Valley Clean Energy Special Board Meeting – May 14, 2020
Via Teleconference

Item 13 – Approve Long Term Renewable Power Purchase Agreement

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Item 13 - Long Term Renewable Power Purchase Agreement - Background

Staff seeking approval for a 72 MW Power Purchase Agreement

- In August 2018, VCE issued a Long Term Renewables Solicitation
- 32 Projects were considered, 9 passed initial screening
- Selection Criteria included
  - Not on prime agricultural land
  - Environmental & Cultural sensitivity
  - Development maturity
  - Inside California
  - Interconnection to grid
  - Value

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Item 13 - Long Term Renewable Power Purchase Agreement - Background (con't)

- Two Projects were Short Listed
  - Combined to serve approx. 50% of VCE's load
  - One project already secured (Westlands Solar Park)
  - No other combination provided enough energy to satisfy RPS minimum long-term contracting requirements

- The second of the two Projects is the Rugged Solar Project near San Diego, CA
  - Owner/Manager: Clean Focus
  - Developer: SunCapture

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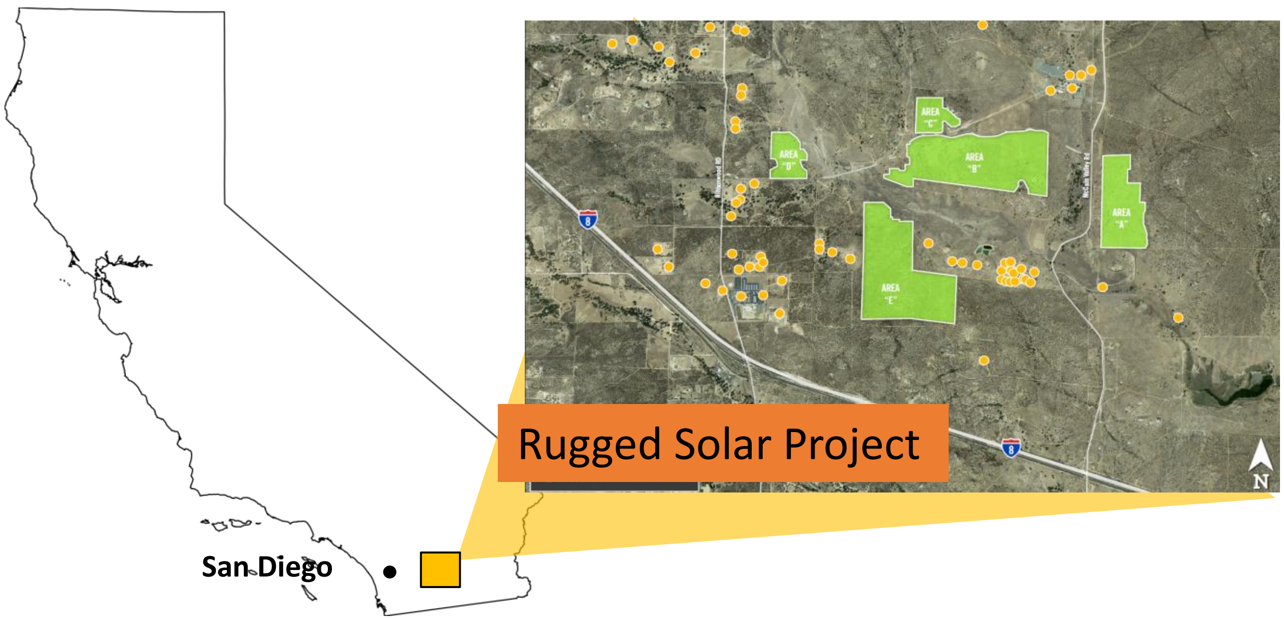
Item 13 - Long Term Renewable Power Purchase Agreement - Rugged Solar Overview

- Approx 70 miles east of San Diego
- Construction Dec 2020 - Dec 2021
- Interconnect Agreement w/ CAISO
  - Delivery Point: SDG&E Boulevard East Substation
- Land: 35 year lease w/ option to buy



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Item 13 - Long Term Renewable Power Purchase Agreement - Terms

- Term: 20 years
- Volume: 72 MW
- Price reduction if Rugged does not achieve Full Capacity Deliverability Status (ability to provide Resource Adequacy)
- Savings vs. Purchasing RECs in Short Term Markets
- Savings vs. Budget: $3.8m (based on projections)
- Resource Adequacy capacity will provide additional value to savings projections

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Item 13 - Long Term Renewable Power Purchase Agreement – Staff Recommendation

- Approve the PPA by VCEA for 100% of the output for 20 years of the Rugged Solar Project under development by Rugged Solar LLC (Rugged) provided the counterparty (or counterparty's contractor) executes a Project Labor Agreement (PLA) by June 10, 2020.
  - Authorize the Interim General Manager to execute the PPA after the PLA has been signed.

Valley Clean Energy Special Board Meeting – May 14, 2020
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Item 14 – Update on PG&E Commercial and Agriculture rates (TOU rates) with early adoption available (Informational)

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Item 14 – Update on PG&E Commercial and Agriculture rates (TOU rates) - Introduction

- **PG&E is changing time of use (TOU) rates for all commercial and agricultural customers**
- **The new rates will become mandatory for eligible customers in March 2021**
- **Customers can opt in to the new rates now**
- **A few customers have contacted VCE concerning the new rates**
- **VCE matches PG&E rates—even the new ones**

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Item 14 – Update on PG&E Commercial and Agriculture rates (TOU rates) - VCE Rate Overview

VCE Customer Overview				
Customer Class	**Size (kW)**	**# Accounts**	**Current Rate**	**New Rate**
Small Commercial	<75	4,557	A1, A6	B1, B6
Medium Commercial	<499	647	A10, E19	B10, B19
Large Commercial	>500	5	E20	B20
Ag		1,823	AG1, AG4, AG5	AG-A1,2, AG-B, AG-C
Residential		48,901	E1, E6, ETOU A,B	ETOU-C, D
Traffic Signals and Streetlights		609	LS3, TC1	
Total Accounts		**56,542**		

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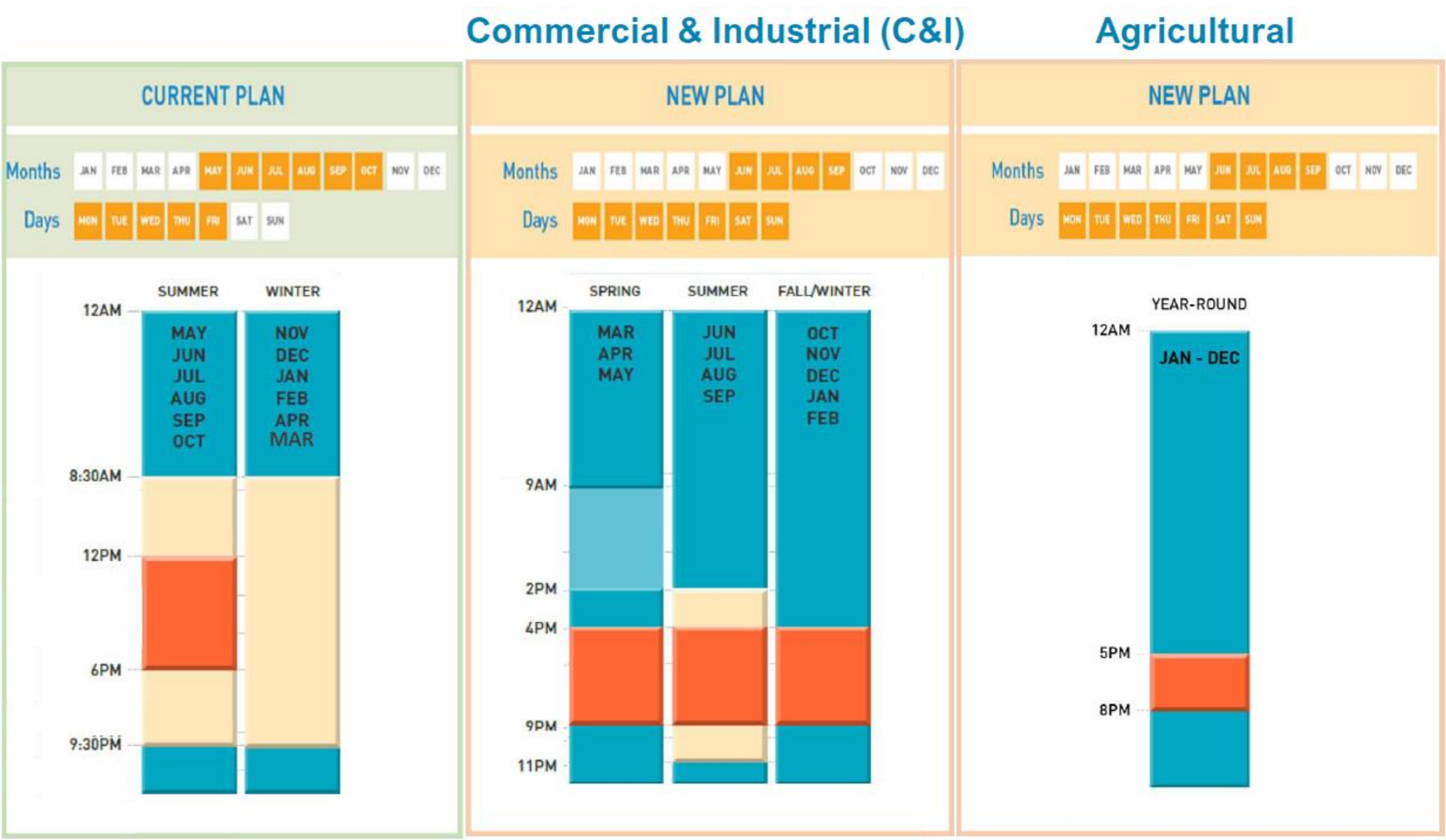
Item 14 – Update on PG&E Commercial and Agriculture rates (TOU rates) - PG&E Rates – What's Changing



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Item 14 – Update on PG&E Commercial and Agriculture rates (TOU rates) - Commercial & Ag Rates

- **Rates are typically designed to be revenue neutral over a given rate class**
- **There are always winners and losers to achieve neutrality**
- **Customer usage profiles determine whether they are net benefiters, neutral or will pay more**
- **Customers can calculate rate impacts on the PG&E website**

Item 14 – Update on PG&E Commercial and Agriculture rates (TOU rates) - Current Status

- **VCE matches PG&E rates and currently offers the new rates**
- **Several customers have already opted in to the new rates--**

Class	Rate	# Customers	%
Small	B1	147	4.5
	B6	59	
Med	B10	12	3.7
	B19	12	
Large	B20	1	20
Ag	AGA	8	1.3
	AGB	9	
	AGC	2	
	AGF	4	

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Item 14 – Update on PG&E Commercial and Agriculture rates (TOU rates) - Process

- **PG&E is hosting virtual workshops to provide information on the rate changes**
- **They will send out 90, 60 and 30 day notices prior to the mandatory changes**

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Valley Clean Energy Special Board Meeting – May 14, 2020
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Item 15 – Approve VCE's policy regarding PG&E allocation of Greenhouse Gas (GHG)-free (Large Hydro and Nuclear) resources to CCAs

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Item 15 - 2020 GHG Free Allocation Background

- VCE goal for 2020 is to provide a minimum 75% GHG-free energy.
- In 2020:
  - 42% of VCE's GHG-free energy portfolio are resources that qualify as renewable energy under the state's RPS program (RPS) and 33% are resources that do not qualify under the RPS, but are considered GHG-free. Large hydro and nuclear do not emit any GHG emissions, but don't qualify under the state's RPS.
- VCE has procured all needed RPS and GHG free to meet its 2020 goals.
- A number of PG&E GHG free resources (large hydro and nuclear) are paid for through the PCIA.
- On May 7, 2020 the CPUC approved PG&E's advice letter offering large hydro and nuclear GHG free attributes to LSEs (CCAs).

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Item 15 - 2020 GHG Free Allocation PG&E Proposal

Interim Proposal by PG&E

- Key elements of the interim proposal include:
  - Limited in time to 2020 for Large Hydroelectric & Nuclear
  - Only available to retail suppliers whose customers pay PCIA
  - Requires that the CPUC approve a mechanism for the allocation of such generation
  - No payment required

- PCIA Working Group 3 is developing post 2020 options

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Item 15 - 2020 GHG Free Allocation Potential Savings for VCE

Potential savings is based on historical generation using a $6/MWh premium for carbon free energy. Volume can vary widely. Price and demand are likely to drop due to PG&E proposal being approved. The savings indicated below assume VCE can sell these allocations to recover what it already pays thru PCIA.

	Forecasted Allocated Volumes	Minimum 50% Probability	Medium 40% Probability	Maximum 10% Probability
Hydro + Nuclear	110 GWh	$0	up to $120,000	up to $660,000
Nuclear only	70 GWh	$0	$0	up to $420,000
Hydro only	40 GWh	$0	up to $120,000	up to $240,000

Note: Allocations assumed to begin mid-year. If allocations were to commence later then volumes will be lower.

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Item 15 - 2020 GHG Free Allocation Considerations of each Scenario

	Positives	Negatives
Accept Nuclear	• VCE most likely meets/exceeds 100% Carbon Free content • PG&E's Carbon Free content lowered to more accurately reflect their load	• VCE incorporates Nuclear Energy as a source on its Portfolio Content Label
Accept Hydro	• VCE exceeds 75% target for carbon free content for 2020 • PG&E's Large Hydro content lowered	• VCE has to agree not to contest the lack of incorporating this value into 2020 PCIA
Accept None	• VCE doesn't waive anything (although chances of recovering any of this value is near zero)	• PG&E unfairly shows higher carbon free content while our customers pay for PCIA

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Item 15 - 2020 GHG Free Allocation
Staff Recommendation

- Accept only the Large Hydro allocations
  - Attempts to balance the perceived benefits of increased GHG free on the Power Content Label, potential value in the market and reputational risk.
  - Taking the allocations will reduce PG&E's unfairly represented power content.
- Allow the Interim General Manage to sign an agreement with PG&E for the GHG-free allocations.
- Revisit this topic as the PCIA Working Group 3 finalizes the approach for 2021 and beyond.

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Valley Clean Energy Special Board Meeting – May 14, 2020
Via Teleconference

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Item 16 – Update on FY20-21 preliminary Operating Budget, Load Forecast, and Potential Policy options

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Item 16 – Overview

OVERVIEW:

This report addresses three topics related to the fiscal 2020/21 budget:

1. Updated electricity demand forecast for COVID/recessionary period;
2. Preliminary budget projections; and
3. Policy strategies to address potential FY 2020/21 budget shortfall.

The demand forecast influences the preliminary budget which in-turn helps reveal the need for potential policy adjustments going forward. Staff is seeking directional guidance from the Board on the preliminary budget and potential policy adjustments and will provide final recommendations at the June Board meeting.

Item 16 - Section 1 – COVID & Recession Impacts

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Item 16 - Introduction

KEY FACTORS:

- VCE faces a reduction in load due to COVID-19, Shelter-In-Place (SIP) orders, and economic recession
- CAISO has observed 4.5% load reduction since SIP
  - VCE estimates increase of 5% in residential load and decrease of 14-20% in commercial load
  - As of yet, agricultural load has not been impacted
- VCE has prepared three cases (Best, Likely, Worst) to inform budgetary considerations. These will be described more fully in this presentation.

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Item 16 - California Reopening Roadmap

REOPENING ROADMAP:

On April 28, Governor Newsom announced a 4-stage reopening plan:

- Phase 1 – where we've been
  - Essential businesses open
  - Planning activities to reopen others
- Phase 2 – started May 8
  - Open nonessential retail and manufacturing with restrictions (like curbside pickup)
  - Open offices (where telecommuting not possible)
- Phase 3 - coming in "months, not weeks"
  - Open barbershops, nail salons, gyms
  - Open churches and sporting events without audiences
- Phase 4 - "will take some time"
  - Open large venues like concerts, convention centers
  - Lifting of stay-at-home order
  - Will require therapeutics to be in place

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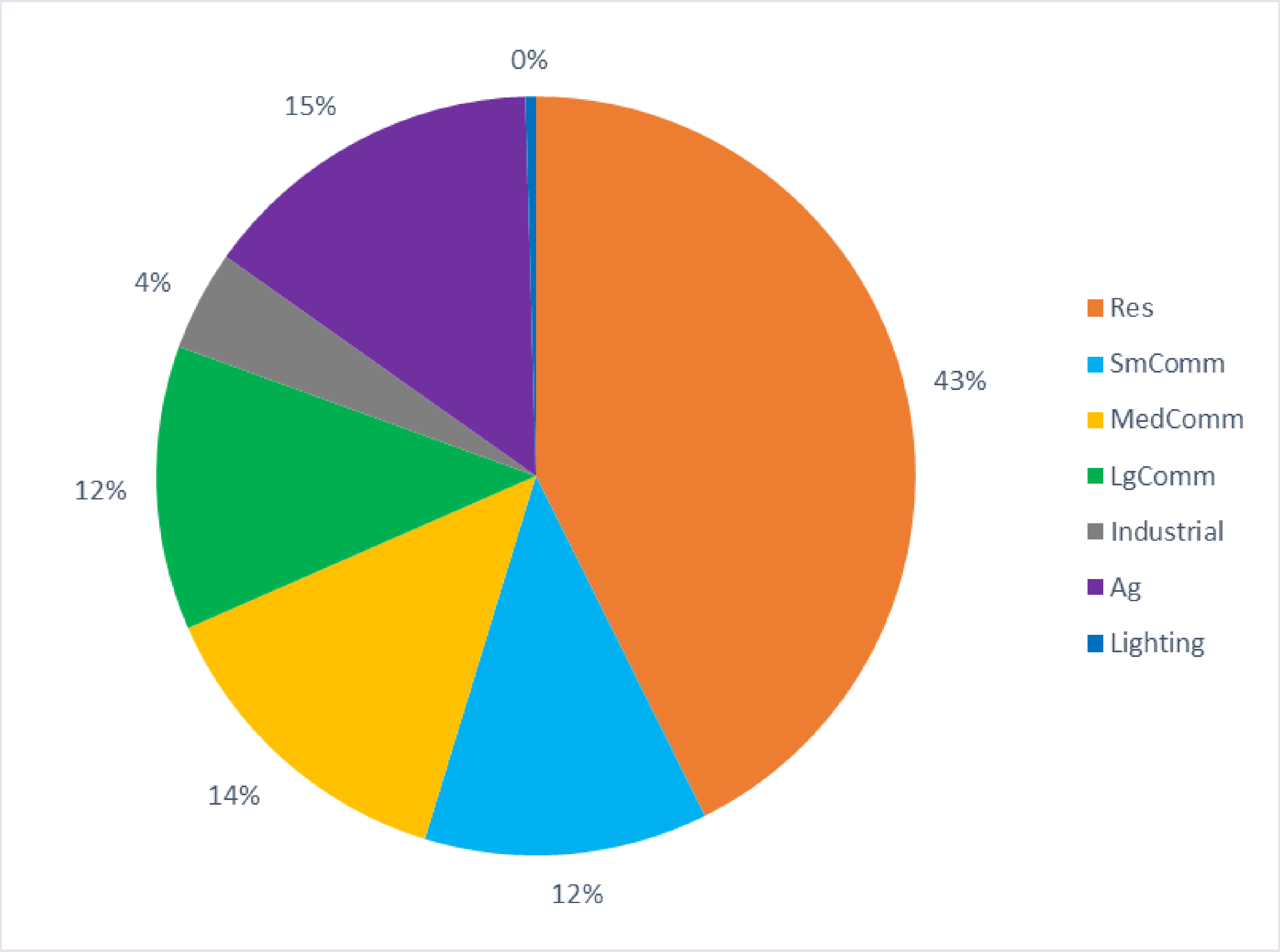
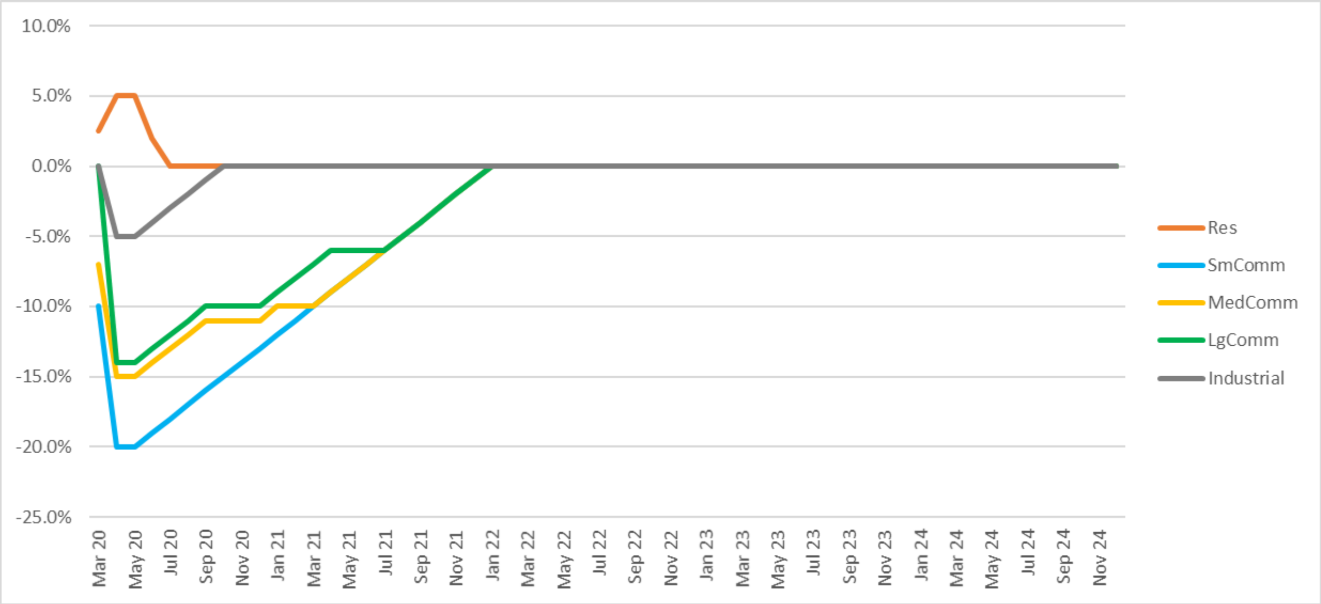
Item 16 - Rate Class Contribution to VCE's Load



Item 16 - Best Case Scenario



Year	Load Reduction
2020	3.8%
2021	2.3%
2022	0%
2023	0%
2024	0%

- Fast v-shaped recovery, with return to original load levels by 2022
- Assumes no lasting impact once a vaccine is available and population can return to all normal activities
- No recession impact to residential loads

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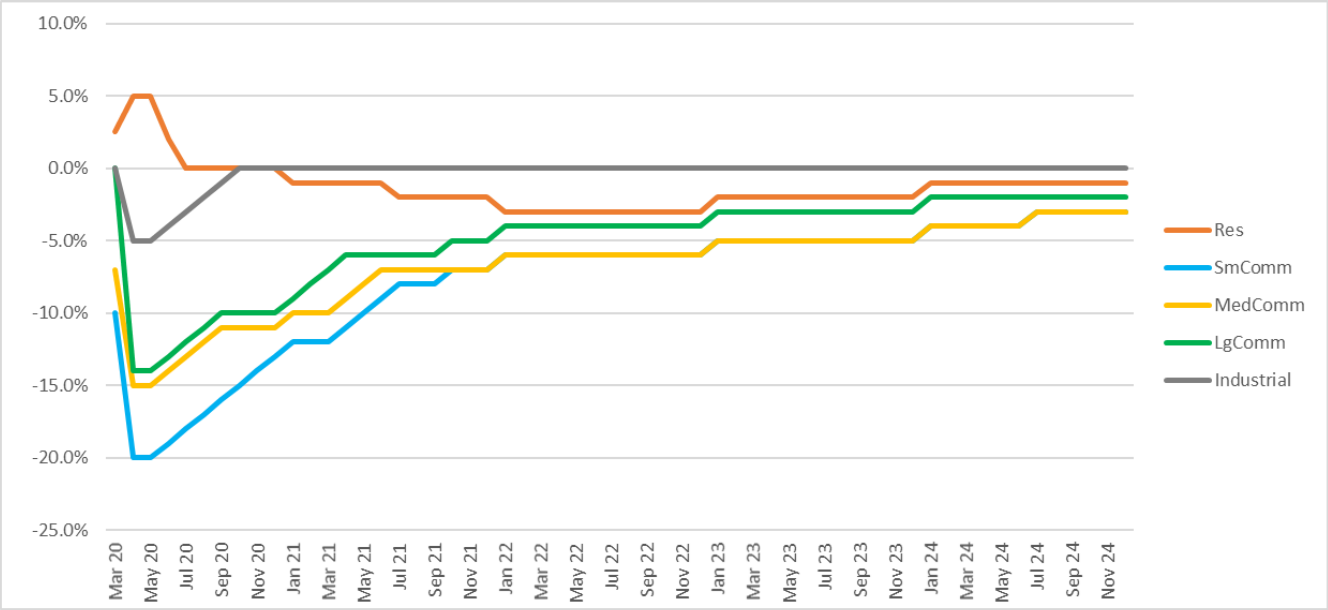
Item 16 - Most Likely Scenario



Year	Load Reduction
2020	3.8%
2021	3.6%
2022	3.3%
2023	2.5%
2024	1.6%

- Load recovery during staggered reopening, population's concern regarding public spaces subsides as safety measures put in place
- Recession impact through 2023-24
- Residential loads drop 2% per year for two years, in line with 2008 recession
- No impact to ag, assumes food supply chain largely uninterrupted

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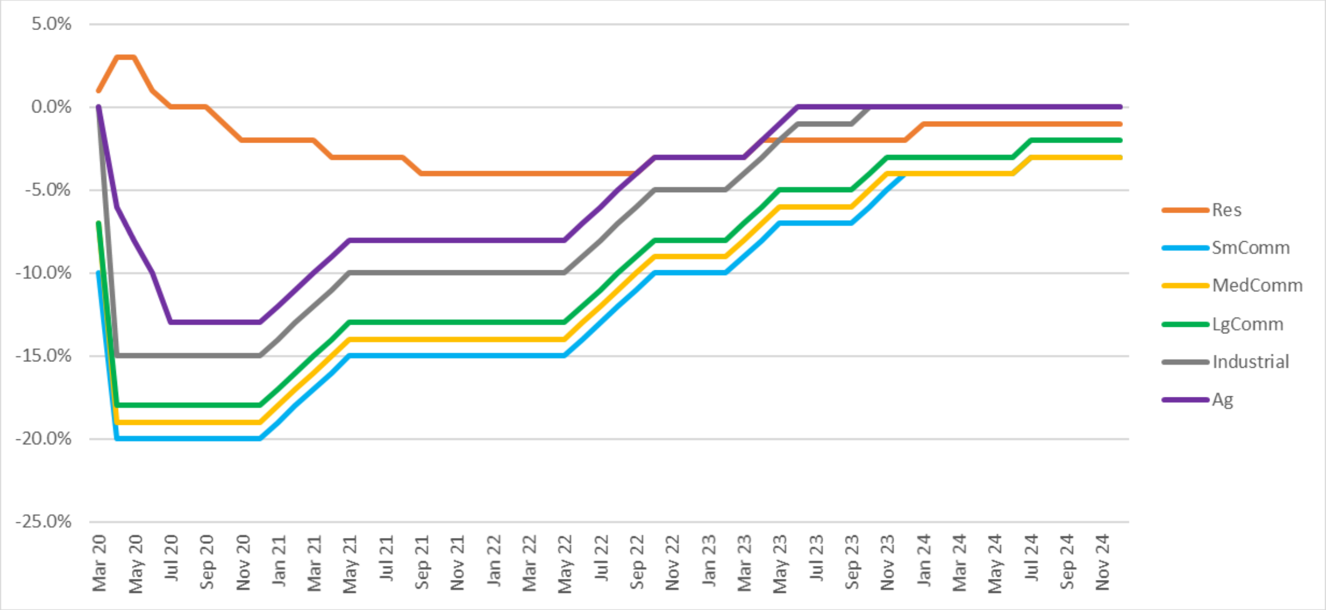
Item 16 - Worst Case Scenario



Year	Load Reduction
2020	8.0%
2021	8.7%
2022	7.3%
2023	3.5%
2024	1.6%

- Extended recession impacts all classes
- No load recovery in 2020 - second shutdown in fall and/or extended public concern regarding risk of public spaces
- Disrupted supply chain impacts ag load
- Significant production drop for one or more industrial customer
- Earlier/deeper drop in residential due to vacant housing, limited return to campus

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Item 16 - Scenario Comparison

		Best Case	Most Likely	Worst Case
2020	Retail Load	3.8%	3.8%	8.0%
	Power Costs	1.9%	1.9%	4.0%
	Revenue	4.2%	4.2%	8.3%
2021	Retail Load	2.3%	3.6%	8.7%
	Power Costs	1.6%	2.7%	6.0%
	Revenue	2.3%	3.7%	8.5%

- 2020 fully hedged, limited opportunity to change power costs
- Deeper impacts to revenue due to disproportionate commercial impact, loss of kW revenue

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Item 16 - Section 1 Conclusion

CONCLUSION:

- Power cost and revenue don’t scale on a perfect 1:1 basis with load
- Power costs decrease to a lesser degree than customer electricity load
- The revenue loss is slightly greater than the overall load loss due to the disproportionate loss from the commercial classes
- In total, isolating the COVID and associated recessionary impacts for the most likely scenario show a potential revenue decline of $2.25 million for calendar year 2020 and $2.08 million for 2021
- Due to the fluid nature of these forecasts, assumptions and results will require frequent revisiting

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Item 16 - Section 2 – Preliminary FY21 Budget

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Item 16 - Preliminary Budget - Overview

2021 BUDGET:

The preliminary FY 2020-21 Budget currently forecasts a negative Net Income of -$5.2 million, due primarily to three major factors outside of VCE's direct control, offset by one favorable factor:

- Power Charge Indifference Adjustment (PCIA) increase
- Increase in power costs due to significant rise in resource adequacy (RA) costs and the assumption of a longer wait for energy delivery from the upcoming long-term solar projects
- Anticipated reduction in load resulting from the COVID-19 global pandemic, shelter-in-place orders to protect public health, and the predicted economic recession
- Somewhat offsetting these is an increase in PG&E generation rates anticipated for summer of 2020

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Item 16 - Preliminary Budget – PCIA and Gen Rate

POWER CHARGE INDIFERENCE ADJUSTMENT & GENERATION RATE:

Revenue decline is driven by:

- PCIA increased 18% (to approx. 3.2 cents per kWh) starting May 2020 and is anticipated to increase an additional 38% (to approx. 4.4 cents per kWh) starting November 2020 due to the expectation that PG&E will file a cap exception trigger in 2020; this will decrease VCE's revenue
- PG&E generation rates are forecast to increase by an overall average of 1.5% for calendar year 2020, due largely to the anticipated PG&E General Rate Case; this will increase VCE's revenue
  - In prior estimates, VCE anticipated a decrease in PG&E generation rates; recent updates on PG&E filings and market conditions have revised the rate forecasts from our rate consultants

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Item 16 - Preliminary Budget – Power Costs/Mix

POWER COST/MIX:

Power costs have increased by $8.3 million from FY2020 due primarily to rising RA costs. Drivers for RA cost increases in this time period include:

- Tightening market as fossil fuel baseload energy resources are retired;
- Shifting market rate design and requirements mandated by the CPUC.

Other less significant contributing factors impacting VCE power costs include:

  - Adding Winters load
  - Renewable Energy Credit (RECs) cost increase
  - Carbon-free energy cost increase
  - Brown power market cost decrease

Recession impacts have reduced projected power costs from our previous budget by approximately $1 million.

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Item 16 - Preliminary Budget – COVID/Recession

COVID/RECESSION IMPACTS:

As noted in Section 1 of this presentation, the COVID and recessionary impacts for the most likely scenario show:

- $2.5 million revenue reduction for FY 2021 and associated $1.0 million reduction in power cost.

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Item 16 - Preliminary Budget – Key Assumptions

KEY BUDGET ASSUMPTIONS & FACTORS:

The Preliminary 2021 Budget includes the following key assumptions:

- Power mix remains unchanged from the prior year's budget with 42% renewable and 75% clean energy content
- COVID and recession impacts have been factored into the customer load, revenue and power costs
- Load forecast has been updated using actual load data, opt-out and opt-up rates. The load forecast for FY 2021 is 677 GWh (down from 722 GWh in last budget update)
- Energy cost includes system energy, eligible renewables and carbon free attributes which are forecasted at $36.6 million (73.3% of total power costs). Resource adequacy cost is forecasted at $13.3 million, (26.7% of total power costs).

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Item 16 - Preliminary Budget – Budget Scenarios

IMPACTS OF COVID & RECESSION:

- **Best Case** scenario has a revenue reduction of $2.3 million compared to pre-recession forecasts, with a power cost reduction of $900K, resulting in an overall _$1.4 million Net Income reduction_
- **Most Likely** scenario, **which represents our base case preliminary budget for FY 2021**, features a revenue decrease of $2.5 million and associated power cost decrease of $1.0 million, resulting in a _$1.5 million Net Income reduction_
- **Worst Case** scenario results in more significant impacts, with slower recovery and a revenue reduction of $5.2 million in FY 2021, offset by a power cost reduction of $2.7million, resulting in an overall _$2.5 million Net Income reduction_

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Item 16 - Preliminary Budget – Conclusion

CONCLUSION:

- VCE faces a challenging 2021 fiscal year, affected by COVID/recessionary impacts, rapidly escalating PCIA costs, and rising resource adequacy expenditures
- Combination of these factors results in a forecast loss of over $5 million
- Staff recommends that the Board consider implementing one or more policy strategies in order to partially mitigate the budgeted loss while still enabling VCE to maintain it's customer, environmental, and operational goals
- Section 3 of this presentation addresses those potential policy strategies in detail

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Item 16 - Preliminary Budget – Summary Table

VCE PRELIMINARY OPERATING BUDGET	APPROVED BUDGET FY 2019-2020	ACTUAL YTD MAR 31, 2020 (9 MO) + FORECAST (3 MO) FY 2019-2020	PRELIMINARY BUDGET FY 2020-2021
OPERATING REVENUE	$ 55,708	$ 54,941	$ 49,513
OPERATING EXPENSES:			
Cost of Electricity	41,575	41,004	49,920
Contract Services	2,910	2,890	2,982
Staff Compensation	1,183	1,069	1,118
General, Administration and other	728	527	771
TOTAL OPERATING EXPENSES	46,396	45,491	54,790
TOTAL OPERATING INCOME	9,312	9,450	(5,277)
NONOPERATING REVENUES (EXPENSES)			
Interest income	132	108	135
Interest expense	(155)	(117)	(57)
TOTAL NONOPERATING REV/(EXPENSES)	(23)	(9)	78
NET MARGIN	$ 9,289	$ 9,441	$ (5,199)
NET MARGIN %	16.7%	17.2%	-10.5%

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Item 16 - Section 3 – Potential Policy Strategies

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Item 16 - Section 3 - Policy Strategies - Background

OVERVIEW:

- VCE and other CCA's face mounting fiscal challenges in the coming years
- The potential policy strategies are designed to help offset anticipated reduced net income
- Strategies bridge gap until lower cost long-term renewable energy contracts come on-line in late 2021/ early 2022
- The Community Advisory Committee (CAC), considered and provided initial feed-back on the policy strategies at their April 23rd meeting
- These policy options can be implemented individually or in combination
- Staff is seeking feedback from the Board to help inform analysis and staff recommendations
- Board consideration and approval of the FY2021 Budget is slated for June 11th

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Item 16 - Policy Strategies – Rate Changes

OPTION A – INCREASE COMBINED GEN RATE:

- VCE could increase its combined generation rate (generation, PCIA and Franchise Fee Surcharge), above PG&E's generation rates. For every 1% that VCE's rates are above PG&E's generation rates, revenue will increase by approximately $800,000
- ***CAC Feedback – Assessment****: Not feasible without significant risk of high customer opt-out;* ***Relative Priority****: infeasible*
- ***Staff – Assessment****: Not feasible without significant risk of high customer opt-out;* ***Relative Priority:*** *lowest*

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Item 16 - Policy Strategies – Rate Changes (Continued)

OPTION B – IMPLEMENT A THIRD CUSTOMER RATE CHOICE:

- Add a third choice for customer rates that could be set near the minimum State standards for renewable energy content to allow customers the option to choose a more cost-effective rate, while maintaining VCE's other two current rate options that deliver higher renewable and GHG free attributes at a "cost plus" rate
- ***CAC Feedback – Assessment****: General support, but concern expressed by one CAC member about the difficulty of reversing the action (new rate choice), if necessary in the future;* ***Relative Priority****: low/moderate*
- ***Staff – Assessment****: Not feasible without significant risk of high customer opt-out;* ***Relative Priority:*** *moderate*

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Item 16 - Policy Strategies – Power Resource Planning Adjustments

OPTION C - POWER RESOURCE PLANNING ADJUSTMENTS:

- Staff is analyzing the timing of PPA power deliveries in 2021 and when to dial back the existing short-term contracts. Possible to forego short-term contracts where renewable and GHG levels in VCE's portfolio are lower in a single year but averaged out to meet VCE's goals over a 2 or 3 year period. This tactic could lead to:
  - Net cost savings of several million dollars over a 2-3 year period while still meeting VCE's regulatory compliance requirements
- ***CAC Feedback – Assessment****: General support with minor concern regarding potential impact on short-term power content label listing;* ***Relative Priority****: highest*
- ***Staff – Assessment****: provides flexibility, meets compliance requirements, and provides cost savings with relatively low opt-out risk. Serves as bridge to long-term PPA's;* ***Relative Priority:*** *highest*

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Item 16 - Policy Levers – Additional Options

OPTION D/E – ACCEPT THE GHG-FREE LARGE HYDRO AND NUCLEAR ALLOCATIONS:

- Accept the GHG-free large hydro and nuclear allocations from PG&E, at a potential benefit of $0.25 million and $0.4 million respectively. These savings are speculative and would only be realized if a market exists in which to sell these characteristics
- ***CAC Feedback – Assessment****: Support for hydro only.* ***Relative Priority:*** *highest (for hydro only)*
- ***Staff – Assessment:*** *Support for hydro only***. Relative Priority***: highest (for hydro only)*

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Item 16 - Policy Levers – Additional Options (Continued)

OPTION F – OPERATING EXPENSE REDUCTIONS:

- Seek additional reductions in operating expense beyond those already captured. Although VCE has already crafted an operating budget that is lower than the current FY 2020 Budget, staff could present a set of more austere measures that could result in additional incremental operational expense savings.
- ***CAC Feedback – Assessment****: Expressed general concern that reductions in operating expenses beyond current levels would limit organizational capacity.* ***Relative Priority:*** *lowest*
- ***Staff – Assessment:*** *Current operational expenses are below previous fiscal year budget****. Relative Priority****: N/A*

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Item 16 - Policy Strategies

Policy	Potential Savings	Ease of Implementation	Timing	Notes/Other Considerations	Relative Priority
A. Rate Change – Rate Increase	$800,000 to $2.4 million	Medium-high difficulty due to outreach efforts and opt-out risk	Could start shortly after BOD approval and start seeing immediate revenue impact	Revenue increase is $800K per 1% change – assume 1-3% target for Potential Savings	CAC – Infeasible Staff - Lowest
B. Rate Change – Additional Rate Class	$0.25 to $1.5 million	Medium to high difficulty due to complexity of the roll-out and communication efforts	Could start shortly after BOD approval and start seeing immediate revenue impact	One example scenario could assume ag rates slightly below PG&E gen rate; commercial at PG&E rate; and residential slightly above PG&E rate. Other scenarios possible	CAC – Low/ Moderate Staff - Moderate
C. Power Resource Planning Adjustment	$0 to $3.1 million	Low end of the range less difficult	Throughout fiscal year '21 –'22	Power Content Label impacts;	CAC – Highest Staff - Highest
D. GHG Free – Large Hydro	$0 to $240,000	Low end of the range less difficult	Q3-Q4 2020	Volume is unknown; market interest/ability to resell may be low	CAC – Highest Staff - Highest
E. GHG Free – Nuclear	$0 to $420,000	Low end of the range less difficult	Q3-Q4 2020	Volume is unknown; market interest/ability to resell may be low; reputational risk	CAC – Lowest Staff - Lowest
F. Operations Reductions	$25,000 to $100,000	Low end of range less difficult; high end of range difficult	Impact spread throughout FY 2021 budget	Significant strategic trade-offs between program effectiveness and marginal cost savings	CAC – Lowest Staff – N/A