VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 7

TO: Community Advisory Committee

FROM: Mitch Sears, Interim General Manager
Gordon Samuel, Assistant General Manager & Director of Power Services

SUBJECT: Power Content Policy Strategy Adjustments for Calendar Year 2022

DATE: May 27, 2021

RECOMMENDATION

Recommend that the Board continue the near-term policy of lower renewable energy credit (REC) and carbon free content purchases in 2022 as long-term renewable contracts begin full delivery over the next two years.

OVERVIEW

The purpose of this agenda item and report is to recommend a continuation of the near-term policy adopted by the Board last year for a lower carbon free content percentage in VCE's portfolio in 2022 while VCE's long-term renewable power purchase agreements (PPAs) come on-line over the next several years. Though less time sensitive, staff is also seeking feedback from the CAC on the following related power procurement policy issue:

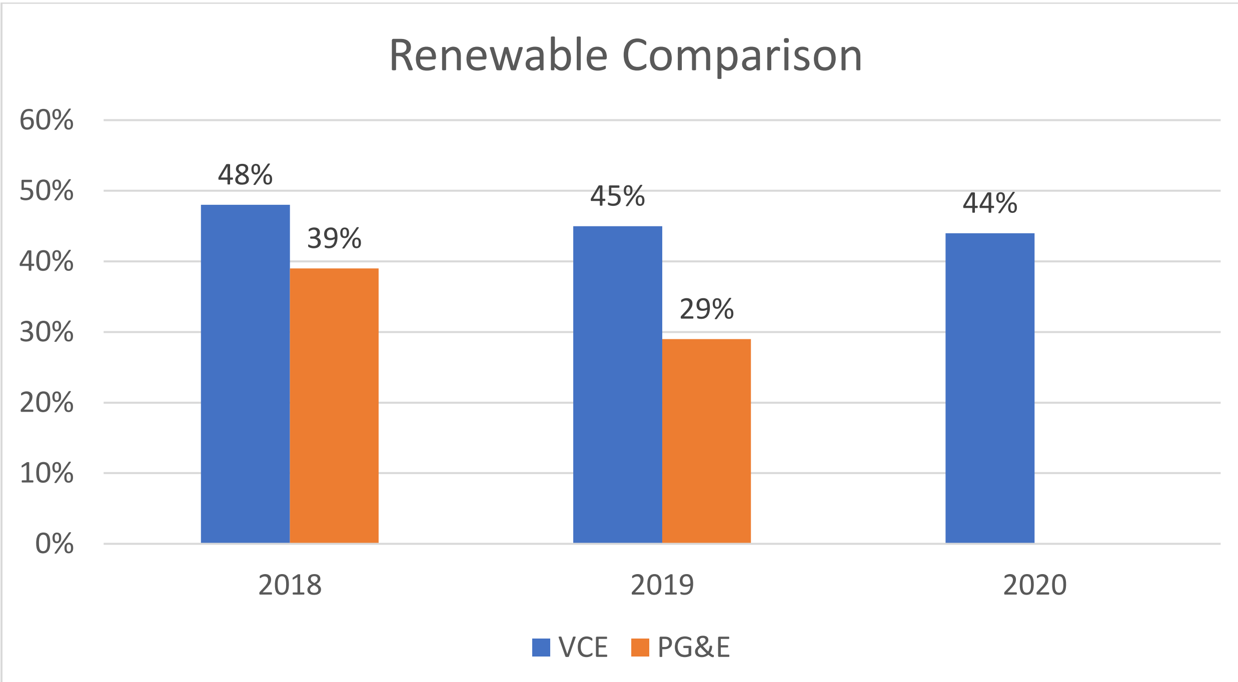
> What Renewable Portfolio Standard (RPS) target should VCE consider for the current RPS compliance period (2021 – 2024)? The minimum compliance requirement is an average of 40% renewable portfolio content over the compliance period while VCE's internal target has been 42% since launch.

The CAC recommendation on the primary policy issue will be shared with the Board as part of their consideration of the final draft FY 2021-2022 budget in June. CAC feedback on the secondary policy issue will inform continuing discussions on the design of VCE's portfolio.

BACKGROUND AND DISCUSSION

In June 2020, the VCE Board adopted policy adjustments to scale back VCE's near-term acquisition of renewable and GHG-free power content. This policy was adopted by the Board to address: (1) the objective of aligning VCE's short and long-term power procurement efforts, (2) the increasing/unpredictable PCIA, and (3) volatility in RA power pricing which have created uncertainty for CCA programs across the State. The policy adjustments partially mitigated the negative financial impacts that an increasing and volatile PCIA and more costly RA market have on VCE. The policy adjustments placed VCE in a better position to maintain competitive rates and clean power content for its customers while meeting its baseline compliance obligations.

Chart 1 below is a comparison of renewable power content for both VCE and PG&E to provide a historical context of where VCE has been so that the CAC can assess the past, current and future content (shown later in this report). Note: VCE's 2020 renewable content is preliminary and PG&E for 2020 is not yet available.



Fiscal Impact Considerations

The renewable and GHG free procurement policy adjustments adopted by the Board in June 2020 performed as expected, saving an estimated $2.25M in the current fiscal year (FY 2020-2021). The drivers of the need for this policy (listed above) have not diminished, therefore staff has incorporated the policy adjustment savings into the budget forecasts over the past year and in the draft FY 2021-2022 budget.

As noted above, staff will be making a formal recommendation on the policy adjustment extension next month as part of the FY 2021-2022 budget adoption. If the policy adjustments are not extended and VCE maintains its 42% RPS procurement approach for 2022, the power costs in the draft FY 2021-2022 budget will increase by approximately $1.5M; this is less than the savings from the current fiscal year since VCE's long-term PPAs will begin providing lower cost renewable energy in FY 2021-2022, displacing a portion of the higher cost short-term RECs that would otherwise be procured by VCE. **Table 1** below is a view of the preliminary budget that will be presented to the Board in June.

Table 1 – Draft Operating Budget Summary

VALLEY CLEAN ENERGY DRAFT OPERATING BUDGET SUMMARY UPDATE VALLEY CLEAN ENERGY DRAFT OPERATING BUDGET SUMMARY	APPROVED BUDGET FY 2020-21	ACTUAL YTD March 31 (9 MO) + FORECAST (3 MO) FY 2020-21	DRAFT BUDGET UPDATE FY 2021-2022
Energy - Megawatt Hours	**717,987**	**753,546**	**773,652**
OPERATING REVENUE	**$ 49,638**	**$ 54,926**	**$ 49,218**
OPERATING EXPENSES:			
Cost of Electricity	47,670	51,740	51,540
Contract Services	2,723	2,594	2,559
Outreach & Marketing	241	224	241
Programs	12	2	135
Staffing	1,132	1,135	1,164
General, Administration and other	772	544	742
TOTAL OPERATING EXPENSES	**52,550**	**56,238**	**56,382**
TOTAL OPERATING INCOME	**(2,912)**	**(1,313)**	**(7,164)**
NONOPERATING REVENUES (EXPENSES)			
Interest income	135	80	56
Interest expense	(57)	(52)	(42)
TOTAL NONOPERATING REV/(EXPENSES)	**78**	**28**	**15**
NET MARGIN	**$ (2,834)**	**$ (1,284)**	**$ (7,149)**
NET MARGIN %	**-5.7%**	**-2.3%**	**-14.5%**

As presented to the Board in April and May, overall, the FY2022 financial outlook has not changed significantly since the Board approved the current fiscal year budget in June 2020. VCE still anticipates the following dynamics, which were also present when the last budget was approved:

- Power costs close to, or exceeding, revenue – making it difficult to cover operating costs without experiencing negative net income
- Continued significant revenue erosion from PCIA
- Continued 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 and/or market factors will lead to a greater normalization of PCIA and RA power costs in 2023 and beyond, but margins will be very low or negative until that occurs.

Some potentially helpful interventions may include:

- Reduced and more stable power costs as VCE long-term power purchase agreements (PPA's) start coming on-line in 2021, 2022, and 2023.
- PCIA costs normalizing due to regulatory/legislative decisions (e.g. SB 612/PCIA Settlement Agreement)

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

Approved Power Content Policy Strategy Adjustments for 2021

Board approval of the policy in June 2020 resulted in a 2021 power content target of 10% renewable, 10% large hydro for a combined 20% carbon free. Staff and SMUD have procured to these adopted targets for 2021. Table 2 shows the current outlook for 2021. Note: the totals of 11% for renewable and large hydro supply provide a buffer for variability in production.

Table 2 - 2021 RPS/GHG Free Power Outlook

VCEA Retail Load-	719,098	
Renewable Supply	**77,458**	**11%**
Aquamarine Solar	23,028	
Indian Valley	1,500	
Putah Creek Energy Farm	930	
Short Term RECs	52,000	
Large Hydro	**79,427**	**11%**
Hydro Contract	29,427	
PG&E Allocation Estimate	50,000	
System Power	**562,213**	**78%**

Recommended Power Content Policy Strategy Adjustments for 2022

If approved, the power content policy strategy adjustments for 2022 are projected to result in in a 2022 power content of approximately 20% renewable and 7% large hydro for a combined 27% carbon free as shown in Table 3.

Table 3 - Proposed 2022 RPS/GHG Free Power Outlook

VCEA Retail Load	728,826	
Renewable Supply	**145,807**	**20%**
Aquamarine Solar	131,991	
Indian Valley	6,448	
Putah Creek Energy Farm	6,956	
Resurgence Solar I	412	
Large Hydro	**50,000**	**7%**
PG&E Allocation Estimate	50,000	
System Power	**533,019**	**73%**

Note: over the period discussed in this report, VCE does not plan to contract for additional large hydro (GHG-free) other than the allocations received from PG&E (approx. 5-10%).

Contracted Resources

As the CAC is aware, VCE has been active in negotiating long term PPAs and managing the exact date on which power begins to serve VCE's customers can fluctuate. VCE has entered into six agreements (four provide energy and RA capacity and two provide RA capacity only) and the online dates range from the 3rd quarter of 2021 through the end of 2022, totaling over 450,000 MWhs (approximately 60% of VCE's demand). The on-line timing of these projects is important since they factor into VCEs short-term procurement strategy. For reference, Figure 1 below shows general information on these projects and anticipated on-line dates.

Figure 1 – VCE Contracted Resources

VCE Contracted Resources

(1) Aquamarine Solar Facility – Kings Co.
50 MW PV-only
Scheduled online – Q3 2021

2 Yolo County Solar (PV) + Storage Projects
(2) 3 MW/3 MW BESS and **(3)** 20MW/6.5 MW BESS
Scheduled online – Fall 21/22

(4) Tierra Buena Battery Storage Facility - Sutter Co.
VCE share is 2.5 MW
Anticipated online – Summer 2022

(5) Aggregated Demand Response – System wide
VCE share is 7 MW
Anticipated online – Summer 2021

Solar (PV) + Storage Project
(6) Resurgence Solar I – San Bernadino Co.
90 MW (PV) / 75 MW BESS
Scheduled online end 2022

Power Content Policy Strategy – Alignment with RPS Compliance Requirements

All California Load Serving Entities (LSEs), including VCE, are required to meet minimum levels of renewable content in their respective portfolios. This Renewables Portfolio Standard (RPS) is measured as an average percentage over a 4-year compliance period. The current compliance period runs from 2021 through the end of 2024 and requires an average of 40% renewable content. Because VCE's larger long-term PPAs will come on-line half-way through the current compliance period, it allows for procurement of a lower amount of relatively expensive short-term renewable resources (RECs) in the first half of the compliance period.

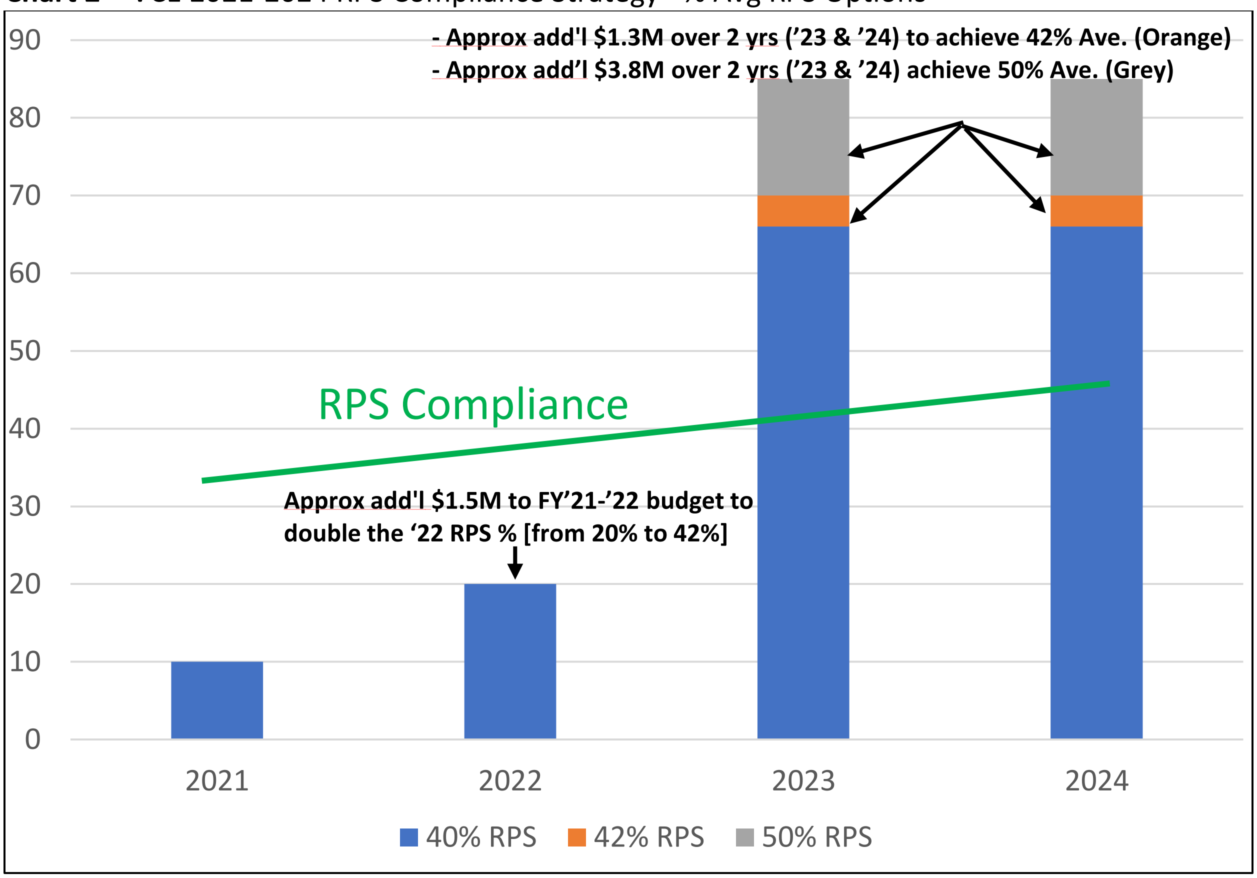
In approving the power content policy strategy last June, VCE opted to reduce the amount of short-term RECs purchased in 2021 which resulted in the cost savings outlined earlier in this report. If this fiscal mitigation strategy were to be adopted for 2022, this would require VCE to be well above the state renewable standard in years 2023 and 2024 in order to meet the targets for this compliance period ('21-'24). Chart 2 below illustrates implementation of the strategy combined with VCEs signed long-term PPA's coming on-line over this period. This is the 42% average strategy with approximately 20% renewable in 2022 and approximately 70% in years 2023 and 2024.

Policy Options

Under the strategy outlined above and shown in Chart 2, VCE would average 42% renewable content over the 21'-24' compliance period. If the Board opted to increase its renewable content target to 50%, VCE would exceed the State requirements by 10% with costs rising approximately $3.86M over the four-year compliance period. As noted earlier in this report, staff is recommending a continuation of the near-term policy adopted by the Board last year for a lower carbon free content percentage in VCE's portfolio in 2022 while VCE's long-term renewable power purchase agreements (PPAs) come on-line over the next several years. To inform continuing discussion staff is also seeking feedback on the following question:

> What Renewable Portfolio Standard (RPS) target should VCE consider for the current RPS compliance period (2021 – 2024)? Projected budget impacts to achieve an average of 42% and 50% over the compliance period are shown in Chart 2 below.

Chart 2 – VCE 2021-2024 RPS Compliance Strategy –% Avg RPS Options



CONCLUSION

The ability to meet and/or exceed the California Renewable Portfolio Standard is achievable from several different approaches. VCE could elect to continue to procure short term RECs over the remaining three years of the compliance period, which would put more near-term stress on the budget. Alternatively, VCE could delay some REC purchases and allow VCE's long-term PPAs to come on-line which would impact future budgets but during a time when there may not be as much budget pressure. CAC feedback at this meeting on the policy strategy options will help inform staff's recommendation on the power procurement policy strategy and the final draft 2021-2022 FY budget scheduled for consideration at the Board's June meeting.