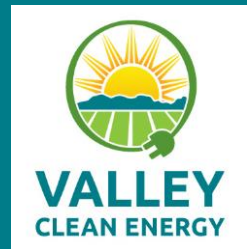




Valley Clean Energy Board Special Meeting – November 10, 2021 via video/teleconference



Davis Food Co-op / Winters EV Charging Station Site



Putah Creek Solar Farms, Winters, CA





**Valley Clean Energy Board Special Meeting –
November 10, 2021 via video/teleconference**

Item 14 – Fiscal Year 2020-2021 Financial Audit



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VALLEY CLEAN ENERGY ALLIANCE
SUMMARY OF AUDIT RESULTS
JUNE 30, 2021

Presented by

James Marta CPA, CGMA, ARPM



Agenda

- Communications with Those Charged with Governance
- June 30, 2021, 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 an 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:

✓ Received

REPORT TO YOU

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

- Significant Accounting Policies and Changes in Those Policies - No changes
- Management Judgments and Accounting Estimates
 - Claims liabilities, investment values, net pension liability, OPEB liability
 - 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 1-2 of the Audited Financial Statements
- Unmodified opinion (Page 2), the best opinion that we can provide

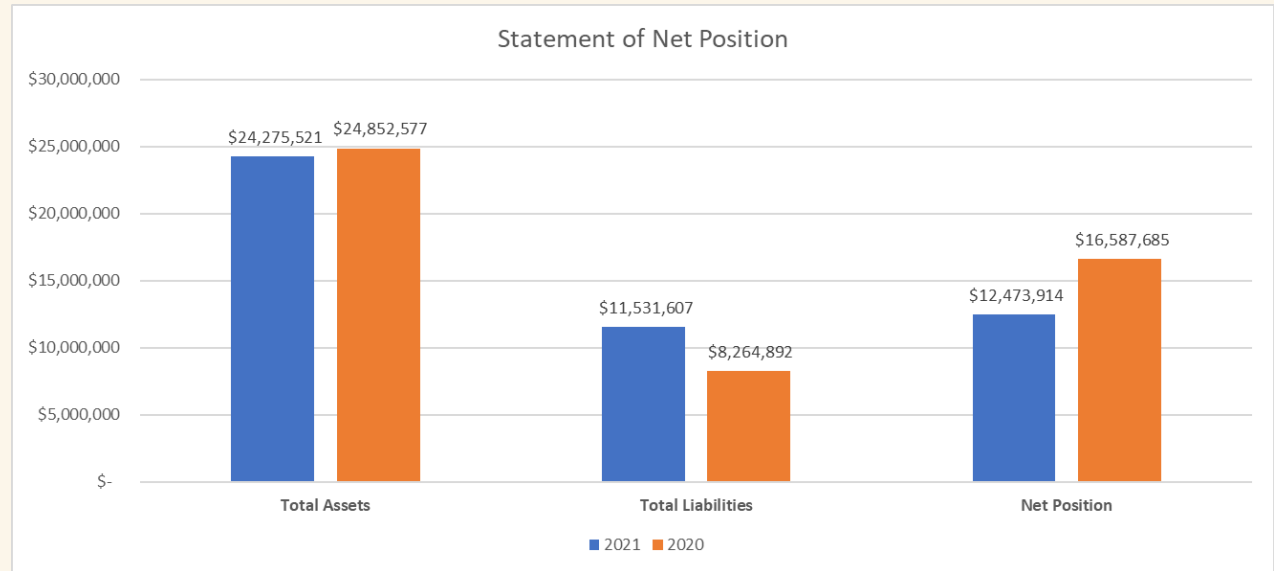


MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

- Pages 3-5
 - 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

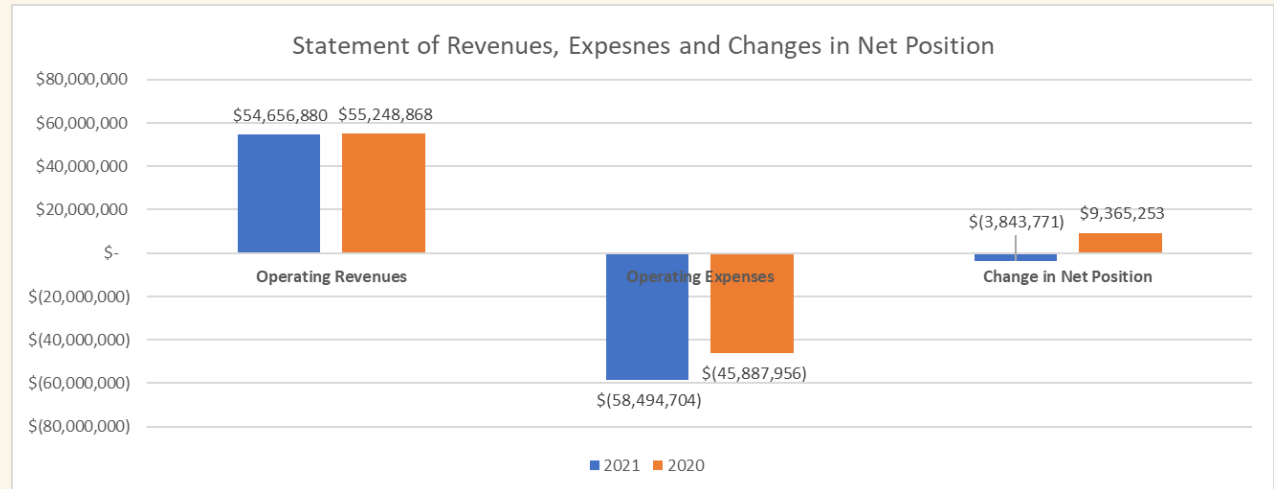
- ↓ Cash decreased \$5.2M
- ↑ Accounts Receivables are up by \$2M
- ↑ Supplier deposits are up \$2M
- ↑ Liabilities are up \$3.3M
- ↓ Net position is down \$3.8M



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

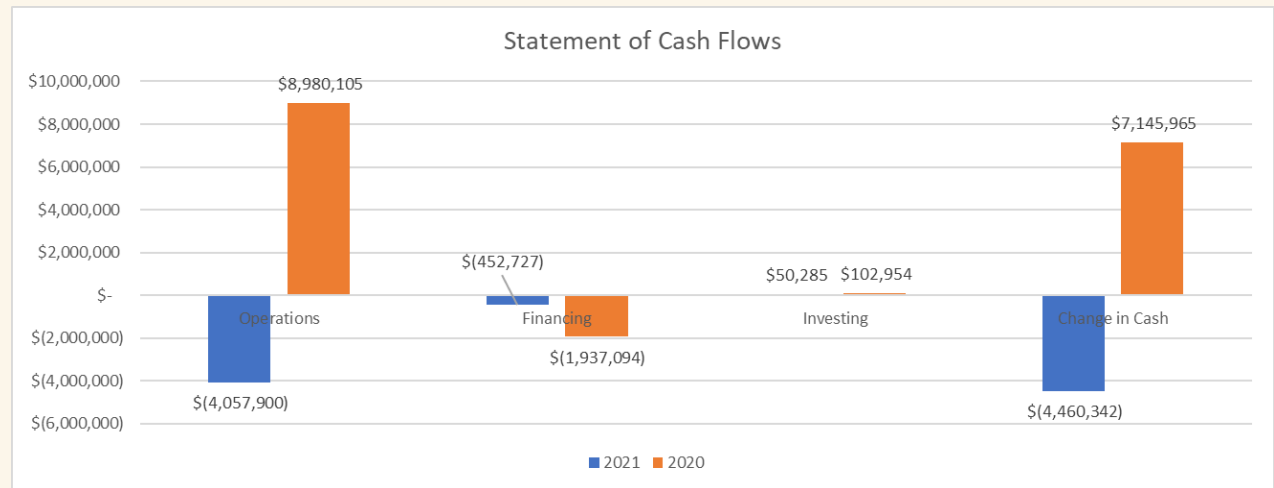
Primary drivers:

- Electricity sales and costs
- Conscious pricing decisions
- COVID19



STATEMENT OF CASH FLOWS

- ▾ Operation used \$4M of cash
- ▾ Financing used \$453k of cash
- ▾ Net cash used this year was \$4.5M

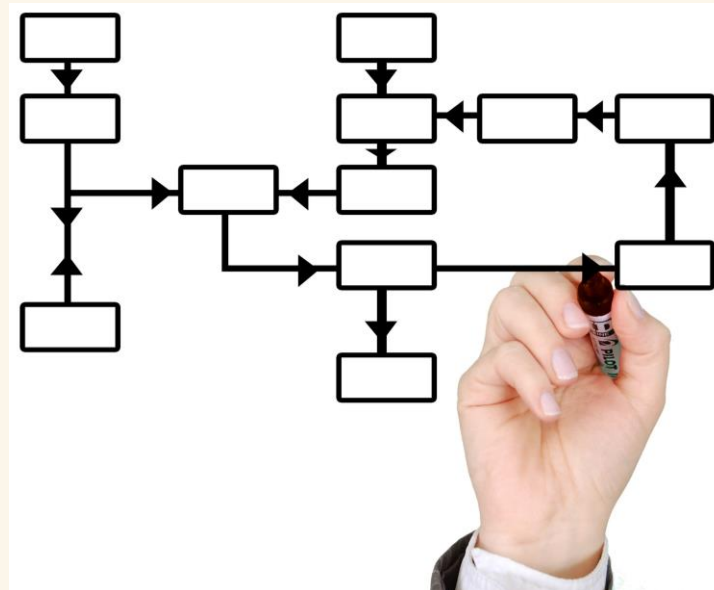


NOTES

- Pages 9-15
 - Note 1, page 11 summarizes restricted and unrestricted
 - Note 3, page 11 shows receivables and accrued; the allowance assumes certain reimbursements from the state for customer delinquent accounts.
 - Note 4 page 12, Line of Credit; balance at year end was zero
 - Note 4 page 13, reflects new loan from River City Bank

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 completing this engagement.

QUESTIONS?

James Marta CPA, CGMA, ARPM





Valley Clean Energy Board Special Meeting – November 10, 2021 via video/teleconference

Item 15 – Cost-Based Rate Policy and Structure (updated)



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Overview

- Background
- Update on 2022 PCIA and PG&E rates
- Revised Recommendation: Cost-Based Rates Policy
- Recommendation/Next Steps

Item 15 – Cost-Based Rate Policy and Structure

Updated 2022 PCIA and PG&E Rates – Filed 11/8/21

- Substantial reduction in PCIA for 2022

Higher energy benchmark prices in 2021 add approximately \$1.4 billion of market value to PG&E's generation portfolio versus the 2021 forecast case. In addition, CCA customers are projected to have paid \$450 million too much in PCIA rates over the course of 2021, and PG&E bundled customers are projected to have paid \$630 million too little in generation rates in 2021. Note: these benchmarks can just as easily go the opposite direction in the future.

- Substantial increase in PG&E's Generation Rates for 2022



Item 15 – Cost-Based Rate Policy and Structure

Recommendation – Revised 11/10/21

1. Approve Resolution Adopting:
 - a. Cost-based rate policy and Implementing Procedure;
2. Consider reserves policy update in Q1 2022
3. Direct Staff to continue consideration of new customer rate structure in consultation with the CAC and return with recommendations at a future date.

Next Steps

- Nov - CAC review of 2022 PCIA and PG&E rates
- Dec – Board adoption of VCE 2022 rates and Cost-based rates Implementing procedure
- Jan/Feb 2022 – Implementation of 2022 rates



Draft Preliminary Cost-Based Rate Policy Implementing Procedure

- Short-term Implementing Procedure (budget years 2022 and 2023): Over the next two budget years set customer rates to fully fund VCE's budget, as may be amended from time to time, and to rebuild a minimum operating reserve of 30 ??? days cash by the end of 2022 to support Strategic Plan goals, including achieving an investment grade credit rating. 2023; with a targeted operating reserve of 60 days cash by the end of 2023. Beginning in 2024 establish higher Revisit reserve policy and operating reserve targets as part of the 2023 budget adoption process in support of Strategic Plan goals., including achieving an investment grade credit rating.—Note: return with reserves policy update in Q1 2022

Note: Changes to original proposed Implementing Procedure included in staff report shown in ~~strikeout~~/underline.



yvonnehunterphotography.com

Valley Clean Energy Board Special Meeting – November 10, 2021 via video/teleconference

Item 16 – 2022 Preliminary Draft Operating Budget



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Overview

- Background of Budget Development
- Updated FY 2020-21 and FY 2021-22 Financials
- Key factors Influencing FY 2021-2022
- FY 2021-2022 Budget Scenarios
 - Option 1: Moderately discounted forecast of PG&E generation rate increases.
 - Option 2: High discounted forecast of PG&E generation rate increases.
 - Option 3: Low discounted forecast of PG&E generation rate increases.

Budget Development Background – FY 2020-21 and FY2021-22

- 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.
- In June 2021, the Board extended the policy strategy adjustments and approved the FY 2021-22 Operating Budget a net loss of \$6.9M

Budget Development Background – CY 2022

- In October 2021, the Board received updated power market forecasts and approved an accelerated rate adjustment of approximately 2%

Long-term Fixed Price Power Purchase Agreements

- VCE renewable power and storage resource deliveries began in 2021 and will significantly increase over 2022 and 2023.
- The PPAs are fixed-price contracts and cover over 80% of VCE's annual load by 2024
- Cash reserves have helped VCE stabilize customer rates and partially bridge the gap until the long-term PPAs begin full delivery in the 2021-24 timeframe.

Operating Budget Update FY 2020-21

Audited financials increased losses by approximately \$310K

- NEM revenues unfavorable \$800K related to reporting for the annual true-up process.
- Rugged Solar PPA performance deposit of \$220K was forfeited by the developer to VCE, resulting in additional other revenue
- The receivables account was reconciled for an increase of \$180K
- VCE released accrued expenses of \$90K as reconciled

Item 16 – Preliminary Draft Operating Budget - 2022

Operating Budget Update FY 2021 (6 Month)

Draft financials decreased losses by approximately \$1.6M

- PCIA. A net 46% increase in the PCIA from 2020/21 continues to have significant revenue erosion for approximately \$23M total paid for the 9-months of the current calendar through September.
- Power Prices. Average forward market power prices have increased 57% since May 2021.
- Customer Rate Increase of 2% - The Board approved an accelerated rate adjustment of approximately 2% on the average customer bill in mid-October for \$300K

FY 2021-22	APPROVED BUDGET FY 2021 (6 MO)	Actual YTD Sept. 30 (3 MO) + Forecast (3 MO)	Variance
Revenue	\$ 25,043	\$ 28,606	\$ 3,564
Power Cost	\$ 27,592	\$ 29,616	\$ (2,023)
Other Expenses	\$ 2,509	\$ 2,469	\$ 41
<u>Net Income</u>	<u>\$ (5,059)</u>	<u>\$ (3,478)</u>	<u>\$ 1,581</u>

Key factors – Operating Budgets

- Power Prices. Average forward market power prices have increased by approximately 57% since the April-2021 preliminary draft budget
- Financial Power Cost Model - Total difference between adopted and corrected forecasts is approximately \$13M over the three FYs 2022 to 2024, resulting from a modeling error that overestimated the financial benefits of VCE's long-term renewable power purchase contracts.
- PCIA. A net 46% increase in the PCIA from 2020/21 continues to have significant revenue erosion for approximately \$23M for the 9-months of the current calendar through September.
- Fiscal Year and Budget adoption timing. As described in October and in the proposed adoption of companion agenda item 13 (revised fiscal year), the budget adoption process occurs during the load forecast updates and the beginning of the hedging process for the following calendar year.

CY 2022 Draft Budget Scenarios

- Option 1: Moderately discounted forecast of PG&E generation rate increases.
- Option 2: High discounted forecast of PG&E generation rate increases.
- Option 3: Low discounted forecast of PG&E generation rate increases.

Rate Forecasts and Revenue

Oct 2021 reports predict significant increases in PG&E’s generation rates and decreases in PCIA over the CY 2022. These changes are based on information from separate filings to the CPUC and are scheduled to be finalized in November 2021.

Table 1 - Rate Scenarios

	RATES			
	PCIA	Scenario 1	Scenario 2	Scenario 3
CY2022	-30%	12%	10%	15%
CY2023	5%	-7%	-7%	-7%
CY2024	-2%	2%	2%	2%
CY2025	2%	1%	1%	1%

Item 16 – Preliminary Draft Operating Budget - 2022

Table 5 – Budget Scenario Comparison

Scenario 1	Actuals			Actual YTD Sept. 30 (3 MO) + Forecast (3 MO)	Budget Scenarios	Forecasted		
	FY2019	FY2020	FY2021*	FY2022	CY2022	CY2023	CY2024	CY2025
Revenue	51,035	55,249	54,657	28,606	69,700	62,600	65,500	66,600
Power Cost	38,540	41,538	54,234	29,616	66,990	52,400	47,100	48,400
Other Expenses	3,850	4,346	4,267	2,469	4,940	5,140	5,269	5,400
Net Income	8,646	9,365	(3,844)	(3,478)	(2,230)	5,060	13,132	12,800
Scenario 2	FY2019	FY2020	FY2021*	FY2022	CY2022	CY2023	CY2024	CY2025
Revenue	51,035	55,249	54,657	28,606	68,100	61,100	63,900	64,900
Power Cost	38,540	41,538	54,234	29,616	66,990	52,400	47,100	48,400
Other Expenses	3,850	4,346	4,267	2,469	4,940	5,140	5,269	5,400
Net Income	8,646	9,365	(3,844)	(3,478)	(3,830)	3,560	11,532	11,100
Scenario 3	FY2019	FY2020	FY2021*	FY2022	CY2022	CY2023	CY2024	CY2025
Revenue	51,035	55,249	54,657	28,606	72,200	65,000	67,900	69,000
Power Cost	38,540	41,538	54,234	29,616	66,990	52,400	47,100	48,400
Other Expenses	3,850	4,346	4,267	2,469	4,940	5,140	5,269	5,400
Net Income	8,646	9,365	(3,844)	(3,478)	270	7,460	15,532	15,200

* Based on preliminary audit results presented in companion item 15.

Generation rate changes (1% change approximately \$650K Net Annual Impact to VCE)
 PCIA (1% change approximately \$300K net annual impact to VCE)

Conclusion

- Budget scenarios do not meet VCE's 5% minimum annual net margin goal
- Continued use of cash reserves utilization as planned
- Cost normalization is still expected in CY 2023 and beyond by long-term power purchase agreements
- PG&E's 2022 PCIA and rates are scheduled to be released the 2nd week of November
- VCE to set 2022 rates and at the December Board meeting
- CY 2022 Budget Adoption at the December Board Meeting