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# Valley Clean Energy Board of Directors Meeting June 10, 2021 via video/teleconference

## Item 15 – Operating Budget FY 2021-2022



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# Item 15 – Operating Budget FY 2021-2022

## Overview

- Background of Budget Development
  - Updated FY 2020-2021 Financials
  - Key factors Influencing FY 2021-2022
- Recommended 2022 Power Content Policy Strategy
- FY 2021-2022 Budget Options
  - Option 1: Moderately high discount of projected PG&E generation rate increases. (Recommended)
  - Option 2: High discount of projected PG&E generation rate increases.
  - Option 3: Low discount of projected PG&E generation rate increases.

# Item 15 – Operating Budget FY 2021-2022

## **FY 2021-2022 Budget Development Background**

- June 2020 - Board approved a \$52.5M Operating Budget for FY 2020-2021 with Net loss of \$2.8M, after factoring in fiscal mitigation policy adjustments.
- October 2020 - Mid-year budget update monitoring actuals and forecasts reflecting a net \$7.1M FY 2022 deficit due to rising RA, power, and PCIA costs.
- April - May 2021, Budget draft update including the annual electricity demand forecast for VCE for a projected net income loss of approximately \$7.70M for FY 2022.
- May 2021, CAC reviewed the staff recommendations for policy adjustments on VCE's near-term acquisition of renewable and GHG-free power content.

# Item 15 – FY 2020-2021 Actual + Forecast

## Current FY Update – YTD Actual plus Forecast FY 20-21

VCE continues to see more favorable actuals through April 2021 than forecasted by \$1.8M

- +\$1.385M (demand higher than COVID-19 forecast)
- +\$452K (lower operating expenses)

	APPROVED BUDGET FY 2020-21	ACTUAL YTD April 30 (10 MO) + FORECAST (2 MO) FY 2020-21	Variance
<b>FY 2021</b>			
Revenue	\$ 49,638	\$ 55,410	\$ (5,772)
Power Cost	\$ 47,670	\$ 52,056	\$ (4,386)
Other Expenses	\$ 4,802	\$ 4,365	\$ 438
Net Income	\$ (2,834)	\$ (1,010)	\$ (1,823)





# Item 15 - Operating Budget FY 2021-2022

## Key Factors influencing FY 2021-2022 Budget

- Rates Forecasts impacting FY 2021-2022 revenues.
- Extension of current Power Content Strategy for CY 2022.
- Forward market power price increases by 7% since April-2021.
- Continued increases in resource adequacy costs.
- PPA's start coming on-line in 2021, 2022, and 2023.
- Federal Reserve interest rates remain low through 2022.
- Time of Use (TOU) rate transitions for non-residential customers are lower by 20%.
- Reduced budget contingency from 5% to 3%.
- Cash reserves being utilized to stabilize customer rates

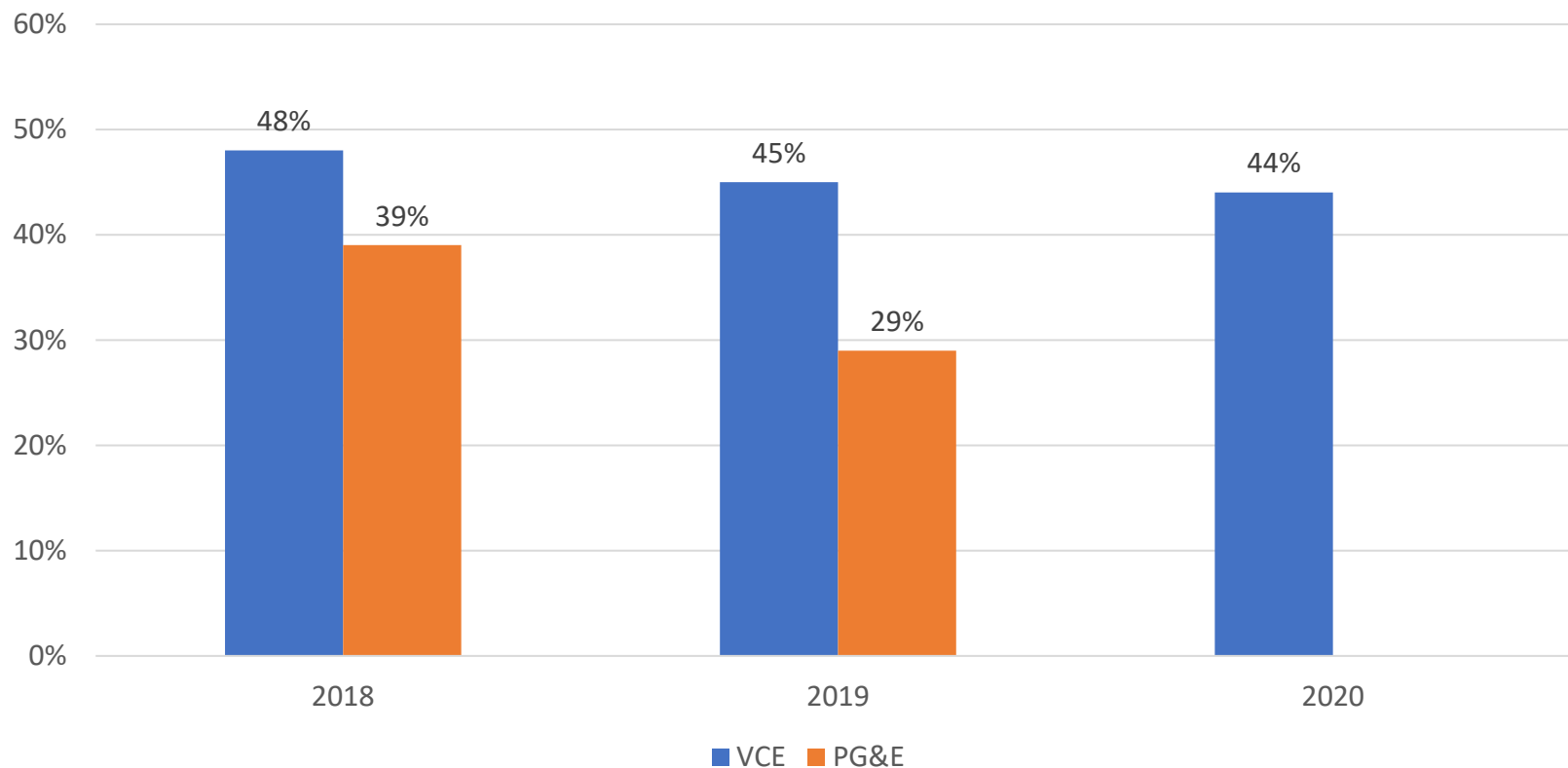
# Item 15 – Power Content Policy Strategy

## Power Content Policy Background

- June 2020 Board adopted a 2021 policy for a power content target of 10% renewable, 10% large hydro for a combined 20% carbon free
- Policy addressed:
  - Aligning VCE's short and long-term power procurement efforts
  - The increasing/unpredictable PCIA
  - Volatility in RA power pricing
- Policy adjustments saved an estimated \$2.25M in the current fiscal year (FY 2020-2021)

# Item 15 – Historical Renewable Power Content

## Renewable Comparison



Note: 1) 2020 VCE % are preliminary  
2) 2020 PG&E % not available at this time



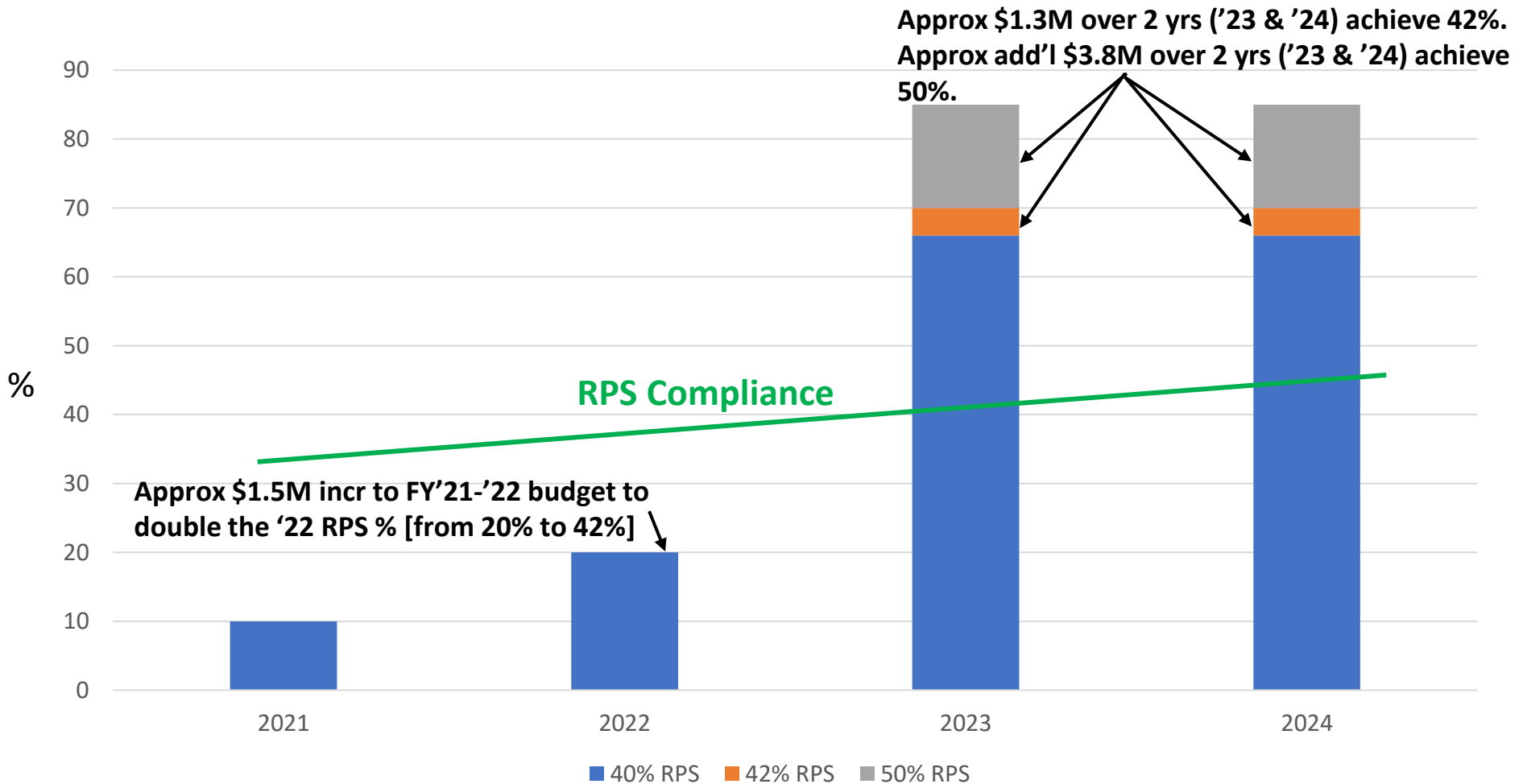
# Item 15 – Power Content Outlook – 2021-2022

	2021		2022	
<b>VCEA Retail Load</b>	<b>719,098</b>		<b>728,826</b>	
<b>Renewable Supply</b>	77,458	11%	145,807	20%
Aquamarine Solar	23,028		131,991	
Indian Valley	1,500		6,448	
Putah Creek Energy Farm	930		6,956	
Resurgence Solar I	N/A		412	
Short Term RECs	52,000		N/A	
<b>Large Hydro</b>	79,427	11%	50,000	7%
Hydro Contract	29,427		N/A	
PG&E Allocation Est.	50,000		50,000	
<b>System Power</b>	<b>562,213</b>	<b>78%</b>	<b>533,019</b>	<b>73%</b>



- 1) Above % based on VCE Board policy decision (June 2020) for '21 & cont'd for '22
- 2) VCE does not plan to contract for additional large hydro (GHG-free) other than the allocations received from PG&E (approx. 5-10%), during this compliance period.<sup>9</sup>

# Item 15 – Power Content Policy Strategy; RPS Compliance & Options to Consider



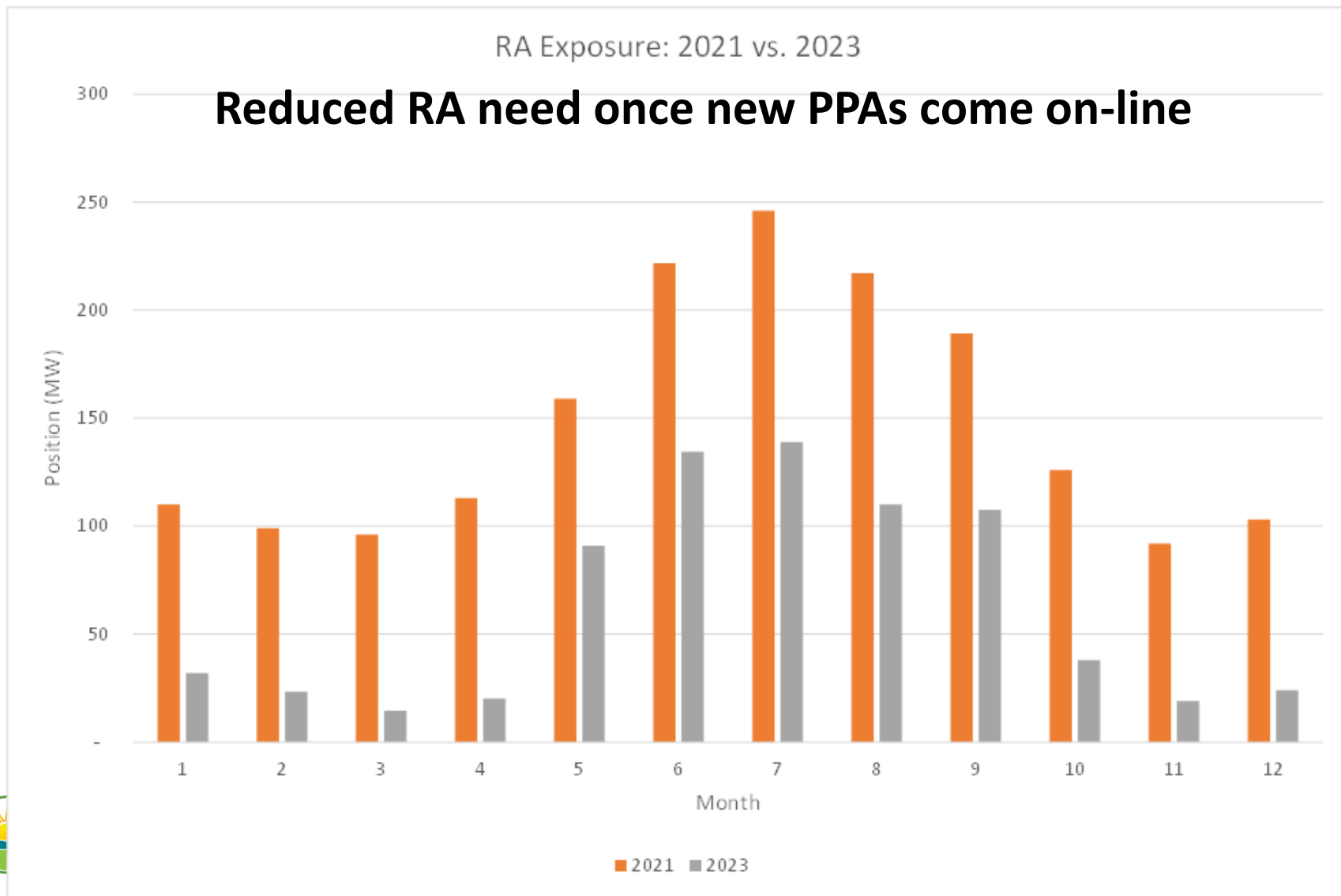
Note: 1) Compliance period '21-'24

2) CA RPS Compliance Avg for this period = 40%

3) Approx 80,000 add'l RECs req'd to achieve 42%. 315,000 RECs for 50% (this is above the production of the long term PPAs)



# Item 15 – Reduced Long-term RA Exposure



# Item 15 – Operating Budget FY 2021-2022

## **CAC Recommendation on policy strategy adjustments:**

*The CAC, after a sobering discussion, reluctantly recommends due to fiscal prudence, that the Board follow the recommendation of Staff to continue the near-term policy of lower renewable energy credit (REC) and carbon free content purchases in 2022 with the following addition: for the 2022 year the initial RPS target is a minimum of 20% and quarterly updates are given to both the Board and CAC on the status of long-term contracts, RPS progress and budget numbers with the intent of increasing this target up to 42% if at all feasible.*

*Additionally, the CAC recommends that when taking this item back to the Board, Staff should provide the Board with financials from 2018/19 and FY2019/20 as well as budget estimates for FY2022/23 and FY2023/24 to provide a fuller picture of the financial health of the organization.*

*Lastly, the CAC would like to wait on a recommendation for the target RPS for the 2021-24 average and requests that Staff bring this item back to the CAC when the item needs to be determined*

# Item 15 – Operating Budget FY 2021-2022

## Budget Options:

- VCE's current rates policy is to match PG&E's generation rates for its default energy product (Standard Green).
- September 2021 and January 2022 rate increase forecasts range from 2% to 13.5%.
  - September 2021 forecasted rate increase request is based on recovery of insurance costs recorded in its Wildfire Expense Memorandum Account (WEMA).
  - January 2022 rate increases are related to the 2022 Annual Consolidated Rate Change and requesting to recover costs recorded in its Catastrophic Event Memorandum Account (CEMA).

# Item 15 – Operating Budget FY 2021-2022

## **FY 2021-2022 Budget Options based on rates adjustments:**

- Option 1: Moderately high discount of projected PG&E generation rate increases.
- Option 2: High discount of projected PG&E generation rate increases.
- Option 3: Low discount of projected PG&E generation rate increases.



# Item 15 – Operating Budget FY 2021-2022

## **Key Assumptions (Budget Option 1 - Recommended) :**

- Rate increase of 1.5% for the first 6 months of FY 2022 in September
- Rate Increase of 4% for the last 6 months of FY 2022 related to the two proceedings for January.
- The net impact for FY 2022 is a loss of \$6.9M, in line with previous forecasts from the last budget cycle

# Item 15 – Operating Budget FY 2021-2022

## Budget Option 1 - Recommended

VALLEY CLEAN ENERGY DRAFT BUDGET SUMMARY FY2021 - BUDGET OPTION 1	APPROVED BUDGET FY 2020-21	ACTUAL YTD April 30 (10 MO) + FORECAST (2 MO) FY 2020-21	DRAFT BUDGET FY 2021-2022
Energy - Megawatt Hours	717,987	753,546	773,652
<b>OPERATING REVENUE</b>	\$ 49,638	\$ 55,410	\$ 51,188
<b>OPERATING EXPENSES:</b>			
Cost of Electricity	47,670	52,056	53,210
Contract Services	2,723	2,511	2,591
Outreach & Marketing	241	207	241
Programs	12	1	135
Staffing	1,132	1,133	1,164
General, Administration and other	772	527	743
<b>TOTAL OPERATING EXPENSES</b>	<b>52,550</b>	<b>56,434</b>	<b>58,085</b>
<b>TOTAL OPERATING INCOME</b>	<b>(2,912)</b>	<b>(1,024)</b>	<b>(6,897)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	135	70	56
Interest expense	(57)	(56)	(42)
<b>TOTAL NONOPERATING REV/(EXPENSES)</b>	<b>78</b>	<b>14</b>	<b>15</b>
<b>NET MARGIN</b>	\$ <b>(2,834)</b>	\$ <b>(1,010)</b>	\$ <b>(6,882)</b>
<b>NET MARGIN %</b>	<b>-5.7%</b>	<b>-1.8%</b>	<b>-13.4%</b>

# Item 15 – Operating Budget FY 2021-2022

## **Key Assumptions (Budget Option 2 – low range):**

- Rate increases of 2% starting in January 2022 for the FY 2022 budget.
  - Actual and forward power costs higher than 2%
  - This lower rate increase would represent a very cautious projection and an unlikely outcome based on best available updated forecasting information from CalCCA
- The net impact for FY 2022 is a loss of \$8.9M, higher than previous forecasts. May require additional policy actions to mitigate financial impacts.

# Item 15 – Operating Budget FY 2021-2022

## Budget Option 2 (low range)

VALLEY CLEAN ENERGY DRAFT BUDGET SUMMARY FY2021 - BUDGET OPTION 1	APPROVED BUDGET FY 2020-21	ACTUAL YTD April 30 (10 MO) + FORECAST (2 MO) FY 2020-21	DRAFT BUDGET FY 2021-2022
Energy - Megawatt Hours	717,987	753,546	773,652
<b>OPERATING REVENUE</b>	<b>\$ 49,638</b>	<b>\$ 55,410</b>	<b>\$ 49,170</b>
<b>OPERATING EXPENSES:</b>			
Cost of Electricity	47,670	52,056	53,210
Contract Services	2,723	2,511	2,591
Outreach & Marketing	241	207	241
Programs	12	1	135
Staffing	1,132	1,133	1,164
General, Administration and other	772	527	743
<b>TOTAL OPERATING EXPENSES</b>	<b>52,550</b>	<b>56,434</b>	<b>58,085</b>
<b>TOTAL OPERATING INCOME</b>	<b>(2,912)</b>	<b>(1,024)</b>	<b>(8,915)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	135	70	56
Interest expense	(57)	(56)	(42)
<b>TOTAL NONOPERATING REV/(EXPENSES)</b>	<b>78</b>	<b>14</b>	<b>15</b>
<b>NET MARGIN</b>	<b>\$ (2,834)</b>	<b>\$ (1,010)</b>	<b>\$ (8,900)</b>
<b>NET MARGIN %</b>	<b>-5.7%</b>	<b>-1.8%</b>	<b>-18.1%</b>



# Item 15 – Operating Budget FY 2021-2022

## **Key Assumptions (Budget Option 3 – high range):**

- Rate increase of ~4% for the first 6 months of FY 2022 in September
- Rate Increase of ~9.5% for the last 6 months of FY 2022 related to the two proceedings for January.
- The net impact for FY 2022 is a loss of \$2.6M, significantly less than previous forecasts and unlikely.
- This increase would represent a high forecasted range rate change and an unlikely outcome based on impacts to ratepayers during COVID-19 financial impacts.

# Item 15 – Operating Budget FY 2021-2022

## Budget Option 3 (high range)

VALLEY CLEAN ENERGY DRAFT BUDGET SUMMARY FY2021 - BUDGET OPTION 1			
	APPROVED BUDGET FY 2020-21	ACTUAL YTD April 30 (10 MO) + FORECAST (2 MO) FY 2020-21	DRAFT BUDGET FY 2021-2022
Energy - Megawatt Hours	717,987	753,546	773,652
<b>OPERATING REVENUE</b>	<b>\$ 49,638</b>	<b>\$ 55,410</b>	<b>\$ 55,461</b>
<b>OPERATING EXPENSES:</b>			
Cost of Electricity	47,670	52,056	53,210
Contract Services	2,723	2,511	2,591
Outreach & Marketing Programs	241	207	241
Staffing	12	1	135
General, Administration and other	1,132	1,133	1,164
	772	527	743
<b>TOTAL OPERATING EXPENSES</b>	<b>52,550</b>	<b>56,434</b>	<b>58,085</b>
<b>TOTAL OPERATING INCOME</b>	<b>(2,912)</b>	<b>(1,024)</b>	<b>(2,623)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	135	70	56
Interest expense	(57)	(56)	(42)
<b>TOTAL NONOPERATING REV/(EXPENSES)</b>	<b>78</b>	<b>14</b>	<b>15</b>
<b>NET MARGIN</b>	<b>\$ (2,834)</b>	<b>\$ (1,010)</b>	<b>\$ (2,608)</b>
<b>NET MARGIN %</b>	<b>-5.7%</b>	<b>-1.8%</b>	<b>-4.7%</b>





# Item 15 – Operating Budget FY 2021-2022

## Budget Option Comparison

	Actuals		ACTUAL YTD April 30 (10 MO) + FORECAST (2 MO)	Budget Options	Forecasted	
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
<b>OPTION 1</b>						
Revenue	51,035	55,249	55,410	51,188	59,100	59,600
Power Cost	38,540	41,538	52,056	53,210	53,800	49,600
Other Expenses	3,850	4,346	4,365	4,859	5,100	5,200
Net Income	8,646	9,365	(1,010)	(6,882)	200	4,700
<b>OPTION 2</b>						
Revenue	51,035	55,249	55,410	49,170	56,000	56,500
Power Cost	38,540	41,538	52,056	53,210	53,800	49,600
Other Expenses	3,850	4,346	4,365	4,859	5,100	5,200
Net Income	8,646	9,365	(1,010)	(8,900)	(2,900)	1,600
<b>OPTION 3</b>						
Revenue	51,035	55,249	55,410	55,461	66,300	66,800
Power Cost	38,540	41,538	52,056	53,210	53,800	49,600
Other Expenses	3,850	4,346	4,365	4,859	5,100	5,200
Net Income	8,646	9,365	(1,010)	(2,608)	7,400	11,900

Note: 2023 and 2024 forecasted financials are based on most current available data and continuation of assumptions in 2022 with a CPI factor of 1.5%.

# Item 15 – Operating Budget FY 2021-2022

## RECOMENDATIONS

1. Extend the policy strategy adjustments with 20% renewable content for 2022.
2. Operating Budget Option 1 with \$51.2M of operating revenues and \$58.1M of operating expenses and Net Income of (\$6.9M) for FY 2021-2022.
  - Effectively manage budgeted revenues and costs during the transition from the pandemic and to long-term PPAs
  - Stabilizes customer rates with the utilization of reserves
  - Revolving Line Of Credit with River City Bank preserved.
- Continued development of multiyear (3-year) forecast
- Mid-year Board update(s) for FY2021-22 actual rate changes and major cost changes.



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# Valley Clean Energy Board of Directors Meeting June 10, 2021 via video/teleconference

## Item 16 – VCE's Programs Design & Review Process



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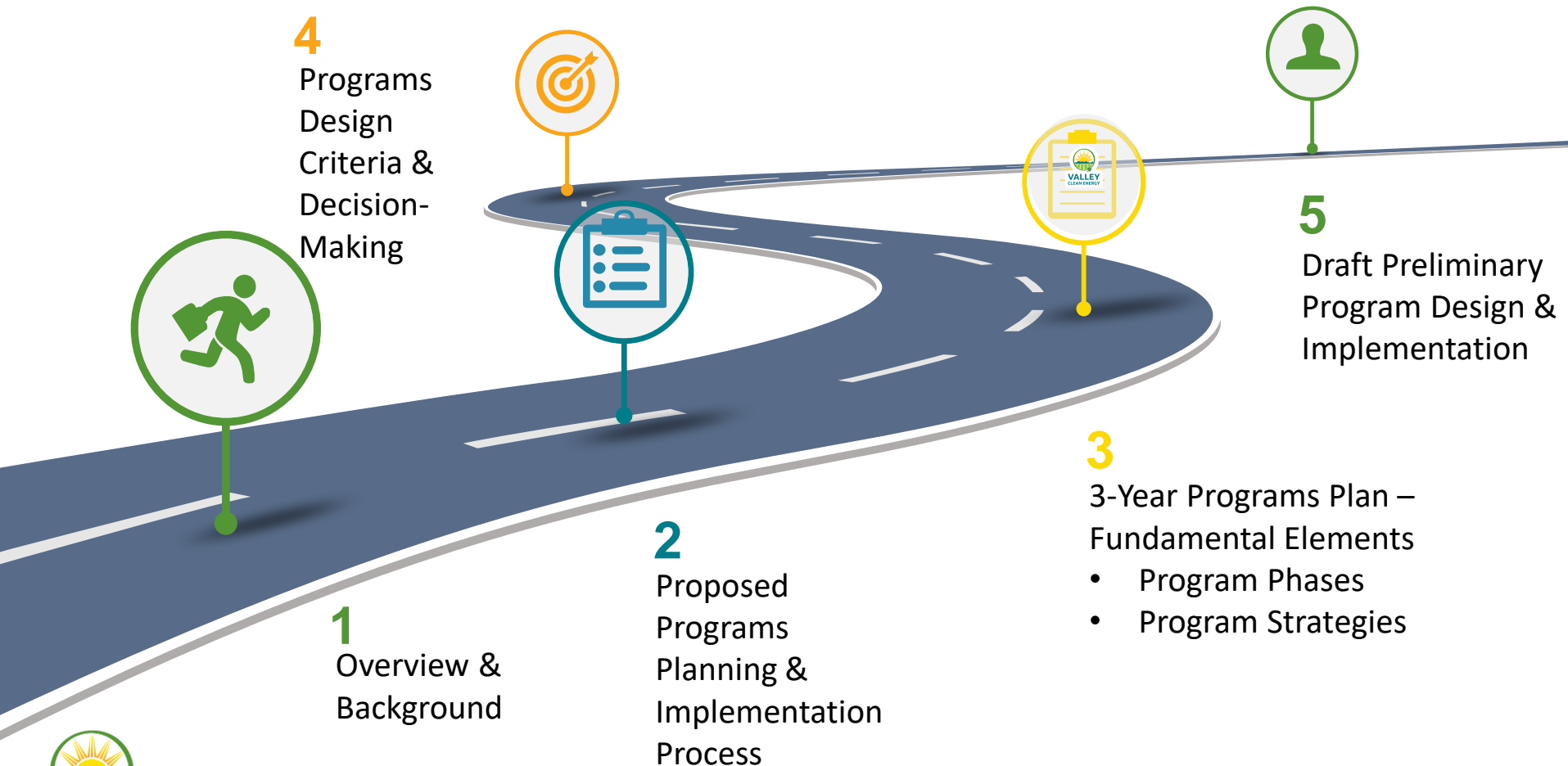
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# Item 16- VCE's Programs Design & Review Process



# Item 16- VCE's Programs Design & Review Process

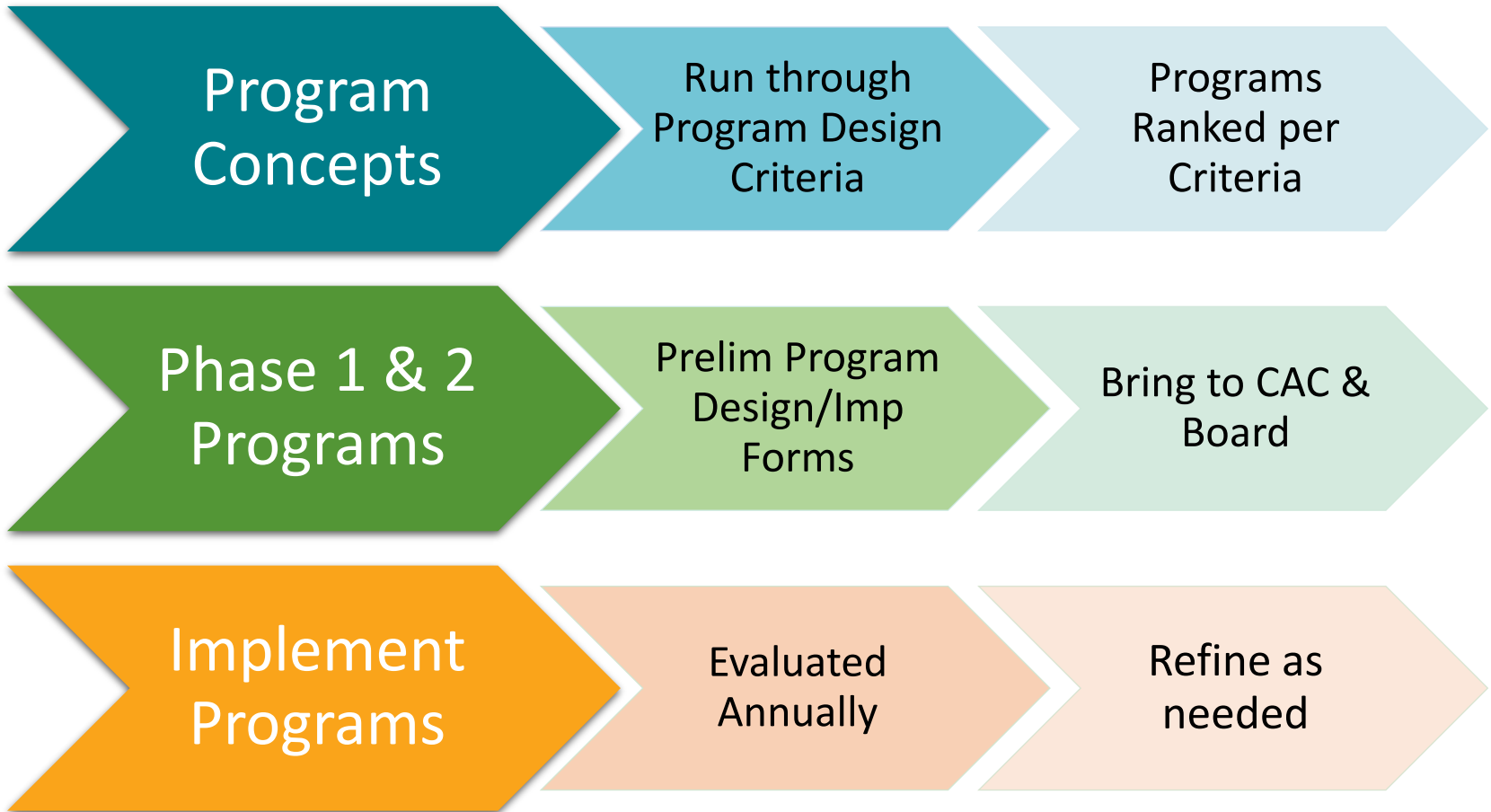
## Overview & Background

- Seeking adoption of 3-Year Programs Plan and programs implementation process; approval of Res Thermostat program pilot
- CAC unanimously recommended plan and process to Board
  - Discussed in 2 CAC Meetings: 3/25/21; 5/27/21
    - Main CAC feedback: Focus on low-cost, high-impact (to customer) programs; programs benefiting marginalized communities
    - 3-Year Plan and process review extensive: staff met with PTG 8 times between March and May meetings
- Will return to Board with more detail on future program concepts



# Item 16- VCE's Programs Design & Review Process

## Proposed Programs Planning & Implementation Process



# Item 16- VCE's Programs Design & Review Process

## 3-Year Programs Plan Elements

- VCE's Commitment to EJ, Community Reinvestment, Programs Evaluation Plan
- **Summary of Phases**
  - Phase 1: *Ongoing or to be initiated within the next year*
  - Phase 2: *Potential to be initiated within one to three years*
  - Phase 3: *No defined start date for action, likely longer than two years*
- **Program Strategy One:** *Promote the Electrification of Transportation, Residential and Commercial Buildings, and Agricultural Operations*
- **Program Strategy Two:** *Encourage and Incentivize Energy Efficiency, Demand Response Flexibility, and Resiliency*

# Item 16- VCE's Programs Design & Review Process

## Phase 1

Ongoing or to be initiated within the next year.

1. Achievable in the near-term.
2. Funding and other resources are available.
3. Building the foundation for ongoing a future project.

## Phase 2

To be initiated within one to three years.

1. Anticipated, yet not immediate, deadline.
2. Funding requirements to be determined and funding sources identified or in development.
3. Necessary for planning and development of long-term actions.

## Phase 3

No defined start date, likely longer than two years.

1. In the conceptual phase.
2. Additional information needed to inform an operational plan.
3. Funding not yet available.

# Item 16- VCE's Programs Design & Review Process



# Item 16- VCE's Programs Design & Review Process

## Criteria

## Definitions

## Weights

Staff Time

- Amount of Staff time required, consultant needs, etc.

25%

Availability of Funds

- \$ available in programs budget, leveraging supplementary funding, grants, etc.

25%

Strategic Plan Alignment

- Reduces GHG Emissions
- Customer Satisfaction
- Addresses Environmental Justice
- Regulatory & Legislative Goals Alignment
- Strategic Partnerships

50%



# Item 16- VCE's Programs Design & Review Process

## Program Pilot: Demand Response (DR) and Free Thermostat for Res Customers

- Participating customers receive free smart thermostat
- Partner: OhmConnect (recipient of CEC grant)
- Customers accumulate rewards
- VCE's main role: Marketing, Education & Outreach
- No cost to VCE; program is essentially “plug and play”





# Item 16- VCE's Programs Design & Review Process

## Next Steps

- Seeking adoption of 3-Year Programs Plan and programs implementation process;
- Preliminary Programs Design/Implementation Forms for Program Concepts: EV Rebates (Low-Income); Ag AutoDR; Thermostat/Residential DR (integrate feedback from Board, if any)
- Implement above 3 programs in FY 2021/2022



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