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Valley Clean Energy Board Meeting – April 11, 2024



Item 17 – Calendar Year 2023 Financial Audit – James Marta & Associates

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VALLEY CLEAN ENERGY ALLIANCE
SUMMARY OF AUDIT RESULTS
DECEMBER 31, 2023

Presented by

James Marta CPA, CGMA, ARPM



Agenda

- Communications with Those Charged with Governance
- December 31, 2023, Valley Clean Energy Alliance (VCE) Financial Information and Auditor's Report



COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE



Professional standards require that we provide you with information related to our audit of VCE. This information is summarized as follows:

- Responsibilities and Opinion
 - Financial statements are the responsibility of management
 - Our responsibility is to express an audit opinion
 - We issued an unmodified opinion (the best and auditor can give)



REPORT TO YOU - INTERACTIONS WITH MANAGEMENT



Management Consultations
with Other Independent
Accountants:

✓ None



Disagreements with
Management of Difficulties
Encountered:

✓ None



Management
Representations:

In process

REPORT TO YOU

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

- Significant Accounting Policies and Changes in Those Policies - No changes
- Management Judgments and Accounting Estimates
 - Receivables, Allowance for Doubtful Accounts
 - Appropriate and in-line with standards



AUDIT PROCEDURES

- An Audit is more than just assurance regarding the fairness of presenting financial statements. An Audit involves gaining an understanding of the organization's systems and controls.
 - Understanding; systems, policies and procedures
 - Tests of control
 - Gathering other audit evidence, review of details, performing test calculations.
 - Review of accounting methods and reporting

RESULTS OF THE AUDIT

Consideration Area	Result
Planned Scope and Timing	Scope and timing as anticipated
Findings Identified in Performing the Audit	None
Significant Adjustments or Disclosures Not Reflected in the Financial Statements	None

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

- Pages 1-3 of the Audited Financial Statements
- Unmodified opinion (Page 1), the best opinion that we can provide.
(DRAFT REPORT)

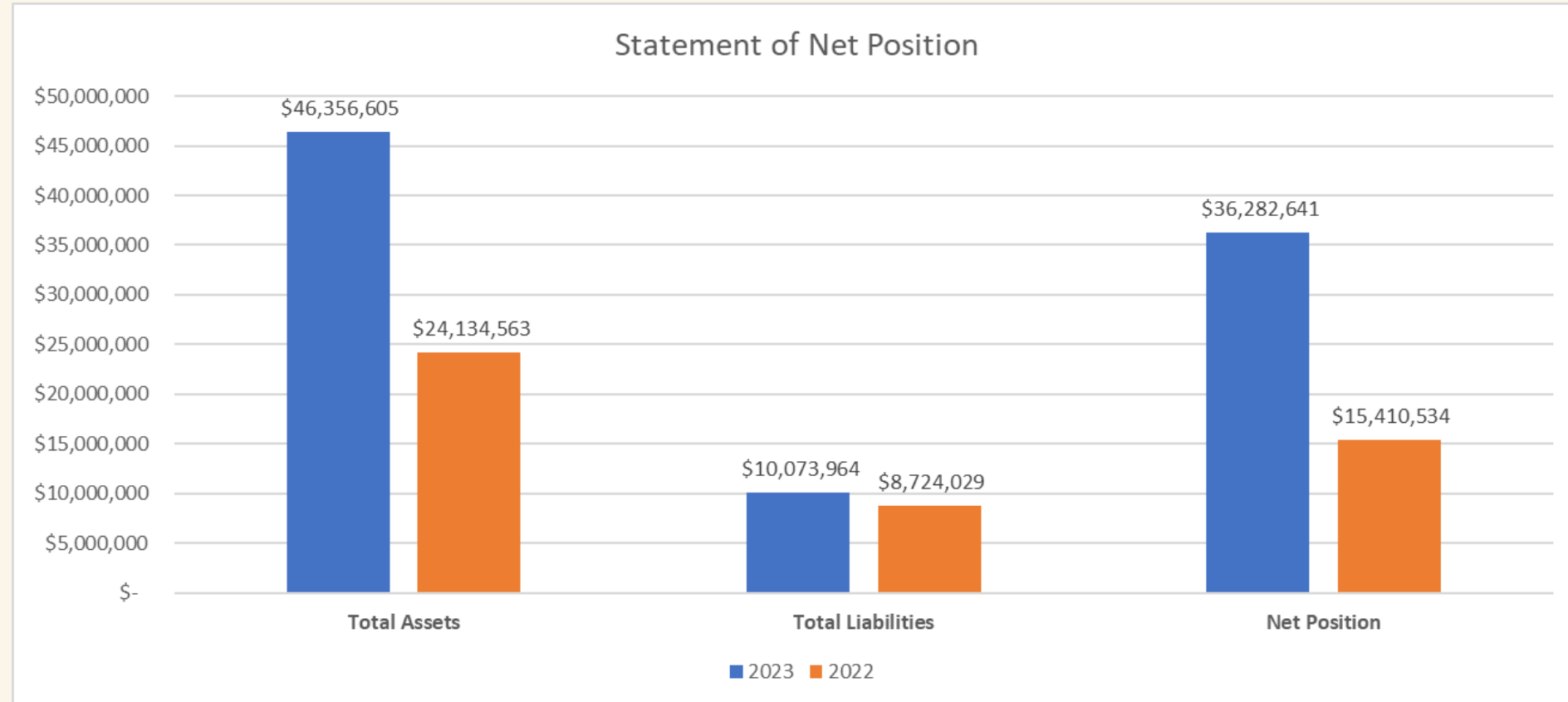


MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

- Pages 4-7
 - Financial Highlights
 - Condensed financial statements and graphs plus narrative about why balances changed from prior years
 - Analysis of balances and transactions
 - Facts or conditions that are expected to have a significant effect

STATEMENT OF NET POSITION

- ↑ Assets up \$22.2M (Mainly increase in Electricity Revenue)
- ↑ Liabilities up \$1.5M
- ↑ Net position is up \$20.8M



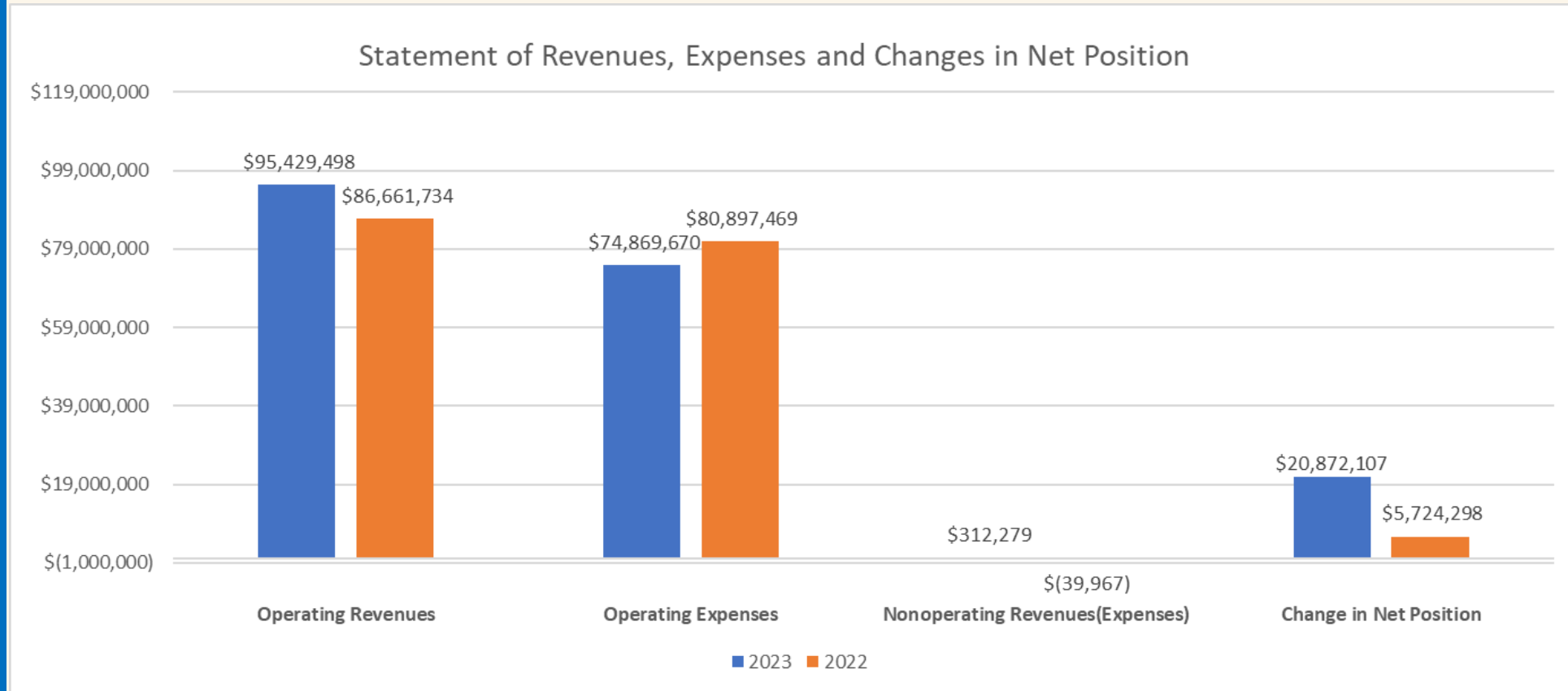
STATEMENT OF NET POSITION

	2023	2022
ASSETS		
Current assets		
Unrestricted Cash	\$ 27,479,933	\$ 3,850,610
Accounts receivable, net of allowance	10,599,982	11,085,087
Accrued revenue	3,434,034	3,430,397
Prepaid expenses	42,169	-
Other current assets and deposits	1,806,883	1,806,883
Total Current Assets	<u>43,363,001</u>	<u>20,172,977</u>
Restricted assets:		
Cash in - debt service reserve fund	1,100,000	1,100,000
Cash in - power purchase reserve fund	-	2,709,273
Total Restricted assets	<u>1,100,000</u>	<u>3,809,273</u>
Noncurrent Assets		
Other noncurrent assets and deposits	1,893,604	152,313
Total Noncurrent Assets	<u>1,893,604</u>	<u>152,313</u>
TOTAL ASSETS	<u>\$ 46,356,605</u>	<u>\$ 24,134,563</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 446,056	\$ 399,529
Accrued cost of electricity	5,743,525	4,657,891
Accrued payroll	58,367	116,285
Interest payable	-	2,248
Due to member agencies	4,132	25,160
Other accrued liabilities	3,821,884	2,810,664
Line of credit	-	530,968
Total Current Liabilities	<u>10,073,964</u>	<u>8,542,745</u>
Noncurrent Liabilities		
Line of credit	-	181,284
Total Noncurrent Liabilities	<u>-</u>	<u>181,284</u>
TOTAL LIABILITIES	<u>10,073,964</u>	<u>8,724,029</u>
NET POSITION		
Net position		
Designated - local program reserves	840,000	224,500
Restricted	1,100,000	3,809,273
Unrestricted	34,342,641	11,376,761
TOTAL NET POSITION	<u>\$ 36,282,641</u>	<u>\$ 15,410,534</u>

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Primary drivers:

- Electricity sales and costs
- Conscious pricing decisions
- Management of electricity cost
- As you build capital, investment revenue may contribute more.



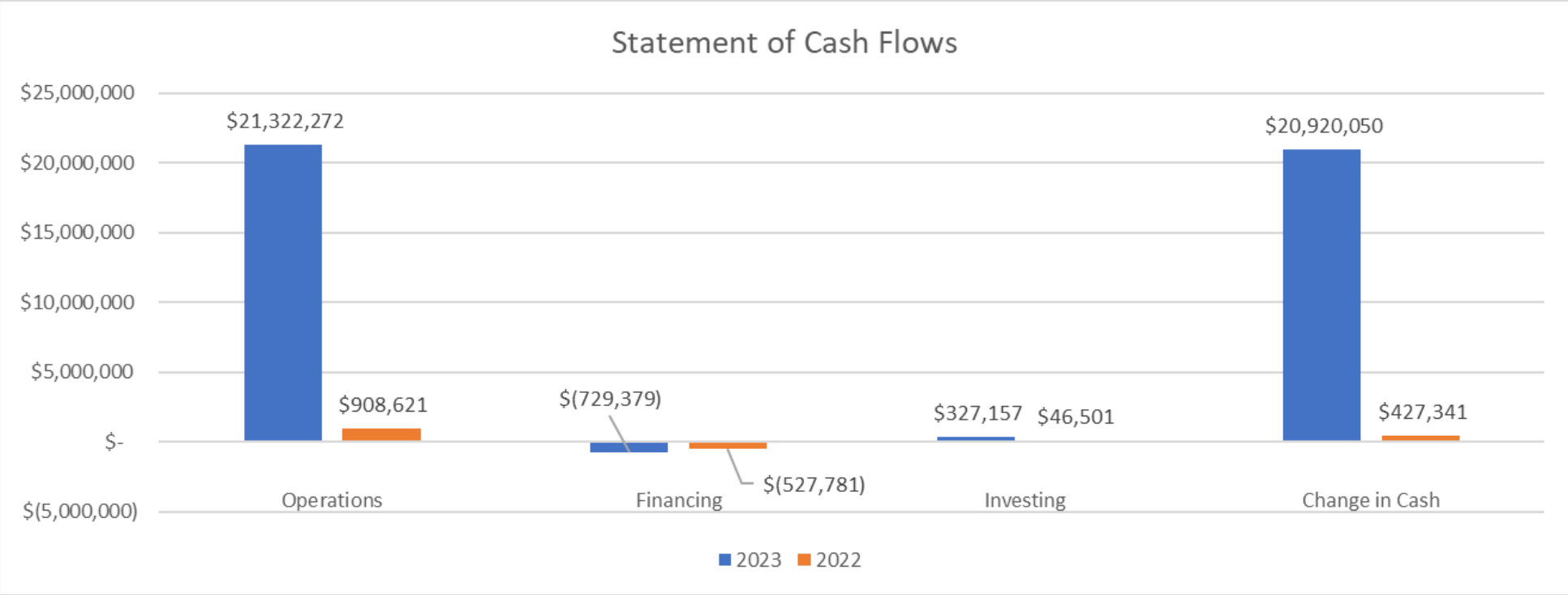
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

- Twelve Months vs Six Months
- Other revenue is largely the AgFit program.

	<u>2023</u>	<u>2022</u>
OPERATING REVENUE		
Electricity sales, net	\$ 94,681,216	\$ 85,322,760
Other revenue	748,282	1,338,974
TOTAL OPERATING REVENUES	<u>95,429,498</u>	<u>86,661,734</u>
OPERATING EXPENSES		
Cost of electricity	68,527,737	75,130,283
Contractors	3,063,635	2,556,894
Staff compensation	1,450,487	1,282,519
Program expenses	1,014,792	1,168,019
General and administrative	813,019	759,754
TOTAL OPERATING EXPENSES	<u>74,869,670</u>	<u>80,897,469</u>
TOTAL OPERATING INCOME (LOSS)	<u>20,559,828</u>	<u>5,764,265</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	327,157	46,501
Interest and related expenses	(14,878)	(86,468)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>312,279</u>	<u>(39,967)</u>
CHANGE IN NET POSITION	20,872,107	5,724,298
Net position at beginning of period	15,410,534	9,686,236
Net position at end of period	<u>\$ 36,282,641</u>	<u>\$ 15,410,534</u>

STATEMENT OF CASH FLOWS

Your program operated quite marginally before. You have strengthened your cash flows.

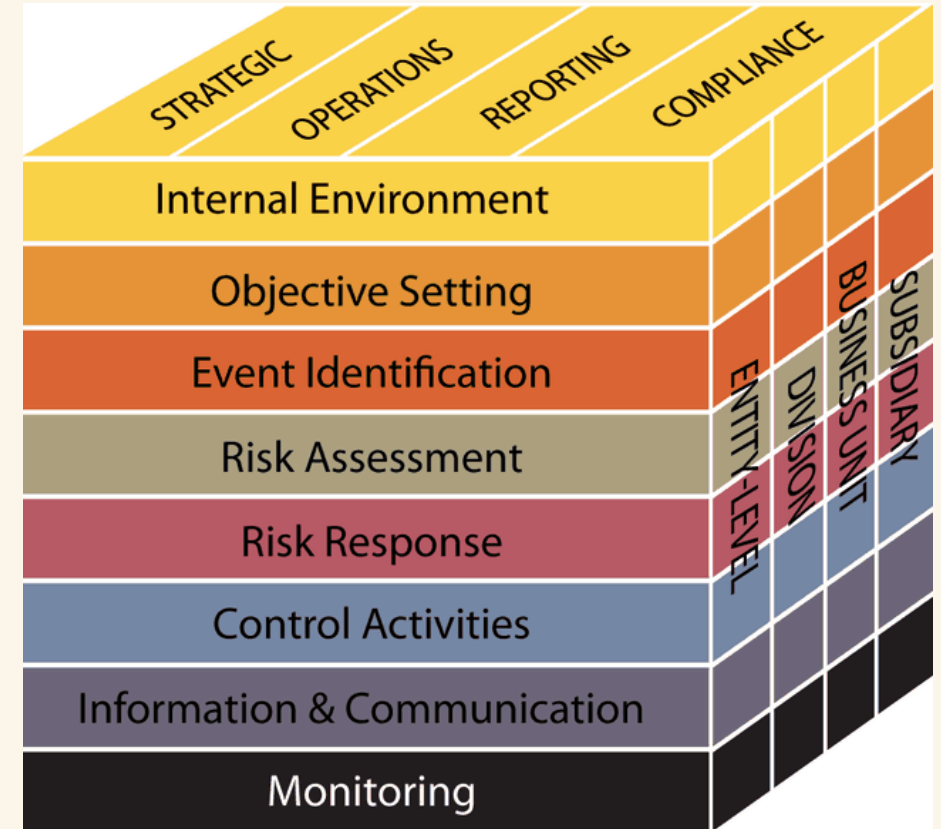


STATEMENT OF CASH FLOWS

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from electricity sales	\$ 95,146,830	\$ 79,912,041
Payments for security deposits with energy suppliers	(1,741,291)	(152,313)
Payments to purchase electricity	(67,426,248)	(74,983,435)
Payments for contract services, program expenses, general, and administration	(3,896,896)	(4,167,896)
Payments for staff compensation	(1,508,405)	(1,230,143)
Other cash payments	748,282	1,530,367
Net Cash Provided (Used) by Operating Activities	21,322,272	908,621
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Principal payments of debt	(712,252)	(440,774)
Interest and related expense	(17,127)	(87,007)
Net Cash Provided (Used) by Non-Capital Financing Activities	(729,379)	(527,781)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	327,157	46,501
Net Cash Provided (Used) by Investing Activities	327,157	46,501
NET CHANGE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of period	7,659,883	7,232,542
Cash and cash equivalents at ending of period	\$ 28,579,933	\$ 7,659,883
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 20,559,828	\$ 5,764,265
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
(Increase) decrease in net accounts receivable	485,105	(3,678,618)
(Increase) decrease in net accrued revenue	(3,637)	(1,662,204)
(Increase) decrease in prepaid expense	(42,169)	9,192
(Increase) decrease in other assets and deposits	(1,741,291)	39,080
Increase (decrease) in accounts payable	46,527	(45,513)
Increase (decrease) in accrued payroll	(57,918)	52,376
Increase (decrease) in due to member agencies	(21,028)	(92,785)
Increase (decrease) in accrued cost of electricity	1,101,489	146,848
Increase (decrease) in other accrued liabilities	1,011,220	445,877
Increase (decrease) in user taxes and energy surcharges	(15,854)	(69,897)
Net Cash Provided by Operating Activities	\$ 21,322,272	\$ 908,621

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

- No Material Weaknesses identified
- No instances of noncompliance identified



Thank you to
Valley Clean Energy Alliance staff
for the partnership
in working on this engagement.

QUESTIONS?

James Marta CPA, CGMA, ARPM

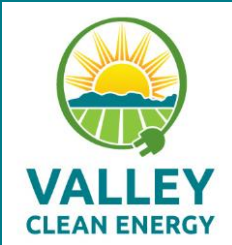




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Valley Clean Energy Board Meeting – April 11, 2024

Item 18 – Allocation of 2023 Net Margin



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Item 18 – Allocation of 2023 Net Margin: Overview

VCE's draft audited financial statements presented in Item 17 resulted in \$20.9 M net income for 2023. Taking into account the Dividend Program parameters, as well as available and forecast cash reserves, Staff is recommending allocations towards cash reserves, programs, and customer dividend program in the form of an additional rate credits beginning July 1, 2024.

This presentation will provide:

- Financial & Treasury Update
- Background of 2023 Net Margin
- Present estimated 2023 Net Margin Allocation

Item 18 – Allocation of 2023 Net Margin: Financial Update

Finance & Treasury Update

- 2023 Ending with 100+ Days Cash Reserves projects a Tripple B “BBB” credit Rating
- PPA Prepay – Early 2025 Reduces Long-term Power Costs (Does not require Credit Rating)
- Initial Investment Grade Credit Rating – Mid-2025 (2024 Audited Financials)
 - 180+ Cash Reserves (Minimum) required to reach A Ratings
 - 3 Years Positive Net Income
 - Smaller Customer Base – Recommended additional reserves for financial strength

Liquidity and Reserve Metrics Comparison							
Description	VCE	3CE	SVCE	EBCE	MCE	Sonoma	PCE
Rating		A	A	A	A	A	A-
Date		Oct-20	Jan-21	Nov-21	Mar-21	Dec-21	Apr-23
Outlook		Stable	Stable	Stable	Stable	Stable	Stable
Current Reserves	27.5 M	\$119.4 M	\$160 M	\$206 M (>180days)	\$184 M (200 days)	\$85 M (180 days)	\$135 M (>200 days)
Projected Reserves	39+ M 180+ Days by 2024	\$210M by 2024 (250 days)	\$200 M by 2024	75% of Annual OpEx (@\$320 M)	N/A	N/A	\$244 M 2023
Debt	No debt	No debt	No debt	No debt	No debt	No debt	No debt
Customers	62,200	296,000	270,000	640,000	490,000	229,000	310,000
Rate Target		2% below PG&E	4.5% below since launch			N/A	5% below PG&E

Item 18 – Allocation of 2023 Net Margin: Dividend Program Formula

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 Local Program Reserves (LPR) for program implementation
 - The balance goes to cash reserves

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

VCE Dividend Program Allocation - 2023

Description		Estimated 2023 Results	Avg. Days Cash		
Electricity Sales		95,429,500	204,000		
Operating Expense		74,557,400			
Operating Margin		20,872,100			
Principal Debt Payments		712,252			
Adjusted Net Margin less principal Debt Payments		20,160,000			
Adjusted Net Margin Percentage		21.13%			
Allocation Amount <=5%		4,771,000			
Allocation Amount > 5%		15,389,000			
Allocation of Net Margin up to 5%		Percentage	Allocation Amount	Operating Days Cash	
Cash Reserves Allocation		95%	4,532,000	22	Minimum
Local Programs Allocation		5%	239,000	1	Minimum
Allocation of Net Margin above 5%		Percentage	Allocation Amount		
Allocation to Cash Reserves		50%	7,694,500	38	Minimum

Item 18 – Allocation of 2023 Net Margin: Discretionary Allocation

Staff considered the following factors in related to this recommendation.

- Power Costs power cost increases and regulatory pressures (increased costs = decreased days cash on hand)
- VCE’s current 180 day cash reserve target does not include rate stabilization.
- Available funds for dividends would increase VCE’s current 1% discount during peak season.
- CPUC has approved increased security requirements (POLR proceeding)
- VCE provides an additional ~2.5%/\$1.1M annually in discounts to 25% of customers (CARE and FERA)
- PG&E’s additional Transmission/Distribution rate increase in March 2024 (projected +13%)

Scenario 1

	Percentage	Allocation Amount	Operating Days Cash	
Discretionary Allocation (After Cash Reserves)	50%	7,694,500	38	Maximum
Cash Reserves	75%	5,770,800	28	
Local Programs (Targeted 2024/25 Spend)	10%	769,500	4	
Customer Dividends (Targeted 2024/25 Spend)	15%	1,154,200	6	

Scenario 2

	Percentage	Allocation Amount	Operating Days Cash	
Discretionary Allocation (After Cash Reserves)	50%	7,694,500	38	Maximum
Cash Reserves	70%	5,386,100	26	
Local Programs (Targeted 2024/25 Spend)	10%	769,500	4	
Customer Dividends (Targeted 2024/25 Spend)	20%	1,538,900	8	

Scenario 3

	Percentage	Allocation Amount	Operating Days Cash	
Discretionary Allocation (After Cash Reserves)	50%	7,694,500	38	Maximum
Cash Reserves	80%	6,155,500	30	
Local Programs (Targeted 2024/25 Spend)	5%	384,700	2	
Customer Dividends (Targeted 2024/25 Spend)	15%	1,154,200	6	

Item 18 – Allocation of 2023 Net Margin: Summary Discussion

Summary

Staff believes that these scenarios represent a disciplined and financially prudent approach to building reserves and providing some additional level of rate relief. The longer-term outlook (2024+) shows increased stability and cost certainty due to VCE's fixed price long-term renewable power purchase contracts coming fully online combined with a cost-recovery based rate structure.

VCE Recommendation

Adopt a resolution approving the allocation of the \$20.9M 2023 Audited Net Margin as follows:

- \$17,997,300 (90%) of Net Margin to cash reserves;
- \$ 1,008,500 (05%) of Net Margin to the Local Programs Reserve (LPR).
- \$ 1,154,200 (05%) of Net Margin to the Dividends Program in the form of increasing Rate Credits by 1% for all customers starting July 1, 2024



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Valley Clean Energy Board Meeting – April 11, 2024

Item 19 – ERRO and Concierge Service



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Presentation Overview

- Electrification Retrofit Rebate Outreach Program (ERRO) Background, Implementation Strategies
- Concierge Service: Key Features
- Next Steps
- Staff Recommendations

ERRO - Electrification Retrofit Rebate Outreach Program

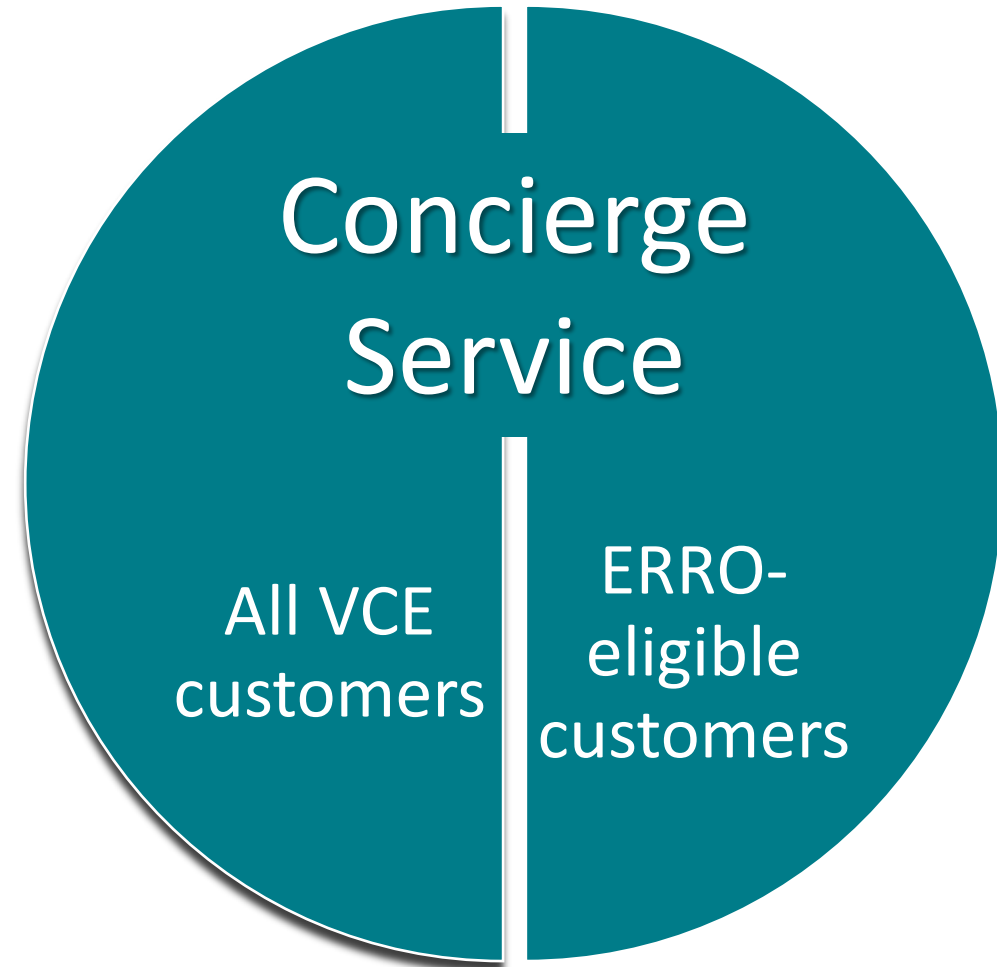
- In partnership with Yolo County; ARP-funded
 - The County has complementary programs: weatherization; Home Energy Reports
- Connecting low-income residents with available rebates (est \$1B in CA)
- Contracting completed, refining Outreach Plan
- Projected customer launch Spring/Summer 2024

Item 19 – ERRO and Concierge Service: ERRO Implementation Strategies

- Concierge Service
 - A new proposed service that would align well with program structure (task order)
 - 50% funding from VCE Programs Fund, 50% reimbursable from ERRO budget
- REACH Strategies
 - Assistance with Marketing, Education and Outreach elements (task order)
 - Collateral
 - Website material
 - In-language (Spanish)

Item 19 – ERRO and Concierge Service: Concierge Service Overview

- Concierge Service would enhance and expand existing customer service
- Intended for ERRO, as well as customers that would not qualify for ERRO
- Service will further Strategic Plan goal of increasing VCE's role as a trusted energy advisor to customers



Item 19 – ERRO and Concierge Service

Why an Electrification Concierge Service for Customers?

Confusion about what electrification is

Don't know where to start

Unaware of benefits (health, safety, climate, savings)

Technology is unknown/unfamiliar

May require electrical infrastructure upgrades

Rebates & incentives change often and often have specific eligibility and limitations



Item 19 – ERRO and Concierge Service

Why an Electrification Concierge Service for Customers?

- Help customers access the various **programs and resources** offered by VCE and other organizations (e.g. statewide rebates)
- Ensure that all customers, at all levels of technical understanding, have a **positive experience** from the start to end of their journey to electrify
- Provide support at the **appropriate technical level** in a way that is actionable, clear, and relevant
- **Simplify the process** to electrify so that customers feel empowered, encouraged, and supported to take on the next step, no matter where they are in their journey to electrify.

Item 19 – ERRO and Concierge Service

Concierge Service will cover:

General Guidance & Recommendations	Finding a Contractor
Technical Assistance	Reviewing Project Quotes
Virtual Energy Audits	Incentive Information & Applications
Electrification Plan Development	VCE Program Referrals

Item 19 – ERRO and Concierge Service

Channels & Deliverables



Website



Online Chat



Webform



Phone



Email



Electrification
Plan

Item 19 – ERRO and Concierge Service

Tiered customer support to optimize accessibility, escalations, and personalization

Energy Advisors: Front Line & Dedicated Support

Energy Specialists: Energy Audits & Weatherization

Energy Experts: Technical Support & Electrification Plans

Program Managers: General Support & Program Expertise

Item 19 – ERRO and Concierge Service

CRM Integration



Customer Records

Access to various customer information such as address, rate(s)/adders, VCE enrollment, etc.



Communication Management

Handle live chats, emails, and webform communications within the CRM, attached to a customer record.



Cases & Interactions

Designed for in-depth case management, customer info, and interaction record capture.



Reporting/Dashboard

Tracking contacts, channel, contact reason, outcomes, and progress to going electric.

Item 19 – ERRO and Concierge Service: Next Steps

Next Steps

- Integrate Feedback provided by key stakeholders into Outreach Plan
 - Main priorities: effective segmenting & targeting; in-language materials; renter/owner split incentive; Outreach Plan & CBOs/key stakeholders
- If approved, integrate VCE branding elements, and launch Concierge Service spring 2024
 - Customer-facing name: Home Energy Help Desk (?)
- Finalize Collateral Spring 2024
- Customer launch Spring/Summer 2024

Staff Recommendations

- Approve Electrification Retrofit Rebate Outreach Program (ERRO) Implementation Elements:
 - Task Order Amendments with SMUD and REACH Strategies for implementation and support.
- Authorize the Executive Officer to execute and implement the contracts
- Approve ERRO Program & Concierge Service Budget of \$270,000 and 2024 Programs budget transfer of \$160,000 to ERRO Program including \$70,000 in reimbursable revenues and \$90,000 non-reimbursable costs (Net neutral impact 2024 Budget)