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## Valley Clean Energy Board Meeting – Thursday, June 13, 2024



Item 12 - Receive legislative update presented by Pacific Policy Group

# Public Comments

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# Item 12 - Receive legislative update

## Dates & Deadlines

- June 15 – Last day for the Legislature to pass Budget Bill
- June 27 – Last day to submit ballot measures to the Attorney General
- July 3 – Last day for policy committees to hear fiscal bills (2nd House)
- July 4 – August 5 – Summer Recess
- August 31 – Last day of 2024 Legislative Session
- October 1 – Last day for Gov. Newsom to sign or veto bills
- November 5 – Election Day
- December 2 – Legislature convenes the 2025 session

# Item 12 - Receive legislative update

## Legislation Letup

- Significant Energy Legislation over past few years
- Budget problems impact bill decisions
- Bills on bills – legislation looking into reducing rates
- Can't reverse PUC decisions
  - NEM Bills
  - IGFC Bills



## Budget – From Bad to Worse

- Total budget deficit of \$45 billion
- More deficit projected for the FY 2025-26
- Energy programs reduced and deferred
  - Funding reduced for Reliability Reserve and Central Procurement Entity
  - Questions on Diablo Canyon loan
- Future Opportunities
  - Clean Energy Reliability Investment Plan
  - Clean Transportation Program
  - Climate Bond



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## Valley Clean Energy Board Meeting – Thursday, June 13, 2024



Item 13 - Receive PPA Energy Prepayment Overview by PFM Financial Advisors

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## Energy Prepayment Overview

*June 13, 2024*

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PFM Financial Advisors LLC

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1150 S. Olive Street  
10th Floor  
Los Angeles, CA 90015

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213.489.4075





## Prepayment Transaction Overview

- ◆ **Goal** – Reduce cost of power purchases by 8% or more
- ◆ **How** – Leverage use of tax-exempt bonding capacity to secure long-term supply

## Background

- ◆ Codified in the U.S. tax law
- ◆ Used since the 1990s largely for natural gas transactions
- ◆ Over 100 transactions totaling over \$75 billion completed in the U.S. – mostly for gas
- ◆ Eleven energy prepayment transactions totaling \$9.8 billion completed last few years for six California Community Choice Aggregators
  - East Bay Community Energy
  - Silicon Valley Clean Energy
  - Marin Clean Energy
  - Pioneer Community Energy
  - Clean Power Alliance
  - Central Coast Community Energy



## Prepayments That Have Been Completed by CCAs in California

Date	Amt. (\$000)	Issuer	Description	Beneficiary
09/2021	1,234,720	California Community Choice Fin Auth	Elec (Green)	SVCE, EBCE
11/2021	602,655	California Community Choice Fin Auth	Elec (Green)	MCE
06/2022	931,120	California Community Choice Fin Auth	Elec (Green)	EBCE
12/2022	459,640	California Community Choice Fin Auth	Elec (Green)	Pioneer
01/2023	841,550	California Community Choice Fin Auth	Elec (Green)	SVCE
02/2023	998,780	California Community Choice Fin Auth	Elec (Green)	CPA
06/2023	958,290	California Community Choice Fin Auth	Elec (Green)	CPA
08/2023	997,895	California Community Choice Fin Auth	Elec (Green)	EBCE
10/2023	647,750	California Community Choice Fin Auth	Elec (Green)	CCCE
12/2023	1,038,285	California Community Choice Fin Auth	Elec (Green)	MCE
01/2024	1,101,625	California Community Choice Fin Auth	Elec (Green)	SVCE
Total	<b>\$9,812,310</b>			

*All transactions to date have achieved @9.5% savings or better.*

*Most recent transactions have been over 12%*



## Prepayments That Have Been Completed by Municipal Utilities in California

Date	Amt. (\$000)	Issuer	Description	Beneficiary
06/2006	230,845	Vernon Nat. Gas Fin Auth	Nat Gas	City of Vernon Elec
01/2007	209,350	Roseville Natural Gas Fin Auth	Nat. Gas	City of Roseville Elec
05/2007	757,055	Northern Ca Gas Auth No. 1	Nat. Gas	SMUD
09/2007	887,360	Long Beach Bond Fin Auth	Nat. Gas	City of Long Beach
10/2007	504,445	So. Ca. Pub. Power Auth	Nat. Gas	Multiple MOUs
10/2007	251,695	Long Beach Bond Fin. Auth	Nat. Gas	City of Long Beach
08/2009	901,620	M-S-R Energy Authority	Nat. Gas	MID/Redding/SVP
10/2009	514,160	So. Ca Pub Power Auth (Windy Flats)	Elec (Wind)	LADWP, Mult. MOUs
04/2010	778,665	Cal. Statewide Comm Dev Auth	Nat. Gas	SMUD
2010/11	394,700	So. Ca Pub Power Auth (Milford 1 & 2)	Elec (Wind)	LADWP, Mult. MOUs
12/2018	539,615	Northern Ca Energy Auth	Gas/Elec	SMUD
5/2024	592,270	So. Ca Pub Power Auth (Energy Prepay)	Elec	Anaheim
<b>Total</b>	<b>\$6,561,780</b>			

*SCPPA/APU transaction last month saved over 15% on old/expensive PPAs*





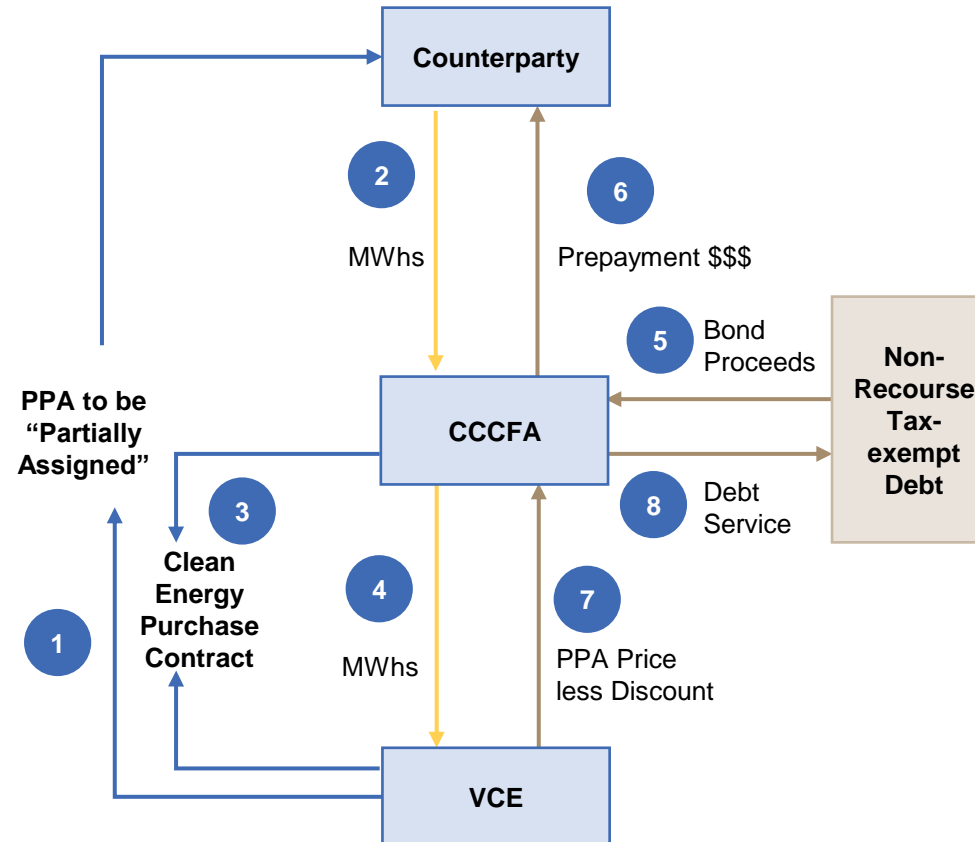
## Entities Involved in an Energy Prepayment Transaction

- ◆ **VCE** – Has existing Power Purchase Agreement(s) for clean energy
- ◆ **Prepay Counterparty** – Typically a financial institution with a commodity presence or a financial institution partnered with a commodity market participant
- ◆ **Issuer** – Bond issuing entity formed for sole purpose of selling the prepayment bonds, typically a Joint Powers Authority (“JPA”). CCAs to date have used the California Community Choice Financing Authority (“CCCFA”).
- ◆ **Existing Power Supply Counterparty** – Agrees to limited assignment of the existing PPA
- ◆ **Bond Investors** – Purchase the non-recourse tax-exempt prepayment bonds



## Summary of Energy Prepayment Structure Mechanics

- 1) VCE limited assigns PPA to Counterparty
- 2) The Counterparty delivers power to CCCFA via a Master Power Supply Agreement
- 3) VCE and CCCFA execute a Clean Energy Purchase Contract
- 4) CCCFA delivers power to VCE
- 5) CCCFA issues non-recourse tax-exempt bonds
- 6) CCCFA makes a prepayment to the Counterparty for power supply
- 7) VCE makes payments to CCCFA net of >8% savings
- 8) CCCFA makes debt payments with payments from VCE





## How are the Savings Generated?

- ◆ The Counterparty values prepayment as an alternate source of capital funding at its higher cost of capital ~ 5%
- ◆ PPA fixed price cash flows of ~\$45MM annually over the life of the deal are discounted at that 5% rate to establish the upfront prepayment amount
- ◆ CCCFA issues tax-exempt bonds to pay the upfront prepayment at a lower interest cost ~ 4.25% versus the counterparty's funding rate of ~5%
- ◆ CCCFA bond payments ~\$40MM annually are lower than the existing ~\$45MM PPA payments
- ◆ ~\$5MM in cashflow savings are generated
- ◆ Savings are quoted net of all upfront and annual transaction expenses

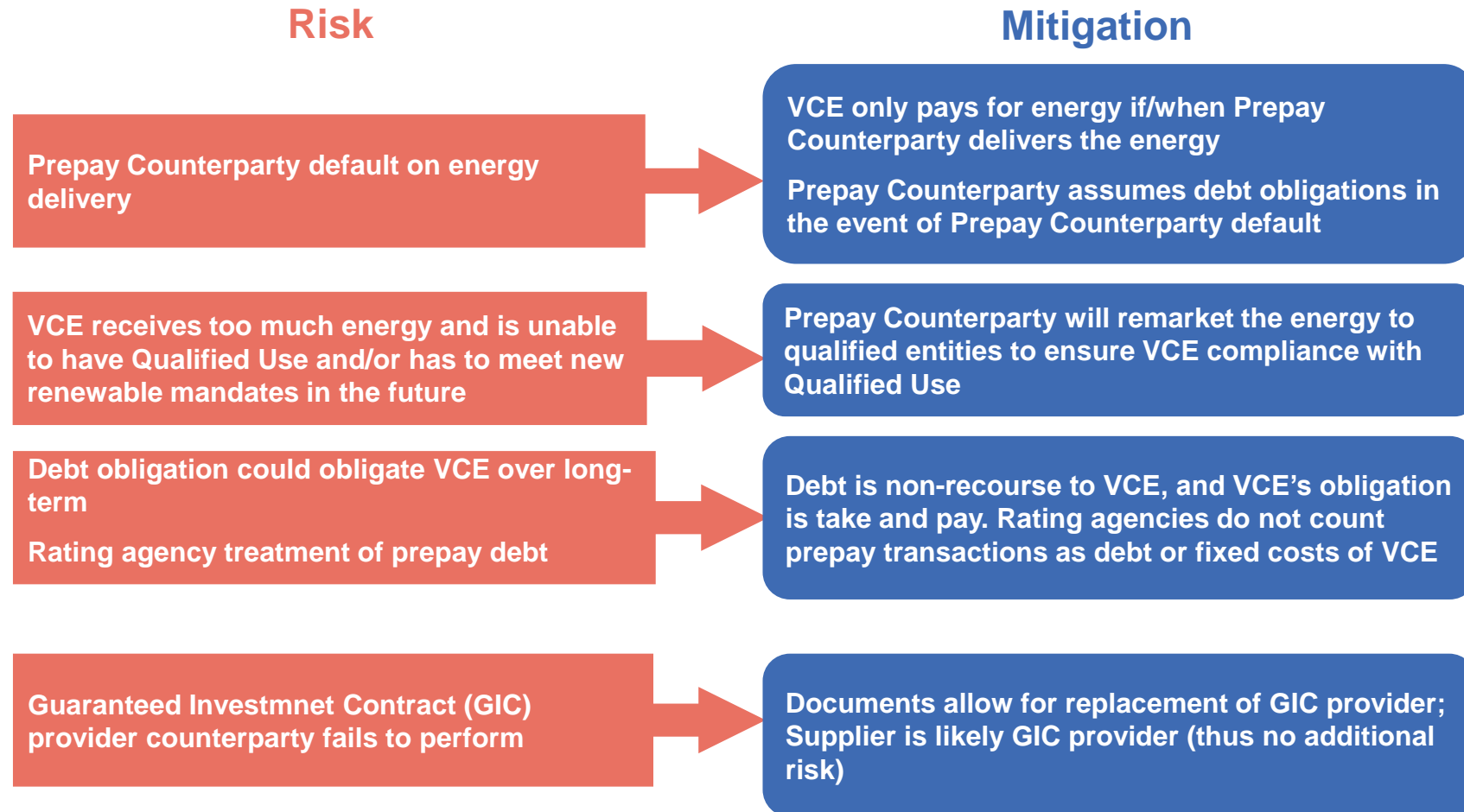
*Numbers are for illustration purposes only.*





## Favorable Risk Allocation – “Take-and-Pay” Structure

**Key Risk** – Transaction terminates and VCE no longer receives expected savings





pfm



**Valley Clean Energy Board Meeting – Thursday, June 13, 2024**

**Item 14 – 2024 Mid-Year Financials Update**





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## Overview

VCE Staff continues to monitor and update the Board on budget performance for long-term financial sustainability and customer affordability. 2024 load actual have been lower than forecasted due to wet winter and lower spring temperatures.

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

- Background of 2024 Budget Development
- 2024 Financials Update
- Short-term Outlook and Considerations
- Next Steps and Discussion

# Item 14 – 2024 Mid-Year Financials Update : Budget Development

## 2024 Rates & Budget Background: Key objectives

- **Operating Days Cash** – Maintain Board approved cash target of +180 days
- ✓ **Debt Repayments** – Early repayment of term loan with River City Bank in 2023. (Completed)
- **Power Cost Contingencies** – (Increased)
  - Operational Contingency 5%/ \$3.6 M
  - \$1.5M for 2024 Resource Adequacy (RA) and Renewable Energy Certificates (RECs)
- **Power Purchase Agreement (PPA) Covenants** – Maintain PPA covenants (no letters of credit)
- **Investment Grade Credit Rating** – Update Timeline (Possible 2025)
- **Customer Programs and Dividends (Increased)**
  - \$2M in programs budgeted for 2024
  - ✓ **Customer Programs and Dividends Policy** - Q2 of 2024 (2023 audited financials)



## Long-term Outlook: Fixed Price PPAs

- Will increase by ~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) – Note: new RA “Slice of Day” regimen begins in 2025 increasing RA market uncertainty.

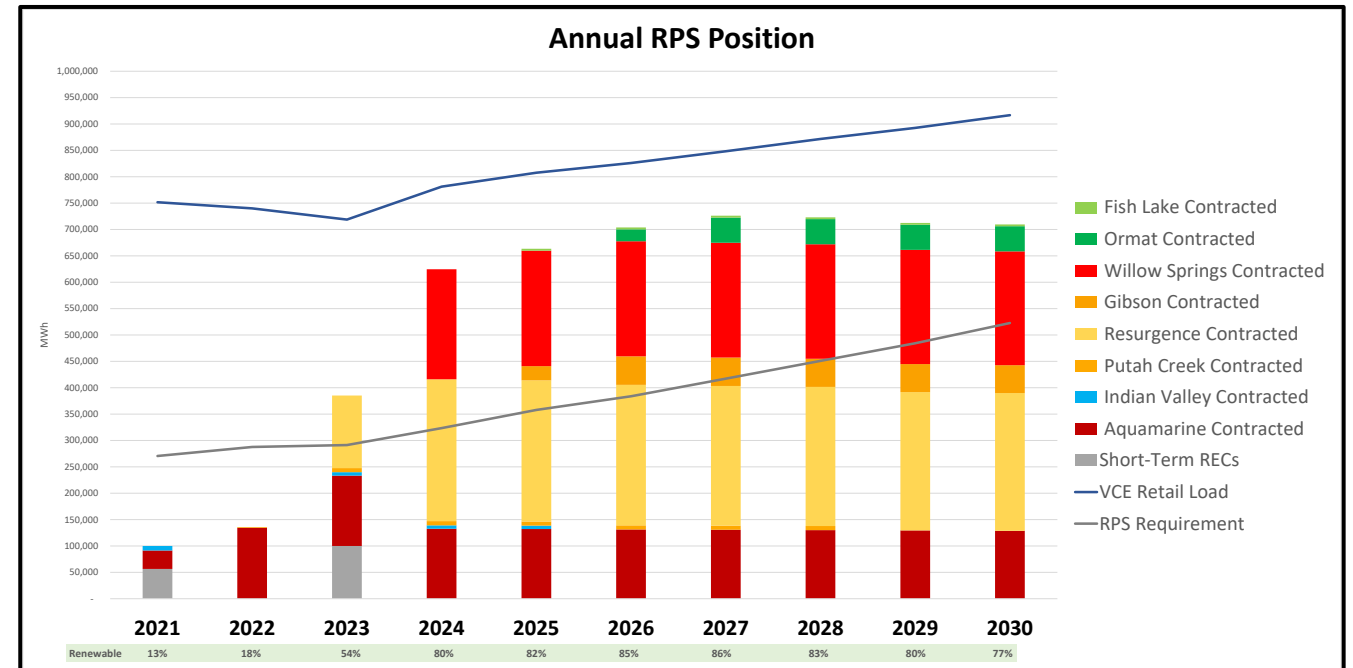
### VCE PPA Contributions (Risk Reduction )

Description	2023	2024
Power Costs	Began 2023 with PPAs for ~150+ GWh (approx. 13% of VCE annual Load)	*Begin 2024 with PPAs for ~400+ GWh (approx. 50% of VCE annual Load)
Power Cost Contingencies	PPAs provide 75 MW RA (approx. 36% of VCE annual req.)	PPAs provide 143 MW RA (approx. 70% of VCE annual req.)



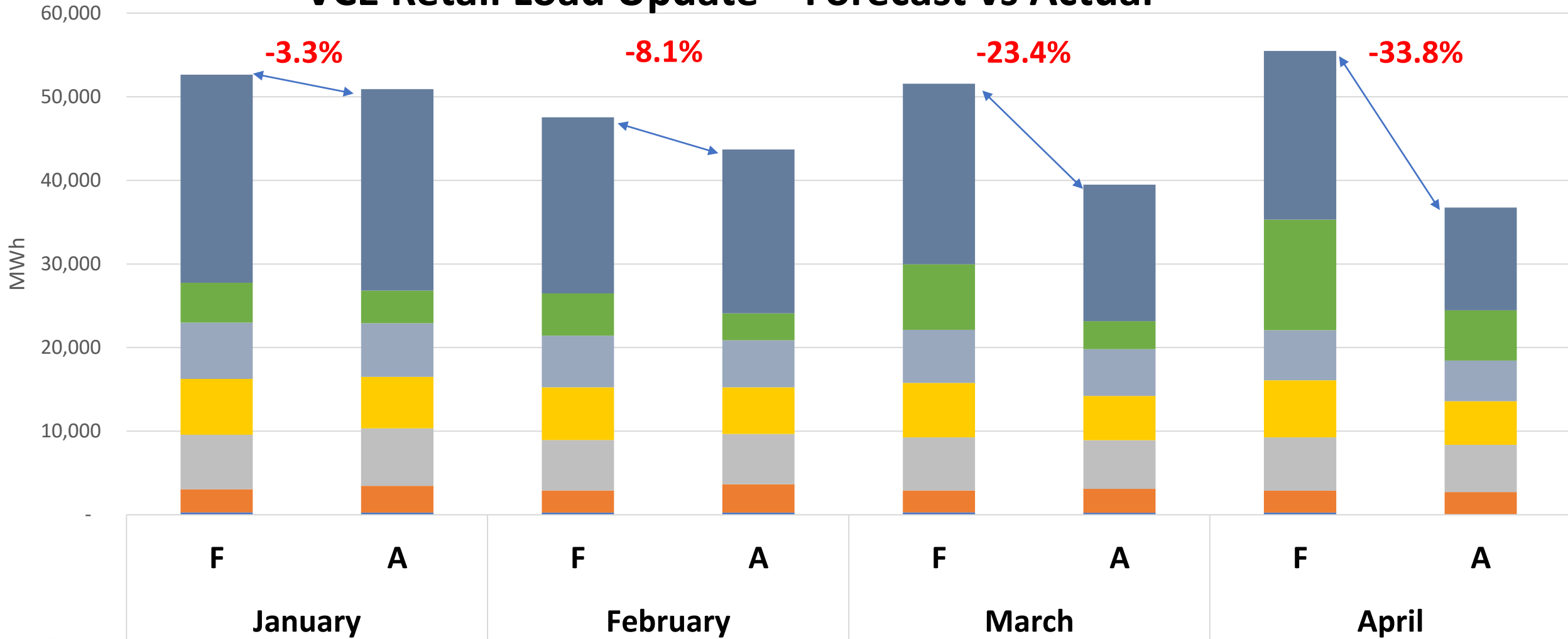
\*Willy 9 Chap 2 Solar PV + Storage Project (72 MW PV /36 BESS / approx. 215,000+ MWhs)

### VCE Current Renewable Portfolio Trajectory



# Item 14 – 2024 Mid-Year Financials Update : Load Update

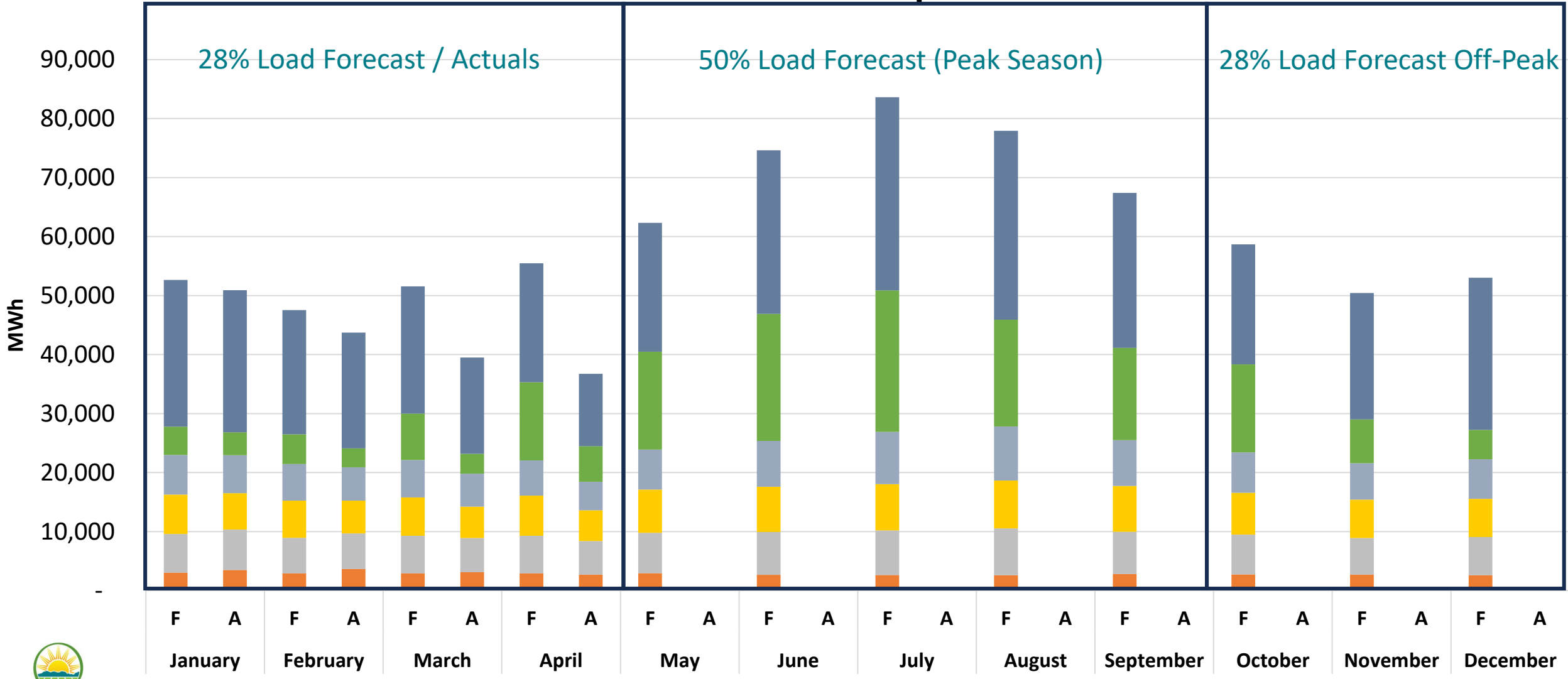
## VCE Retail Load Update – Forecast vs Actual



■ Lighting 
 ■ Industrial 
 ■ Large Commercial 
 ■ Med. Commercial 
 ■ Small Commercial 
 ■ Agriculture 
 ■ Residential

# Item 14 – 2024 Mid-Year Financials Update : Load Update

## VCE Retail Load Update



# Item 14 – 2024 Mid-Year Financials Update : Proforma

## 2024 Budget Proforma Update (4 Months Actuals – unaudited)

Description	APPROVED 2024 BUDGET	2024 Proforma (4 Month Actuals + 8 Month Budget)	Variance
Revenue	\$ 107,050	\$ 104,519	\$ (2,531)
Power Cost	\$ 75,200	\$ 76,634	\$ (1,434)
Other Expenses	\$ 7,350	\$ 7,350	\$ -
<b>Net Income</b>	<b>\$ 24,500</b>	<b>\$ 20,536</b>	<b>\$ (3,964)</b>

Note: The table does not account for anticipated increased power market price, renewable energy credits, and resource adequacy costs

### Key Highlights

- Revenues are lower than forecasted primarily due to lower load during mild wet winter and cool spring.
- Power Costs have been higher than budgeted due to solar curtailment and lower winter temperatures.



# Item 14 – 2024 Mid-Year Financials Update : 2024/25 Outlook

## Factors Impacting Forward Power Costs

### **2024 Mild Weather & Spring → Lower Energy Costs for 2024/2025**

- Increased supply of hydro power → increase RECs / decreased energy prices
- Increased curtailment of solar → decreased PPAs value / increase REC costs
- Increased supply of natural gas storage → lower winter energy forwards

### **Resource Adequacy Costs Higher - 2025 Slice of Day (Next Slide)**

- Increase demand for compliance – offset cost reductions / increase total costs
- RA costs are forecasted to normalize over the long-term (+3 years)

## PG&E 2025 PCIA & Rates Proceeding

Lower power costs result in increased volatility in competitive rates for cost recovery.

- PCIA is currently forecasted to increase significantly in 2025 (2024 under-collection) ~\$14M Revenue Impact
- PG&E Bundled Rates are currently forecasted to decrease 2025 ~\$10M Revenue Impact

# Item 14 – 2024 Mid-Year Financials Update : 2024/25 Outlook

## **2025 Slice of Day (SOD) Compliance Outlook**

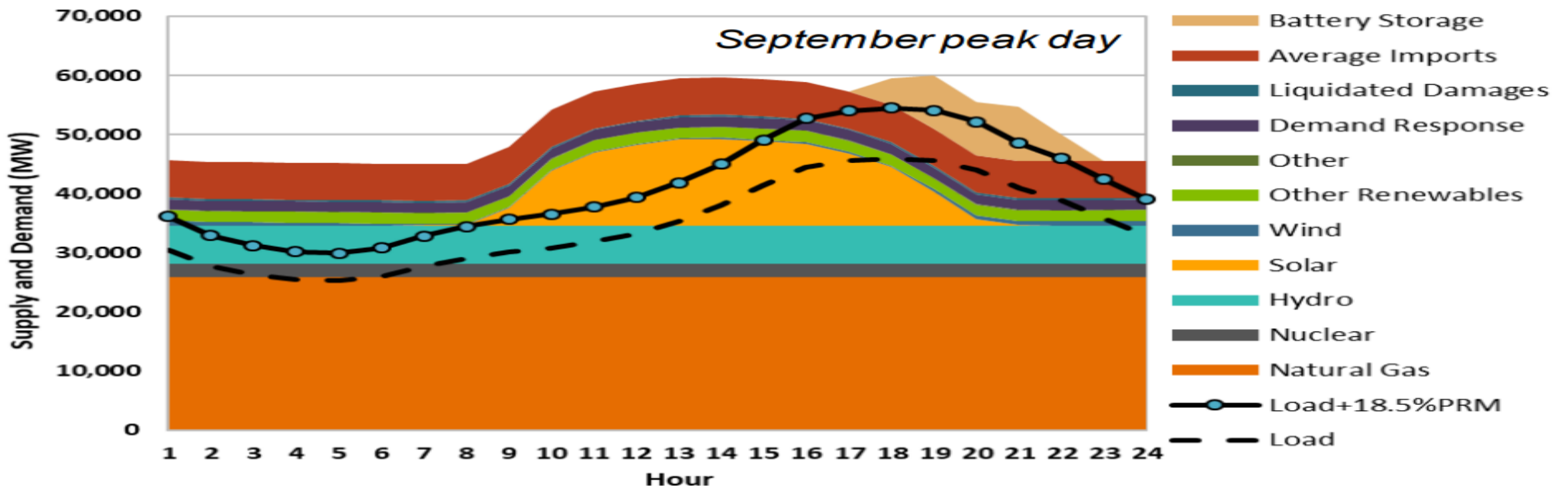
- Slice of Day Transactability (Hourly) - no trading or SWAP market currently allowed
- California Public Utilities Commission (CPUC) planning reserve margin of 17%
- Increased demand for base Load – shift from peak load
- New resources constrained by IOUs transmission systems (interconnection backlog)
- Final CPUC SOD decisions / allocations to be released in July
- Increased Power Costs → increase power cost trading collateral (cash or letters of credit)

## **2025 Other Considerations – Possible Mitigation Strategies (Reduce Costs)**

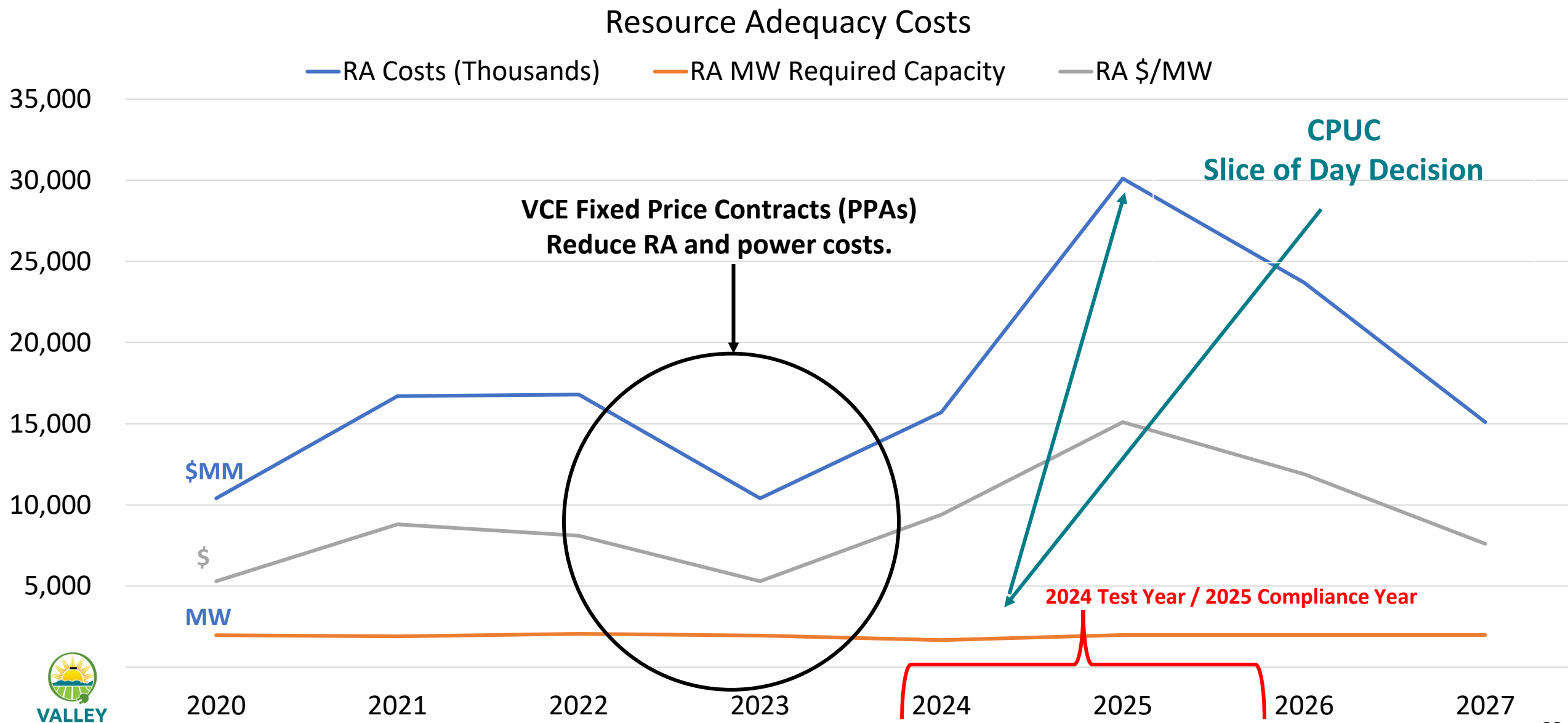
- Power Purchase Agreement Prepay – decrease overall power costs (Debt Policy)
- Sell Long RA positions & Renewable Energy Credits - market value at all-time high (Procurement Policy)
- Raise Rates for Power Costs (Standard Green higher than PG&E) (Rate Policy)
- Increased timeline for initial investment grade credit rating (2028 Strategic Plan Goal)

# Item 14 – 2024 Mid-Year Financials Update : CAISO 2024 RA Outlook

Multi-hour stack analysis indicates that expected resources are sufficient to meet forecasted demand plus an 18.5 percent reserve margin in all summer months



# Item 14 – 2024 Mid-Year Financials Update : RA Outlook (Example)



# Item 14 – 2024 Mid-Year Financials Update : Next Steps / Discussion

## Next Steps

- June 2024 – Issuance of RFP for PPA pre-payment (July RFP Award)
- July 2024 – Release of CPUC final decision and evaluate power cost mitigation strategies.
- September 2024 - Return to Board with power cost mitigation and financial forecast update.
- October – December 2025 budget process.

## Discussion