLEAN ENERGY ALLIANCE

## Staff Report – Item 19

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**TO:** Valley Clean Energy Board of Directors

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

**SUBJECT:** Operating Budget Fiscal Year 2020/2021

**DATE:** June 11, 2020

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### RECOMMENDATION

Adopt a resolution approving the Operating Budget of \$49.6M of operating revenues and \$52.6 M of operating expenses for fiscal year 2020-2021 (FY2021).

### BACKGROUND AND ANALYSIS

This staff report presents two budgets for consideration by the Board:

- Budget Option 1: Staff-recommended budget reflecting a \$2.8 million loss, which includes \$2.4 million in recommended policy adjustments to help mitigate an otherwise higher loss. These recommended policy adjustments are detailed in Board Agenda item 18 of this June 11, 2020 meeting;
- Budget Option 2: Alternative “business as usual” budget reflecting a \$5.2 million loss, which does not include any mitigating policy adjustments by the Board.

### Operating Budget FY 2019/2020

In June 2019, the Board approved the Operating Budget of \$46.4 M for fiscal year 2019-2020 (FY2020) and includes purchased power and other operating expenses. The operating budget was based on the following key factors:

- VCEA rates set to match PGE&E’s generation rates, net of PCIA and Franchise Fees
- Power Mix of 42% renewable, 75% clean for the default Standard Green energy product
- Contingency of 5% of other operating expenses

### Year to Date Actual plus Forecast

The year to date (YTD) actual operating expenses for the 10 months ending April 30, 2020 plus the forecast for the remaining part of fiscal year FY2020 are very slightly below the approved budget mainly due to the following:

- Power Costs increased < 1% due to increasing power procurement cost per kWh offset by lower than budgeted customer load
- Offsetting the power cost increase is a 7% decrease in other operating costs compared

to budget, due to reduction in VCE staffing, SMUD contracting, and legal costs

- The budgeted 5% contingency has largely been utilized to cover the unbudgeted costs of the PG&E local distribution system acquisition-related expenses

Budget Option 1: FY 2020/2021

**Table 1 – Budget Option 1 (Recommended)**

<b>VALLEY CLEAN ENERGY</b>			
<b>BUDGET SUMMARY</b>			
<b>FY2021 - BUDGET OPTION 1</b>	<b>APPROVED BUDGET</b>	<b>ACTUAL YTD</b>	<b>PRELIMINARY BUDGET</b>
	<b>FY 2019-2020</b>	<b>APR 30, 2020 (10 MO) + FORECAST (2 MO) FY 2019-2020</b>	<b>FY 2020-2021</b>
OPERATING REVENUE	\$ 55,708	\$ 55,122	\$ 49,638
OPERATING EXPENSES:			
Cost of Electricity	41,575	41,844	47,670
Contract Services	2,910	2,876	2,982
Staff Compensation	1,183	1,065	1,132
General, Administration and other	728	524	772
<b>TOTAL OPERATING EXPENSES</b>	<b>46,396</b>	<b>46,309</b>	<b>52,555</b>
<b>TOTAL OPERATING INCOME</b>	<b>9,312</b>	<b>8,813</b>	<b>(2,917)</b>
NONOPERATING REVENUES (EXPENSES)			
Interest income	132	105	135
Interest expense	(155)	(111)	(57)
<b>TOTAL NONOPERATING REV/(EXPENSES)</b>	<b>(23)</b>	<b>(6)</b>	<b>78</b>
<b>NET MARGIN</b>	<b>\$ 9,289</b>	<b>\$ 8,807</b>	<b>\$ (2,839)</b>
<b>NET MARGIN %</b>	<b>16.7%</b>	<b>16.0%</b>	<b>-5.7%</b>

The staff recommended Budget Option 1 reflects a loss of \$2.8 million. Included are the following assumptions:

- VCE’s most current load forecasts are reflected, which include substantial reductions in load and revenue related largely to COVID and associated recessionary factors
- Consistent with current policy, VCE will match PG&E’s generation rates – which are expected to increase 1.5% overall in 2020 and 2.0% in 2021
- PCIA is significantly higher in FY2021 budget than prior year – including an increase to the PCIA cap of approximately 3.2 cents per kWh in May 2020 and a further increase to 4.4 cents per kWh in 4<sup>th</sup> quarter 2020 due to an expected cap exception trigger
- Power costs are \$6.1 million higher than FY2020 budget – due primarily to increasing Resource Adequacy (RA) costs and an anticipated delay in generation from pending long-term solar projects
- Budget reflects the inclusion of two policy options recommended by staff and the CAC which partially mitigate the financial loss:
  - Power Planning Resource Adjustment, which is expected to lower power purchase costs by \$2.25 million (already reflected in the \$6.1 million increase in power costs noted above)
  - Accepting large hydro allocations from PG&E, which is expected to net \$125,000 for VCE

- Other operating expenses (not including power costs) are nearly flat to FY2020 budget, reflecting only a 1.3% increase – lower than CPI

**Rates and Revenue** – VCE’s current rates policy is to match PG&E’s generation rates for its default energy product. The revenue budget is based on the following assumptions:

- PG&E generation rates will increase by an overall average of 1.5% for 2020 and increase 2% for 2021
- PCIA will be significantly higher in FY2021 budget than prior year – including an increase to the PCIA cap of approximately 3.2 cents per kWh in May 2020 and a further increase to 4.4 cents per kWh in 4<sup>th</sup> quarter 2020 due to an expected cap exception trigger

The FY2021 load and related revenue reflects significant reductions due to a variety of factors, including: (1) COVID-19 and associated recessionary load and revenue declines of 3.8% and 4.2% respectively, (2) weather patterns, (3) the latest actual load and customer count information, and (4) opt-out and opt-up rates. The retail load forecast for the FY 2021 is estimated at 677 GWh.

**Power Costs/Mix** – FY2021 straddles the second half of calendar year 2020 and the first half of calendar year 2021. For calendar year 2020, the power mix remains unchanged from the prior year’s budget with 42% renewable and 75% clean content. For calendar year 2021, if approved by the Board, VCE would utilize the Power Resource Planning Adjustment policy strategy – which reflects a 10% renewable and 20% clean content mix in calendar year 2021 and then increases in later years to ensure compliance with VCE goals and requirement over a two to three year period. This policy adjustment is detailed in the staff report for Board agenda item 18.

Power cost includes: (1) system energy, (2) eligible renewables and (3) carbon free attributes which are estimated at \$34.4 million, or 72.1% of the total power costs. Resource adequacy cost is forecasted at \$13.3 million, or 27.9% of the total power costs.

**Other Operating Expenses** – Staff has reviewed the other operating expenses and have kept these costs at a very modest increase of 1.3% over FY2020 budget. VCE updated the budget based on the following:

- Staffing reflects the inclusion of three VCE directors (AGM/Director of Power Services, Director of Customer Services & Marketing, and Director of Finance & Internal Operations) to replace SMUD staff augmentation positions, as well as a full-time limited term Program & Community Engagement Specialist position to replace the Senior Intern position; in total, VCE’s Labor & Benefits is decreasing slightly in FY2021 as the internal positions are less expensive than contract support
- Costs related to the addition of new member jurisdictions
- Services currently under contract
- Increased costs due to PG&E bankruptcy, included as part of the Contingency line item
- Slight increase in legal, regulatory and legislative support – totaling 2%
- 2.5% assumed annual inflation rate on all expenses not under contract
- 5% contingency rate for unanticipated operating expenses

Budget Option 2: FY 2020/2021

**Table 2 – Budget Option 2**

<b>VALLEY CLEAN ENERGY</b>			
<b>BUDGET SUMMARY</b>			
<b>FY2021 - BUDGET OPTION 2</b>	<b>APPROVED BUDGET</b>	<b>ACTUAL YTD</b>	<b>PRELIMINARY BUDGET</b>
	<b>FY 2019-2020</b>	<b>APR 30, 2020 (10 MO) + FORECAST (2 MO)</b>	<b>FY 2020-2021</b>
	<b>FY 2019-2020</b>	<b>FY 2019-2020</b>	<b>FY 2020-2021</b>
OPERATING REVENUE	\$ 55,708	\$ 55,122	\$ 49,513
OPERATING EXPENSES:			
Cost of Electricity	41,575	41,844	49,920
Contract Services	2,910	2,876	2,982
Staff Compensation	1,183	1,065	1,132
General, Administration and other	728	524	772
<b>TOTAL OPERATING EXPENSES</b>	<b>46,396</b>	<b>46,309</b>	<b>54,805</b>
<b>TOTAL OPERATING INCOME</b>	<b>9,312</b>	<b>8,813</b>	<b>(5,292)</b>
NONOPERATING REVENUES (EXPENSES)			
Interest income	132	105	135
Interest expense	(155)	(111)	(57)
<b>TOTAL NONOPERATING REV/(EXPENSES)</b>	<b>(23)</b>	<b>(6)</b>	<b>78</b>
<b>NET MARGIN</b>	<b>\$ 9,289</b>	<b>\$ 8,807</b>	<b>\$ (5,214)</b>
<b>NET MARGIN %</b>	<b>16.7%</b>	<b>16.0%</b>	<b>-10.5%</b>

Budget Option 2 reflects a loss of \$5.2 million. It is not the staff-recommended budget option. It is identical to Budget Option 1 except that it does not include the following two policy strategy adjustment options:

- Power Resource Planning Adjustment of \$2.25 million avoided energy costs
- Large Hydro allocation of \$125,000

**CONCLUSION**

Budget Option 2, with no mitigating Policy Actions, reflects a \$5.2 million net loss for FY2021. With the staff-recommended Budget Option 1, the FY2021 net loss is reduced by \$2.375 million (46%) to \$2.8 million. Staff believes this approach achieves a number of goals:

- It helps efficiently align power planning timelines to avoid duplicative power purchases;
- In combination with reserves, it helps stabilize customer rates by addressing a known, immediate need (fiscal impact in FY2020/21);
- The approach of utilizing the Power Resource Planning Adjustment has a “shelf life,” meaning the impact diminishes the longer the delay in implementing it;
- The estimated \$2.375 million in avoided costs would help VCE partially address potential negative cash balances in the future and can be accomplished while still adhering to VCE goals and compliance standards;
- Although VCE currently has a \$7 million RLOC available, VCE is reluctant to utilize it for rate stabilization purposes;

It provides additional fiscal stability as the PCIA moderates in future years (i.e. Diablo Canyon removed from PCIA costs in 2024/25) and lower cost long-term renewable PPA’s come on-line.

Based on these factors, staff recommends Budget Option 1.

**ATTACHMENTS**

1. Budget Option 1: Staff-recommended Operating Budget for Fiscal Year 2020-2021
2. Budget Option 2: Alternative Operating Budget for Fiscal Year 2020-2021
3. Board Resolution to Adopt Budget Option 1

**VALLEY CLEAN ENERGY  
BUDGET SUMMARY  
FY2021 - BUDGET OPTION 1**

	<b>APPROVED BUDGET FY 2019-2020</b>	<b>ACTUAL YTD APR 30, 2020 (10 MO) + FORECAST (2 MO) FY 2019-2020</b>	<b>PRELIMINARY BUDGET FY 2020-2021</b>
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NET MARGIN	\$ 9,289	\$ 8,807	\$ (2,839)
NET MARGIN %	16.7%	16.0%	-5.7%

**VALLEY CLEAN ENERGY  
BUDGET SUMMARY  
FY2021 - BUDGET OPTION 2**

	<b>APPROVED BUDGET FY 2019-2020</b>	<b>ACTUAL YTD APR 30, 2020 (10 MO) + FORECAST (2 MO) FY 2019-2020</b>	<b>PRELIMINARY BUDGET FY 2020-2021</b>
OPERATING REVENUE	\$ 55,708	\$ 55,122	\$ 49,513
OPERATING EXPENSES:			
Cost of Electricity	41,575	41,844	49,920
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**RESOLUTION NO. 2020-\_\_\_\_\_**

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE VALLEY CLEAN ENERGY ALLIANCE  
ADOPTING THE OPERATING BUDGET FOR FISCAL YEAR 2020-2021**

**WHEREAS**, the Valley Clean Energy Alliance (“VCE”) 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”), the City of Woodland and the City of Winters (“Cities”) (the “JPA Agreement”), to collectively study, promote, develop, conduct, operate, and manage energy programs;

**WHEREAS**, the VCE Operating Budget Option 1 for Fiscal year 2020-2021 includes Operating Revenues totaling \$49.6M and purchased power and other operating expenses, totaling \$52.6M;

**NOW, THEREFORE**, the Board of Directors of the Valley Clean Energy Alliance hereby adopts the Operating Budget Option 1 for Fiscal Year 2020-2021.

**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:

\_\_\_\_\_  
Don Saylor, VCE Chair

\_\_\_\_\_  
Alisa M. Lembke, VCEA Board Secretary