

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Agenda Item 20

TO: Valley Clean Energy Alliance Board of Directors

FROM: Lisa Limcaco, Director of Finance & Internal Operations
Mitch Sears, Interim General Manager

SUBJECT: Operating Budget Fiscal Year 2019/2020

DATE: June 17, 2019

RECOMMENDATION

Adopt a resolution approving the Operating Budget of \$54.1M of operating revenues and \$46.4 M of operating expenses for fiscal year 2019-2020.

BACKGROUND AND ANALYSIS

Operating Budget FY 2018/2019

In June 2018, the Board approved the Operating Budget of \$46.3 M for fiscal year 2018-2019 and includes purchased power and other operating expenses. The operating budget was based on the following:

- VCEA rates set at a 2.5% discount from PGE&E's generation rates placed into effect March 1, 2018, net of PCIA and Franchise Fees
- Power Mix of 42% renewable, 75% clean for the default product
- Contingency of 10% of other operating expenses due to uncertainty surrounding initial year of operations

Year to Date Actual plus Forecast

The year to date (YTD) actual operating expenses for the 10 months ending April 30, 2019 plus the forecast for the remaining part of fiscal year 2018/2019 are below the approved budget mainly due to the following:

- Power Costs decreased due to the reduction of wholesale and retail load due to 1) Deferral of Net Energy Metering customers and 2) Customer KWh usage down from forecasted load. This decrease was netted against an increase in the Resource Adequacy allocation by CEC for 2019
 - Other operating costs are lower than expected due reduction in VCE staffing, marketing costs and operating costs based on customer counts and load
 - Reduced the contingency % for the forecast to 5% of operating expenses
-

VALLEY CLEAN ENERGY			
BUDGET SUMMARY			
FY 2019/2020			
		YTD ACTUAL	
	APPROVED BUDGET	APR 30, 2019 (10 MO) + FORECAST (2 MO)	PROPOSED BUDGET
	FY 2018/2019	FY 2018/2019	FY 2019/2020
OPERATING REVENUE	\$ 54,314	\$ 51,043	\$ 54,049
OPERATING EXPENSES:			
Cost of Electricity	41,103	38,577	41,575
Contract Services	2,719	2,318	2,910
Staff Compensation	1,358	1,003	1,183
General, Administration and other	1,094	428	722
TOTAL OPERATING EXPENSES	46,274	42,326	46,389
TOTAL OPERATING INCOME	8,040	8,717	7,660
NONOPERATING REVENUES (EXPENSES)			
Interest income	89	40	126
Interest expense	(590)	(191)	(155)
TOTAL NONOPERATING REVENUE (EXPENSES)	(500)	(151)	(29)
NET MARGIN	\$ 7,539	\$ 8,565	\$ 7,631
NET MARGIN %	13.88%	16.78%	14.12%

Operating Budget FY 2019/2020

In November 2018, the Board approved several policy modifications to address the PCIA exit fee volatility and budget shortfalls due to the anticipated increase in power costs for 2019 and 2020.

Rates – The policy modifications included structural changes to the rate design where VCE eliminated any up-front rate discount from PG&E’s generation rates net of PCIA and Franchise fees and simply matched the PG&E rates. The revenue budget is based on the following assumptions:

- PG&E generation rates will increase by an overall average of 5.68% for 2019 and decrease 3% for 2020
- PCIA will be flat compared to 2018 at 2.75 cents per KWh in 2019 and increase 9% (1/2 of the 2020 PCIA cap determined in the CPUC Alternative Proposed Decision) to approximately 3.0 cents per KWh in 2020. We assumed only a 9% increase based on the forecasted Brown Power costs are increasing in 2020 and 2021.

The 2019 operating revenues are based on PG&E’s Advice Letter (AL) for the 2019 Energy Resource Recovery Account (ERRA) forecasted generation rates and PCIA exit fee that was filed on April 18, 2019.

Another policy modification included delaying NEM enrollments for at least one additional year to January 2020. Based on the increase in PG&E generation rates and flat PCIA exit fees for 2019, the operating revenues includes enrolling legacy NEM customers beginning January 2020.

Power Costs/Mix – The power mix remains unchanged from the prior year’s budget with 42% renewable and 75% clean content. The load forecast has been updated for 2019 and 2020 using actual load data, opt-out rates and opt-up rates. The retail load forecast for the FY 2019/2020 is estimated at 690 GWh. Energy cost includes system energy, eligible renewables and carbon free attributes which are estimated at \$34.16 M, or 82.15% of the total power costs. Resource adequacy cost is forecasted at \$7.42 M, or 17.85% of the total power costs.

Other Operating Expenses – Staff has reviewed the other operating expenses and have updated the budget based on the following:

- Increase in head count of 1 part-time program assistant and 1 student intern to assist in developing customer programs for VCE and outreach for new member jurisdictions ~ \$4,000 per month
- Costs related to the addition of new member jurisdictions
- Services currently under contract
- Anticipation of increase legal costs due to PG&E bankruptcy
- Increase in Joint CCA regulatory costs related to 2020 ERRRA proceeding
- 2.2% annual inflation rate on all expense not under contract
- 5% contingency rate for unanticipated operating expenses

CONCLUSION

The operating budget reflects a 14.1% net margin which meets VCE’s 5% minimum annual net margin goal to maintain financial health. Staff has prepared the operating budget for FY 2019/2020 based on the best available information on PG&E generation rates and PCIA exit fees. Staff recommends Board adoption of the attached FY 2019/2020 budget resolution.

ATTACHMENT

Operating Budget for Fiscal Year 2019-2020

VALLEY CLEAN ENERGY - OPERATING BUDGET
FISCAL YEAR 2019-2020

Description	July-19	August-19	September-19	October-19	November-19	December-19	January-20	February-20	March-20	April-20	May-20	June-20	TOTAL
Electric Revenue	\$ 7,477,615	\$ 6,755,475	\$ 5,763,971	\$ 4,950,209	\$ 3,060,922	\$ 3,331,576	\$ 3,126,409	\$ 2,747,524	\$ 2,814,315	\$ 2,788,797	\$ 5,016,536	\$ 6,215,759	\$ 54,049,106
Interest Revenues	\$ 6,664	\$ 7,205	\$ 7,926	\$ 9,247	\$ 10,416	\$ 12,042	\$ 12,698	\$ 12,950	\$ 12,121	\$ 11,584	\$ 11,334	\$ 11,536	\$ 125,723
Purchased Power	\$ 5,430,341	\$ 4,762,464	\$ 4,251,780	\$ 2,857,294	\$ 2,599,249	\$ 2,600,158	\$ 3,689,916	\$ 3,039,654	\$ 2,616,150	\$ 2,063,331	\$ 2,796,804	\$ 4,867,543	\$ 41,574,684
Labor & Benefits	\$ 98,243	\$ 98,243	\$ 98,243	\$ 98,243	\$ 98,243	\$ 98,243	\$ 98,944	\$ 98,944	\$ 98,943	\$ 98,943	\$ 98,943	\$ 98,943	\$ 1,183,120
Salaries & Wages/Benefits	\$ 50,735	\$ 50,735	\$ 50,735	\$ 50,735	\$ 50,735	\$ 50,735	\$ 51,435	\$ 51,435	\$ 51,435	\$ 51,435	\$ 51,435	\$ 51,435	\$ 613,018
Contract Labor	\$ 46,459	\$ 46,459	\$ 46,459	\$ 46,459	\$ 46,459	\$ 46,459	\$ 46,459	\$ 46,459	\$ 46,459	\$ 46,459	\$ 46,459	\$ 46,459	\$ 557,502
Human Resources & Payroll	\$ 1,050	\$ 1,050	\$ 1,050	\$ 1,050	\$ 1,050	\$ 1,050	\$ 1,050	\$ 1,050	\$ 1,050	\$ 1,050	\$ 1,050	\$ 1,050	\$ 12,600
Office Supplies & Other Expenses	\$ 10,074	\$ 10,074	\$ 10,074	\$ 10,074	\$ 10,074	\$ 10,074	\$ 10,103	\$ 10,103	\$ 10,104	\$ 10,103	\$ 10,263	\$ 15,475	\$ 126,596
Technology Costs	\$ 772	\$ 772	\$ 772	\$ 772	\$ 772	\$ 772	\$ 772	\$ 772	\$ 772	\$ 772	\$ 772	\$ 5,984	\$ 14,476
Office Supplies	\$ 102	\$ 102	\$ 102	\$ 102	\$ 102	\$ 102	\$ 104	\$ 104	\$ 104	\$ 104	\$ 104	\$ 104	\$ 1,239
Travel	\$ 400	\$ 400	\$ 400	\$ 400	\$ 400	\$ 400	\$ 400	\$ 400	\$ 400	\$ 400	\$ 400	\$ 400	\$ 4,800
CalCCA Dues	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,527	\$ 8,527	\$ 8,528	\$ 8,527	\$ 8,687	\$ 8,687	\$ 102,481
Memberships	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 3,600
Contractual Services	\$ 298,778	\$ 254,621	\$ 244,522	\$ 279,988	\$ 229,507	\$ 232,052	\$ 235,903	\$ 231,615	\$ 232,601	\$ 208,487	\$ 224,849	\$ 236,876	\$ 2,909,798
Don Dame	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 18,000
SMUD - Credit Support	\$ 71,833	\$ 66,130	\$ 55,986	\$ 46,406	\$ 40,879	\$ 43,378	\$ 44,807	\$ 39,732	\$ 39,930	\$ 40,030	\$ 55,604	\$ 66,844	\$ 611,558
SMUD - Wholesale Energy Services	\$ 47,012	\$ 47,012	\$ 47,012	\$ 47,012	\$ 47,012	\$ 47,012	\$ 47,012	\$ 47,012	\$ 47,012	\$ 47,012	\$ 47,012	\$ 47,012	\$ 564,144
SMUD - Call Center	\$ 55,495	\$ 55,529	\$ 55,563	\$ 55,598	\$ 55,632	\$ 55,666	\$ 57,483	\$ 58,073	\$ 58,664	\$ 59,254	\$ 59,845	\$ 60,435	\$ 687,237
SMUD - Operating Services	\$ 52,000	\$ 27,000	\$ 27,000	\$ 27,000	\$ 27,000	\$ 27,000	\$ 27,000	\$ 27,000	\$ 27,000	\$ 27,000	\$ 2,000	\$ 2,000	\$ 274,000
Legal Bankruptcy	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 24,000
Legal General Counsel	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 144,000
Regulatory Counsel	\$ 15,440	\$ 15,440	\$ 15,440	\$ 15,440	\$ 15,440	\$ 15,440	\$ 15,440	\$ 15,440	\$ 15,440	\$ 15,440	\$ 15,440	\$ 15,440	\$ 185,280
Joint CCA Regulatory counsel	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 30,000
Legislative	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 60,000
Accounting Services	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 24,000
Audit Fees	\$ 13,500	\$ -	\$ -	\$ 45,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,500
Marketing Collateral	\$ 18,498	\$ 18,510	\$ 18,521	\$ 18,533	\$ 18,544	\$ 18,555	\$ 19,161	\$ 19,358	\$ 19,551	\$ 19,751	\$ 19,948	\$ 20,145	\$ 229,079
Rents & Leases	\$ 1,442	\$ 1,442	\$ 1,442	\$ 1,442	\$ 1,442	\$ 1,442	\$ 1,506	\$ 1,506	\$ 1,506	\$ 1,506	\$ 1,506	\$ 1,506	\$ 17,689
Hunt Boyer Mansion	\$ 1,442	\$ 1,442	\$ 1,442	\$ 1,442	\$ 1,442	\$ 1,442	\$ 1,506	\$ 1,506	\$ 1,506	\$ 1,506	\$ 1,506	\$ 1,506	\$ 17,689
Other A&G	\$ 25,636	\$ 25,648	\$ 25,660	\$ 25,672	\$ 25,684	\$ 25,696	\$ 30,807	\$ 31,014	\$ 31,221	\$ 31,427	\$ 31,634	\$ 31,840	\$ 341,941
PG&E Data Fees	\$ 19,423	\$ 19,435	\$ 19,447	\$ 19,459	\$ 19,471	\$ 19,483	\$ 24,594	\$ 24,801	\$ 25,007	\$ 25,214	\$ 25,421	\$ 25,627	\$ 267,383
Community Engagement Activities & Sponsorships	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 6,000
Insurance	\$ 613	\$ 613	\$ 613	\$ 613	\$ 613	\$ 613	\$ 613	\$ 613	\$ 613	\$ 613	\$ 613	\$ 613	\$ 7,358
New member jurisdiction expenses	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 60,000
Banking Fees	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 1,200
Miscellaneous Operating Expenses	\$ 511	\$ 511	\$ 511	\$ 511	\$ 511	\$ 511	\$ 511	\$ 511	\$ 511	\$ 511	\$ 511	\$ 521	\$ 6,142
Contingency	\$ 21,734	\$ 19,527	\$ 19,023	\$ 20,797	\$ 18,273	\$ 18,401	\$ 18,889	\$ 18,685	\$ 18,744	\$ 17,549	\$ 18,385	\$ 19,258	\$ 229,264
TOTAL OPERATING EXPENSES	\$ 5,886,760	\$ 5,172,531	\$ 4,651,256	\$ 3,294,021	\$ 2,982,983	\$ 2,986,577	\$ 4,086,579	\$ 3,432,030	\$ 3,009,780	\$ 2,431,858	\$ 3,182,897	\$ 5,271,964	\$ 46,389,236
Interest Expense - Munis	\$ 4,596	\$ 4,605	\$ 4,614	\$ 4,624	\$ 4,634	\$ 4,643	\$ 4,653	\$ 4,662	\$ 4,672	\$ 4,681	\$ 4,691	\$ 4,701	\$ 55,775
Interest on RCB loan	\$ 7,264	\$ 7,264	\$ 7,264	\$ 7,264	\$ 7,264	\$ 7,264	\$ 7,264	\$ 7,143	\$ 7,022	\$ 6,900	\$ 6,779	\$ 6,658	\$ 85,348
Interest Expense - SMUD	\$ 1,703	\$ 1,598	\$ 1,492	\$ 1,387	\$ 1,281	\$ 1,176	\$ 1,070	\$ 963	\$ 857	\$ 751	\$ 644	\$ 537	\$ 13,459
NET INCOME	\$ 1,583,957	\$ 1,576,682	\$ 1,107,270	\$ 1,652,160	\$ 75,176	\$ 343,958	\$ (960,458)	\$ (684,324)	\$ (195,894)	\$ 356,191	\$ 1,832,859	\$ 943,435	\$ 7,631,012