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# Valley Clean Energy Board Meeting – December 8, 2022 via video/teleconference

## Item 18 – Wholesale Energy Services Agreement with The Energy Authority



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# Item 18 – WES Agreement with TEA: Background

- Since VCE launch, Sacramento Municipal Utility District (SMUD) has provided VCE wholesale energy services (WES)<sup>1</sup>
- SMUD's agreement for WES expires in 2023<sup>2</sup>
- Staff issued a request for offers (RFO) for WES in September 2022 and received offers in October<sup>3</sup>
- Four qualified entities responded to the RFO and the preferred vendor is The Energy Authority (TEA) as a result of their qualifications, cost and ability to satisfy all the items identified in the scope of work

Note: 1) WES consists of portfolio management, scheduling coordinator, load forecasting and credit support.

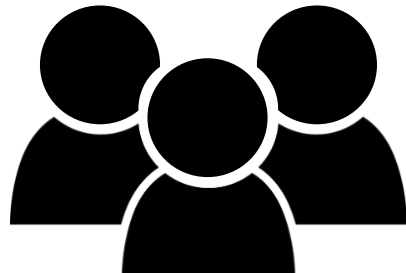
2) SMUD will continue to provide other essential services to VCE under the overall Agreement  
(e.g. Call Center Services, Billing/Data Services, etc.)

3) VCE's [Wholesale Energy Services Request for Proposals](#)

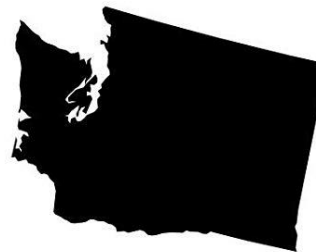
# Item 18 – WES Agreement with TEA: Who is TEA

The Energy Authority (TEA) is a nonprofit portfolio management, energy trading and advanced analytics firm that has operated in wholesale energy markets across the U.S. since August 1997

<b>&gt;60 Publicly Owned LSEs</b> served across the U.S.	<b>&gt;30,000 MW Generation</b> of all fuel types dispatched	<b>&gt;27M MWh of electricity</b> sold & scheduled last year	<b>&gt;200K Transactions</b> executed annually for benefit of clients
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200+ total employees



West Operations Center in Bellevue, WA



California employees in Oakland and Irvine

# Item 18 – WES Agreement with TEA: TEA Services to Other CCAs



**REDWOOD COAST Energy Authority**

Portfolio Management and Procurement  
 Scheduling Coordinator and CRR Management  
 Long-Term Renewable + Storage Procurement  
 Solar + Storage Microgrid  
 Residential & Commercial DERs



Portfolio Management and Procurement  
 Scheduling Coordinator and CRR Management  
 Long-Term Renewable, Storage, and  
 DER Procurement



Portfolio Management and Procurement  
 Scheduling Coordinator and CRR Management  
 Long-Term Renewable + Storage Procurement  
 Renewable Natural Gas



**Central Coast Community Energy**

Scheduling Coordinator  
 and CRR Management



Portfolio Management and Procurement  
 Scheduling Coordinator and CRR  
 Management  
 Long-Term Renewable Procurement



**CLEAN ENERGY ALLIANCE**

Scheduling Coordinator  
 and CRR Management



**ORANGE COUNTY POWER AUTHORITY**

Scheduling Coordinator  
 and CRR Management



Portfolio Management and Procurement  
 Scheduling Coordinator and CRR  
 Management



Joint CCA RA Procurement



# Item 18 – WES Agreement with TEA: Agreement

- TEA will be providing the following services:
  - Portfolio Management
  - Scheduling Coordinator
  - Long Range Load Forecasting
  - Credit Support
- Term of the agreement is 3 years with the ability to extend for 2 additional two-year terms
- The services are billed monthly and the total cost for the services over the three-year term is \$2,476,900.
- This amount represents a net reduction in cost for the range of WES services VCE currently contacts for

# Item 18 – WES Agreement with TEA: Recommendation

Staff recommends that the Board adopt a resolution establishing the following:

- The VCE Executive Officer, in consultation with VCE Legal General Counsel, is authorized to finalize, approve, execute, and extend on behalf of VCE the agreement with The Energy Authority, Inc. for portfolio management, scheduling coordinator, load forecasting, and credit support services attached hereto for a not to exceed amount of \$2,476,900 for a term of three (3) years ending December 31, 2025, with two optional extensions of two years each.
- The VCE Executive Officer, in consultation with VCE Legal General Counsel, is authorized to approve minor changes to the agreement so long as the term and price are not changed.



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# Valley Clean Energy Board Meeting – December 8, 2022 via video/teleconference

## Item 19 – 2023 Operating Budget & Customer Rates





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# Item 19 – 2023 Operating Budget & Customer Rates

## Overview

VCE's short-term outlook (2023-24) indicates continued volatility (PCIA power market prices and PCIA, which requires rate-setting to ensure cost recovery and the building of reserves. The longer-term outlook (2024+) indicates increased stability and cost certainty.

### **This presentation provides:**

- Background on Rates & Budget Development
- Update on the 2022 Operational Budget (10 Months actuals)
- Recommended 2023 Customer Rates
- Recommended 2023 Budget

# Item 19 – 2023 Operating Budget & Customer Rates

## Background

Recent actions to ensure financial and customer rate sustainability as part of the annual budget adoption and monitoring process.

- February 2022 – Budget/Rates adoption with CARES/FERA discount
- March 2022 – Expanded River City Bank line of credit and term loan for liquidity
- July 2022 – Mid-Year Financials Update
- July 2022 – Adopted Base Green “least cost” customer rate option
- September 2022 – Mid-Year Customer Rates Review

# Item 19 – 2023 Operating Budget & Customer Rates

## **Proposed 2023 Rates & Budget Key objectives (Short-Term)**

- Recovery of 2022 Net Income variance – 2022 (-11) -> 2023 (+11M)
- Debt Repayments
  - County of Yolo Line of Credit – 2022
  - River City Bank - 1<sup>st</sup> Quarter 2024. (Possible 2023)
- Power Cost Contingencies – increased 2.5% in 2022 -> 5% in 2023.
- Power Purchase Agreement (PPA) Covenants – No letters of credit
- Rate Adjustment Policy – Flexibility to address significant cost impacts in a timely manner
- Operating Days Cash - increase targeted operating days cash from 80+ days to 180+ days to provide additional fiscal stability and facilitate credit rating

# Item 19 – 2023 Operating Budget & Customer Rates

## **Proposed 2023 Rates & Budget Key objectives (Long-Term)**

- Investment Grade Credit Rating – Reduce Risks
  - Member agency support requests
  - Banking institution lines of credit
  - CPUC provider of last resort financial requirements (POLR)
  - Capital costs for VCE
- Rate Adjustment Policy - Rate stabilization
- Customer Programs and Dividends
  - Continued to grow its customer programs in 2023
  - Monitor results for possible customer dividends for Q1 of 2024.

# Item 19 – 2023 Operating Budget & Customer Rates

## **Operational Budget Primary Drivers - PCIA and Bundled Rates**

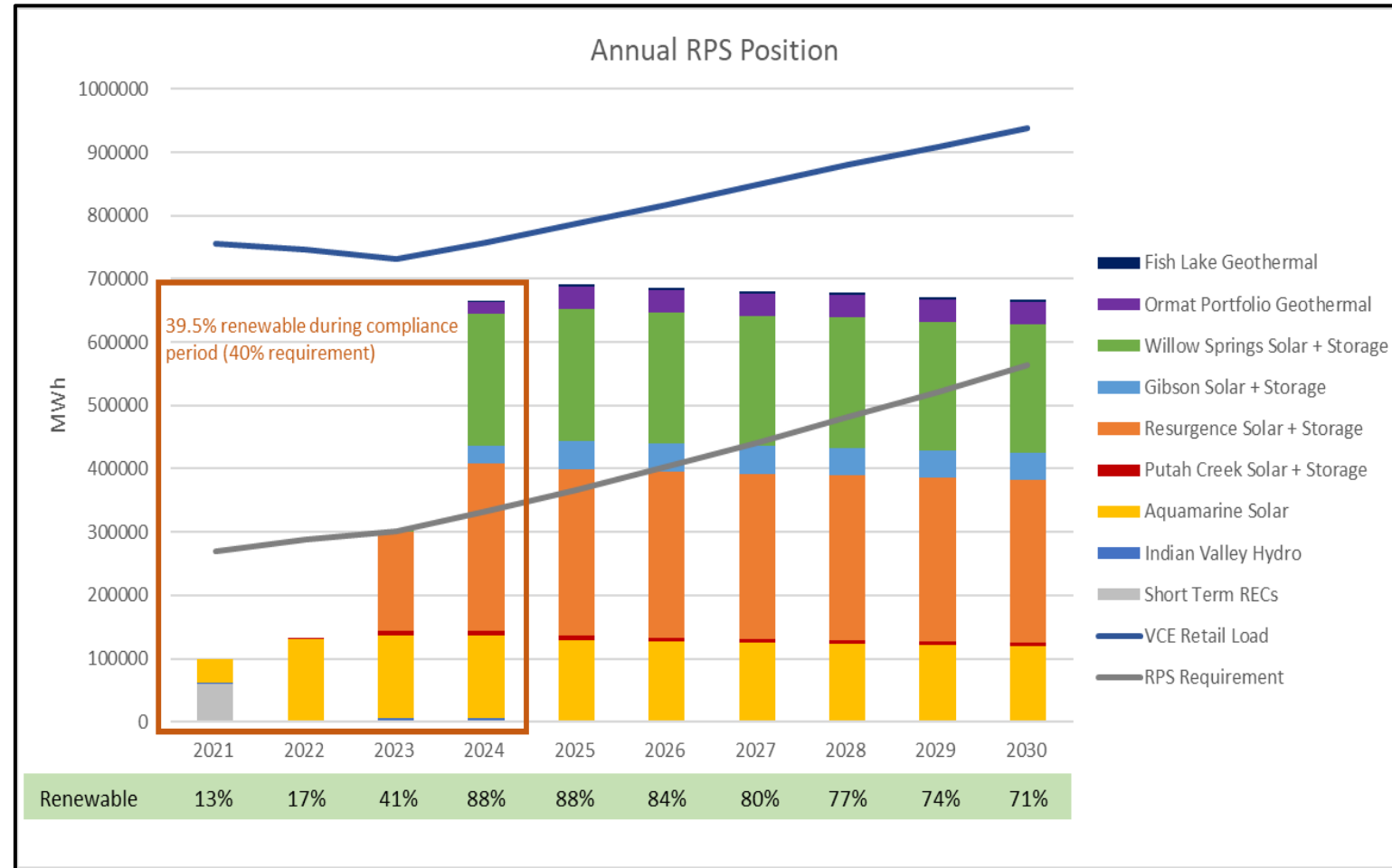
Based on information from VCE and CalCCA's analysts, VCE has incorporated the following assumptions in its updated financial forecasts for 2023, including the assumption that 2023 PG&E rates/PCIA will be implemented on January 1, 2023:

- PCIA: 88% reduction over 2022 PCIA (net zero charge) - Approximately \$17M in additional net revenue compared to 2022
- PG&E Bundled rates (PCIA & Generation): 3% increase – Approximately \$2M in additional revenue

# Item 19 – 2023 Operating Budget & Customer Rates

## Operational Budget Primary Drivers - Long-term Fixed Price PPAs

- Renewable resources –
  - Increase ~140% in 2023
  - Increase ~114% in 2024
- 80%+ of VCE's annual load by 2024
- Reduced VCE costs compared to current RPS and RA market costs
- Significantly reduce volatility as VCE moves forward (smaller open position)



# Item 19 – 2023 Operating Budget & Customer Rates

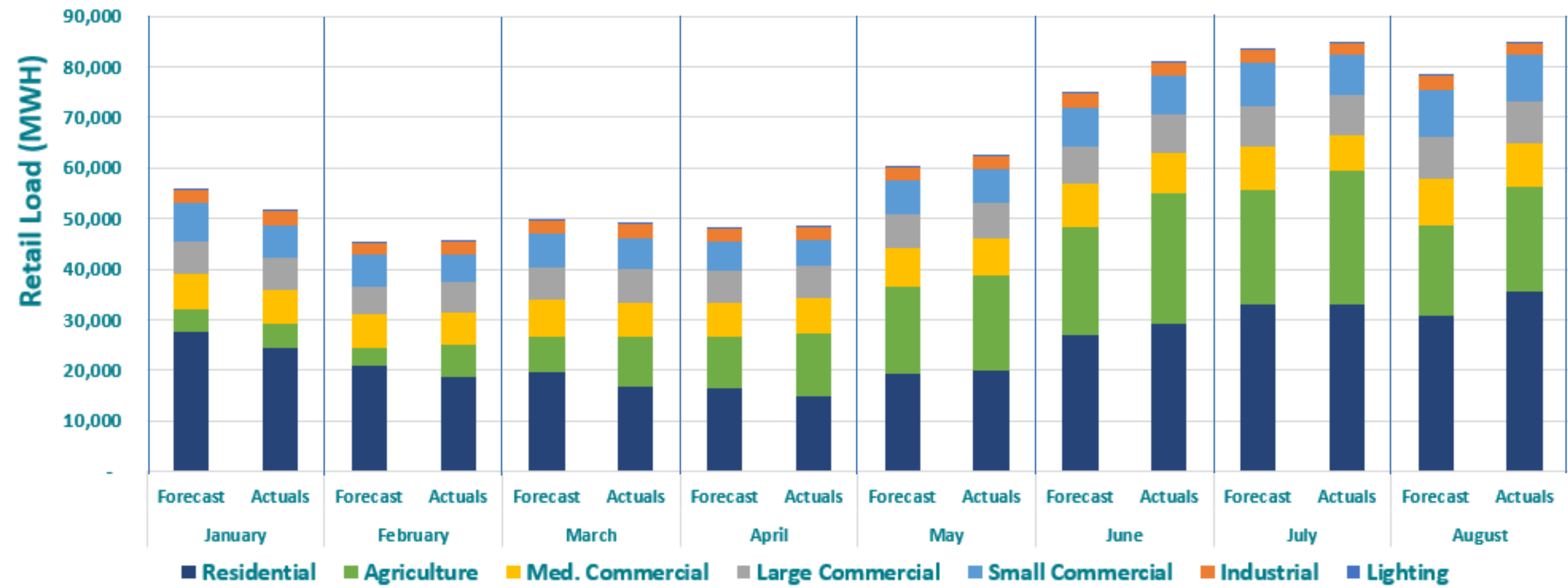
## Key Factors influencing the VCE 2022 Budget

- Load Forecast - 2022 energy use has out-paced forecasts.
  - Residential energy - TOU transition, return to work/hybrid, heat storms, etc.
  - Commercial energy use related to agriculture - droughts, mild winter, heat storms, etc.
  - 2022 actual vs. load forecast remains within 5% overall
- PG&E Rate Adjustments – Delays in annual rate setting. PG&E's current filings/CPUC proposed decision effective March 1<sup>st</sup>, 2022 (33% rate increase and a PCIA reduction of 57%)
- Power Prices - Geopolitical climate resulting from the Ukraine conflict and multiple heat storm events
- Supply Chain interruptions – Manufacturing and import supply chains have been consistently interrupted.



# Item 19 – 2023 Operating Budget & Customer Rates

## VCE RETAIL LOAD BY CUSTOMER CLASS



# Item 19 – 2023 Operating Budget & Customer Rates

## 2022 Operational Budget Update

Description	APPROVED 2022 BUDGET	2022 Proforma (10 Month Actuals + 2 Month Budget)	Variance
Revenue	\$ 89,750	\$ 86,470	\$ (3,280)
Power Cost	\$ 66,990	\$ 75,010	\$ (8,020)
Other Expenses	\$ 5,292	\$ 5,400	\$ (108)
<u>Net Income</u>	<u>\$ 17,468</u>	<u>\$ 6,060</u>	<u>\$ (11,408)</u>

Note: The 2022 interim audit will begin in December 2022 and will be completed in March 2023. Adjustments, if any, will be included in the annual report.



# Item 19 – 2023 Operating Budget & Customer Rates

## VCE 2023 Proposed Rates

### VCE Rate Policy (Updated November 10, 2021)

Cost-Based Rate Policy: VCE will set customer rates to collect sufficient revenue from participating customers to fully fund VCE's Budget and establish sufficient operating reserve funds.

### 2023 Customer Rates Drivers

Based on information from VCE and CalCCA's analysts on the proposed PG&E rates decision outlined above, VCE has incorporated the following assumptions in its updated financial forecasts for 2023 (assuming PG&E rates/PCIA are implemented on January 1, 2023):

- PCIA: 88% reduction over 2022 PCIA (net zero charge)- Results in approximately \$17M revenue for 2023
- PG&E Bundled rates (PCIA & Generation): 3% increase – Results in approximately \$2M revenue for 2023



# Item 19 – 2023 Operating Budget & Customer Rates

## Customer Outreach & Communications

VCE continues a measured, transparent customer outreach strategy with an emphasis on VCE's additional benefits such as more choice in electricity supply, local control, and community reinvestment through energy contracts and programs.

The longer-term outlook (2024+) shows increased stability and cost certainty due to VCE's fixed price long-term renewable power purchase contracts coming on-line in 2023/24.

Based on VCE matching PG&E rates and other CCAs undertaking similar rate actions, staff does not anticipate significant opt-out customer activity in response to the rate changes. VCE will continue to monitor customer activity as the rates are implemented for possible adjustments.



# Item 19 – 2023 Operating Budget & Customer Rates

## VCE 2023 Proposed Rates

The fiscal effects on VCE customers are relatively small -> 1% increase of total bill

- 3% generation rate increase - Avg. \$2 per month Standard Green Residential
- Continuing rate credits for low income and vulnerable customers (CARE, FERA, and Medical Baseline)

## VCE Rates Recommendation

1. Standard Green Rates for 2023 to match PG&E 2023 generation rates.
2. Base Green Rate discount of 2.5% to PG&E 2023 generation rates
  1. Automatically provide CARE and FERA customers Base Green Rate

# Item 19 – 2023 Operating Budget & Customer Rates

## 2023 Budget & Multi-Year Forecast - Key Factors

- PCIA: 88% reduction over 2022 PCIA (net zero charge) - ~\$17M in additional net revenue compared to 2022
- PG&E Bundled rates (PCIA & Generation): 3% increase – ~ \$2M in additional revenue
- Power costs – Include ~\$3M+ in power cost contingencies for 2023. (Increase from 2.5% in 2022 to 5% for 2023)
- Long-term power contracts (PPAs). When VCE's two largest PPA's begin full deliveries in 2023: ~60% of VCE's load served, growing to 80%+ by 2024.
- Based on current forecast, 2024/25 offers greater financial stability.



# Item 19 – 2023 Operating Budget & Customer Rates

## 2023 Budget

<b>VALLEY CLEAN ENERGY</b>			
<b>2023 DRAFT BUDGET SUMMARY</b>			
	<b>APPROVED</b>	<b>ACTUAL (YTD)</b>	<b>PROPOSED</b>
	<b>2022 BUDGET</b>	<b>Oct. 31 2022</b>	<b>2023 BUDGET</b>
		<b>2022 Proforma</b>	
<b>OPERATING REVENUE</b>	\$ 89,750	\$ 86,470	\$ 109,458
<b>OPERATING EXPENSES:</b>			
Cost of Electricity	66,990	75,010	71,650
Contract Services	2,640	2,519	2,807
Outreach & Marketing	248	182	264
Programs	175	1,185	834
Staffing	1,300	1,162	1,442
General, Administration and other	840	350	1,017
<b>TOTAL OPERATING EXPENSES</b>	<b>72,192</b>	<b>80,408</b>	<b>78,014</b>
<b>TOTAL OPERATING INCOME</b>	<b>17,558</b>	<b>6,062</b>	<b>31,444</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	17	36	42
Interest expense	(107)	(38)	(66)
<b>TOTAL NONOPERATING REV/(EXPENSES)</b>	<b>(90)</b>	<b>(2)</b>	<b>(24)</b>
<b>NET MARGIN</b>	<b>\$ 17,468</b>	<b>\$ 6,060</b>	<b>\$ 31,420</b>
<b>NET MARGIN %</b>	<b>19.5%</b>	<b>7.0%</b>	<b>28.7%</b>

- 1% rate increase for Standard Green (Total Bill)
- 2.5% rate credit for CARE/FERA and Medical Baseline customers
- Includes a target of ~180+ days cash reserves by the end of 2023.



# Item 19 – 2023 Operating Budget & Customer Rates

## Updated Multi-Year Forecast

Description	Actuals				2022 Proforma*	2023 Budget	Preliminary Forecast**	
	FY2019	FY2020	FY2021	FY2022	2022	2023	2024	2025
Revenue	51,035	55,249	54,657	29,366	86,470	109,500	75,500	73,500
Power Cost	38,540	41,538	54,234	30,139	75,010	71,650	54,150	57,100
Other Expenses	3,850	4,346	4,267	2,285	5,400	6,430	6,800	7,100
<b>Net Income</b>	<b>8,646</b>	<b>9,365</b>	<b>(3,844)</b>	<b>(3,058)</b>	<b>6,060</b>	<b>31,420</b>	<b>14,550</b>	<b>9,300</b>
					Reserve Building		Margin Policy	

Note: 2023, 2024, and 2025 forecasted financials are based on the most current available data and assumptions. These scenarios rely on future rate adjustments, reserves, or both to mitigate future power cost volatility.



# Item 19 – 2023 Operating Budget & Customer Rates

## Other Considerations – Other Operating Expenses

Nearly flat compared to the 2022 budget - 5% increase (2022 CPI ~7%)

The primary factors of increased costs in this category of expenses include:

- Customer program related to AgFIT and other programs.
- Reduced interest expenses related to the use of credit lines
- Increased interest income with rising interest rates and cash deposits.
- 5% annual salary and contractor inflation rate based on the 2022 7% inflation rate.
- 5% administrative contingency rate for unanticipated expenses.
- Additional cost related to post covid operations (e.g. remote meeting technology) and Board stipends to match other local JPA stipends.

# Item 19 – 2023 Operating Budget & Customer Rates

## Operating Budget Outlook Summary

- Loss in net income during 2022 would be recovered by the end of 2023
- Consistent with the adopted Rate and Budget policy
- Meets proposed financial objectives (Costs & Reserves)
  - Fully fund the 2023 budget
  - Build reserves to achieve a credit rating
  - Rate Competitive with PG&E and provide a level of financial relief to VCE's low-income and at risk customers.

## Recommendation

Approve 2023 Budget with \$109.5M of operating revenues and \$78M of operating expenses for a net income of \$31.4M.





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# Valley Clean Energy Board Meeting – December 8, 2022 via video/teleconference

## Item 20 – Rate Adjustment System / Policy



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# Item 20 – Rate Adjustment System / Policy

## Overview

The rate adjustment system/policy was Introduced to the Board in September 2022 and presented to the CAC in October and November for additional development and feedback.

The draft policy provides a framework to make timely within-year customer rate changes based on Board approved parameters, to reflect external cost variations outside VCE's direct control.

### **This presentation will provide:**

- Background & Summary of Draft Rate Adjustment Policy
- Rate Adjustment Examples
- Discussion & Recommendation

# Item 20 – Rate Adjustment System / Policy

## Summary

A Rate Adjustment System “RAS” / Policy is a common administrative tool for Load Serving Entities (IOU’s, POU’s, CCA’s) to adjust customer rates within defined parameters to more timely and accurately adapt to cost impacts outside the LSE’s control. If adopted, the proposed policy incorporates VCE’s strategic plan goals and policies:

### C. BUDGET REQUIREMENTS

1. The adopted final adjusted budgets must be balanced. Expenditures cannot be greater than the total anticipated unrestricted revenues and use of unrestricted net position.

**Policy:** VCE will set customer rates to collect sufficient revenue from participating customers to fully fund VCE’s budget and establish sufficient operating reserve funds.

**Budget Policy**

**Reserve Policy**

**Rates Policy**

**Strategic Plan**

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.

**Goal 1: Maintain and grow a strong financial foundation and manage costs to achieve long-term organizational health.**

- 1.1. Objective: Maintain consistently healthy cash reserves to fund VCE’s mission, vision, and goals.
- 1.2. Objective: Achieve an investment grade credit rating by end of 2024.
- 1.3. Objective: Commit to fiscal efficiencies to build a program foundation from which to deliver customer and community value.
- 1.4. Objective: Manage customer rates to optimize VCE’s financial health while maintaining rate competitiveness with PG&E.



# Item 20 – Rate Adjustment System / Policy

## Rate Adjustment Drivers:

Rate adjustments are driven by the following types of impacts and factors outside of VCE's direct control.

- **Price shocks** - are quite common in the power business
- **Obligation to Serve/Pay** - VCE has an obligation to serve customers and pay suppliers
- **Regulatory Mandates** - PG&E rates / PCIA / regulatory procurement mandates
- **Timeliness** - Aligning more closely the "cost event(s)"

Note: VCE does not have guaranteed “cost recovery” or balancing accounts

Rate Adjustment System can help spread the annual rate adjustment requirements

## Draft Rate Adjustment Policy

### Key Policy features:

- Rates are reviewed annually by the VCE Board (annual budget).
- Board approved parameters set the bounds for within-year rate adjustments.
- Within-year rate adjustments can only be triggered by energy supply cost and/or regulatory events.
- Rate adjustments require approval by the VCE's Energy Risk Oversight Committee (EROC) before implementation.
- Any with-in year rate adjustment(s) will be reported to the Board at its next regularly scheduled meeting.





## Draft Rate Adjustment Policy – Adjustment Categories

### Energy Cost Adjustments

- Power costs including renewable resources, energy and energy hedges, resource adequacy, capacity products, and demand side management (DSM) costs, including revenue losses, not otherwise included in VCE's retail generation rates.

### Regulatory Adjustments

- These adjustments are intended to recover and adjust VCE revenues to remain within Board authorized revenue requirements/total bundled rate discounts/ premiums when VCE's finances are materially impacted by CPUC or other regulatory body decisions.

# Item 20 – Rate Adjustment System / Policy

## CAC Recommendation

The CAC recommended that the Board adopt the following:

- a. Customer rate adjustments shall be calculated no more than once per month;
- b. Such monthly adjustment shall not result in more than a ~~7.5%~~ 5% increase/decrease to VCE's weighted average total generation rate;
- c. The net annual cumulative limit for within-year customer rate adjustments authorized under this policy is a total of ~~15%~~ 10% unless modified by the Board;
- d. Rates are reviewed annually by VCE Board as part of the annual budget process.

# Item 20 – Rate Adjustment System / Policy

## **Draft Rate Adjustment Policy – Recommended Authorizations**

Type of Rate Adjustment	Authorized Adjustments
Energy Cost Adjustments	<ul style="list-style-type: none"><li>• No more than 1/mo</li><li>• Individual adjustment no more than a 5% increase/decrease</li></ul>
Regulatory Adjustments (actions by regulatory bodies and/or PG&E)	<ul style="list-style-type: none"><li>• No more than 1/mo</li><li>• Individual adjustment no more than a 5% increase/decrease</li><li>• Calculate and implement any such Regulatory Adjustment within 90 days following PG&amp;E's implementation of such actions.</li></ul>
Annual Cumulative Limit	<ul style="list-style-type: none"><li>• No more than 15%/yr. The Board may modify this limit.</li></ul>

# Item 20 – Rate Adjustment System / Policy

## Summary

Staff recommends adopting a rate adjustment policy. The proposed policy is similar to those implemented by other utilities and CCAs. Staff believes its recommendation for VCE's Rate Adjustment Policy is fiscally prudent and connects key financial policy and strategic plan principles.

- VCE's Budget Policy
- Rates policy
- Reserve policy
- 2021-2023 Strategic Plan.

If approved, the rate adjustment policy would be implemented in 2023.

# Item 20 – Rate Adjustment System / Policy

## Recommendation

Adopt the Draft - Rate Adjustment Policy including the following key elements:

- a. Customer rate adjustments shall be calculated no more than once per month;
- b. Such monthly adjustment shall not result in more than a 5% increase/decrease to VCE's weighted average total generation rate;
- c. The net annual cumulative limit for within-year customer rate adjustments authorized under this policy is a total of 15% unless modified by the Board;
- d. Rates are reviewed annually by VCE Board as part of the annual budget process.