Valley Clean Energy Board Meeting – April 8, 2021
via video/teleconference

Item 15 – Preliminary draft FY21/22 Operating Budget

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Item 15 – Overview – Preliminary Draft Operating Budget FY 2021-2022

Overview

- Draft Budget presentations in April and May; Budget adoption in June
- The purpose of this presentation is to:
  - Provide an update on the current fiscal year budget
  - Introduce the preliminary draft operating budget for FY 2021-22
- Net $0.1M or ~1% difference from previous forecasted budgets
  - FY 2020-2021 approximately $0.8M better than the approved budget
  - FY 2021-2022 Preliminary Draft Budget is approximately $0.9M lower

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Operating Budget FY 2019-2020 Update

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Item 15 - Background – Operating Budget FY 20-21

Operating Budget FY 2019-2020 Overview

June 2020

- Board approved a $52.5M Operating Budget for FY 2020-2021
  - Net loss of $2.8M, after factoring in fiscal mitigation policy adjustments.
- Current operating budget was based on the following key factors:
  - **Covid-19.** Substantial reductions in load and revenue related largely to COVID and anticipated recessionary factors.
  - **PG&E Generation Rates.** 1.4% increase of PG&E's generation rates.
  - **Power Charge Indifference Adjustment (PCIA).** Overall, an approximately 44% increase.
  - **Power costs.** $6.1 million increase in forecasted power costs – due primarily to increasing Resource Adequacy (RA) costs and an anticipated delay in generation from pending long-term solar projects.
  - **Fiscal Mitigation Policy Adjustments.**
    - Power Planning Resource Adjustment- reduce purchase costs by $2.25 million.
    - Accepting large hydro allocations from PG&E - avoided a net $125,000 expenditure for GHG free energy.

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Item 15 - Background – FY 20-21 Actual + Forecast

Current FY Update - Year to Date Actual plus Forecast FY 20-21

- FY 2020-2021 net financial position is forecasted to be favorable by approximately $0.8M due mainly to the following factors:
  - Positive Factors:
    - Revenue increases from higher customer demand from COVID - 19 impact load forecast.
    - Lower actual expenditures related to marketing, new member agency on-boarding, legal support and contingency.
    - Contract labor expenditures below budget due to staffing.
    - Fiscal Mitigation Policy Adjustments – tracking as forecast
  - Offsetting Factors:
    - The net effect of PG&E's average generation rate change (+2.8%) and PCIA increase.
    - COVID-19 net impact resulted in higher costs for short-term power purchases.

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Item 15 – Overview – Preliminary Draft Operating Budget FY 2021-2022

Preliminary Draft Budget FY 2021-22

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Item 15 - Preliminary Draft Operating Budget FY 2021-22

Preliminary Draft Budget FY 2021-22 – Overview

- Preliminary Draft 2022 Budget is nearly flat v. FY20-21 budget (~1% difference) – less than CPI

- Preliminary Draft 2022 Budget includes a forecasted net income loss of $6.9M. This is an approximately $0.9M greater loss from the $6.0M net loss forecasted and presented to the Board last June.

- The increased net loss is due primarily to the following major factors that are outside of VCE's direct control:

  - RA cost volatility/increases in power costs due to higher than forecasted resource adequacy resulting from a tightening market, shifting market rate design and CPUC requirements.

  - COVID-19 load forecast uncertainty related changes in long-term load requirements result in more conservative forecasting.

  - TOU rate transitions of some non-residential customers from their legacy rates.

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Item 15 - Preliminary Draft Budget FY 2021-22 – Expenses

Preliminary Draft Budget Energy Expenses

- Energy Expense net increase of ~1.48% compared to FY20-21 actual to FY21-22 forecast budget
  - Increases – RA 31%
  - Reductions – Hydro -92% and Energy Costs -6%

Preliminary Draft Budget Other Operating Expenses

- Expense net increase of ~1% compared to the FY20-21 budget
  - Increases - VCE Community Programs and Strategic Plan Implementation
  - Reductions - new member support and legal support
- Primary factors in this category of expenses include:
  - Services currently under contract
  - Transition to internal VCE staff and away from SMUD staffing services
  - 1.5% annual inflation rate on most expenses not under contract
  - 5% contingency rate - post COVID transition.

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Item 15 - Preliminary Draft Budget FY 2021-22 – Other Considerations

Preliminary Draft Budget Other Considerations

- PCIA is incorporated into the draft preliminary FY 2022 at the previously forecasted net increase of 39%.
- Generation Rate is forecasted with a 1% increase in PG&E generation rates
- Both the PCIA and PG&E's generation rate setting are factors outside of VCE control.

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Item 15 – Preliminary Draft Budget FY 2021-22 – Summary

	APPROVED BUDGET FY 2020-21	ACTUAL YTD JAN 31, 2021 (7 MO) + FORECAST (5 MO) FY 2020-21	PRELIMINARY BUDGET FY 2021-2022
Energy - Megawatt Hours	**717,987**	**762,289**	**769,935**
OPERATING REVENUE	**$ 49,638**	**$ 53,981**	**$ 49,047**
OPERATING EXPENSES:			
Cost of Electricity	47,670	51,663	51,082
Contract Services	2,723	2,577	2,559
Outreach & Marketing	241	177	241
Programs	12	3	135
Staffing	1,132	1,116	1,164
General, Administration and other	772	577	829
TOTAL OPERATING EXPENSES	**52,550**	**56,113**	**56,010**
TOTAL OPERATING INCOME	**(2,912)**	**(2,131)**	**(6,964)**
NONOPERATING REVENUES (EXPENSES)			
Interest income	135	101	139
Interest expense	(57)	(56)	(42)
TOTAL NONOPERATING REV/(EXPENSES)	**78**	**45**	**97**
NET MARGIN	**$ (2,834)**	**$ (2,086)**	**$ (6,866)**
NET MARGIN %	**-5.7%**	**-3.9%**	**-14.0%**

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Item 15 – Preliminary Draft Budget FY 2021-22 – Conclusions

Preliminary Draft Budget Conclusions

- The preliminary draft FY 2022 operating budget reflects a -14% net margin
  - less than 1% difference from the net margin position forecasted last June.
  - As forecasted last June, net margin position does not meet VCE's 5% minimum annual goal.

- Fiscal Mitigation Policy Adjustments Adopted by the Board in June 2020 have helped blunt fiscal impacts – tracking as forecast

- Continuing volatility and uncertainty in the RA market, PCIA and load forecast due to Covid-19 are the primary drivers of the negative net margins.

- Utilizing reserves for rate stabilization will maintain rate competitiveness with PG&E and bridge the gap until long-term renewable contracts come on-line in 2021/22/23.

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