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Valley Clean Energy Board Meeting – Thursday, December 14, 2023



Item 17 – 2024 Operating Budget & Customer Rates

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Item 17 – 2024 Operating Budget & Customer Rates

Overview

VCE's near term (2024) financial outlook:

- Competitive rates with PG&E
- Continues to build programs
- Continues to build cash reserves for VCE's initial investment grade credit rating.

VCE's mid/long-term (24' – 27') financial outlook:

- Long-term PPAs coming online provide for increased stability and financial strength to increase VCE's rate competitiveness and reach strategic goals such as 100% renewable by 2030.

This presentation provides:

1. Background on Rates & Budget Development
2. Update on the 2023 Operational Budget (10 Months actuals)
3. Recommended 2024 Customer Rates
4. Recommended 2024 Budget & debt payment



1. Background on Rates & Budget Development

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Proposed 2024 Rates & Budget Key objectives (Short-Term)

- **Operating Days Cash** – Maintain Board approved cash target of +180 days (90 days in 2022)
- **Debt Repayments** – Early repayment of term loan with River City Bank in 2023.
- **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)

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2023 Operational Budget Adoption - Primary Drivers

- **CARE / FERA** – Incorporated a 2.5% rate credit
- **Power Cost Contingencies** – increased from 2.5% in 2022 to 5% in 2023 (\$3.4M)
- **Financial Reserves** - Incorporated a 2023 target of 180 days for operating cash
- **PG&E Rate Adjustments** – 3% increase – Approximately \$2M in revenue
- **PCIA**. PCIA: 88% reduction (net zero charge) – Approximately +\$17M in net revenue.
- **Long-term power contracts (PPAs)** - When VCE's two largest PPA's begin full deliveries in 2023: ~60% of VCE's load served, growing to 80%+ by 2024

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Operational Budget Primary Drivers - Long-term Fixed Price PPAs

- 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 Power Purchase Agreement Contributions

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.)

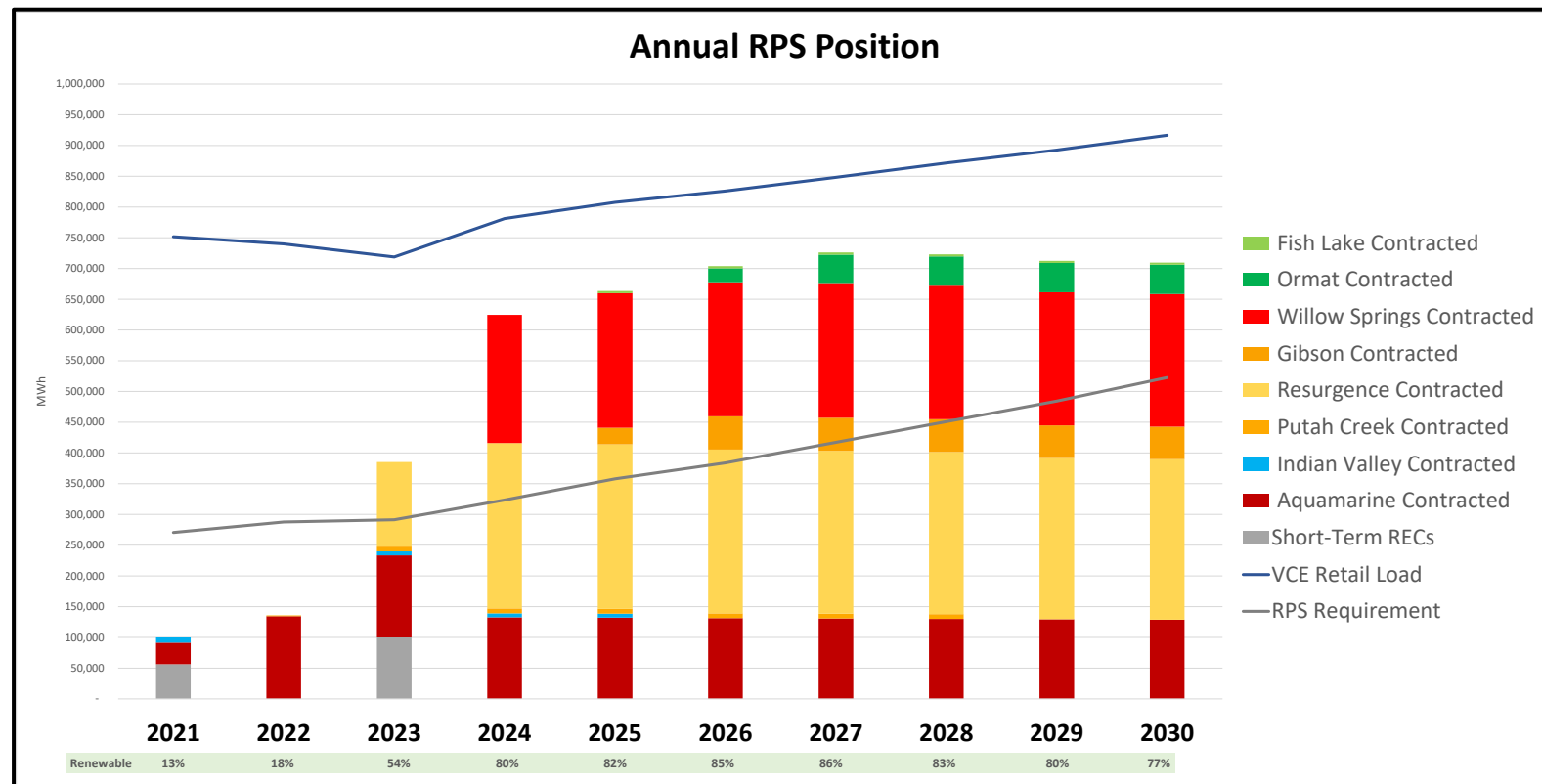
*Willy 9 Chap 2 (formerly Willow Springs Solar 3) Solar PV + Storage Project (72 MW PV /36 BESS / approx. 215,000+ MWhs) expected to come online in January of 2024

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Operational Budget Primary Drivers - Long-term Fixed Price PPAs

- Increase ~114% in 2024
- 80%+ of VCE's annual energy load by 2024
- Reduced VCE costs compared to current RPS and RA market costs
- Significantly reduce volatility as VCE moves forward (smaller open position)

VCE Current Renewable Portfolio Trajectory



VCE's long-term fixed PPAs are anticipated to bring long-term financial stability for VCE in the 2025-2027 long-term outlook.

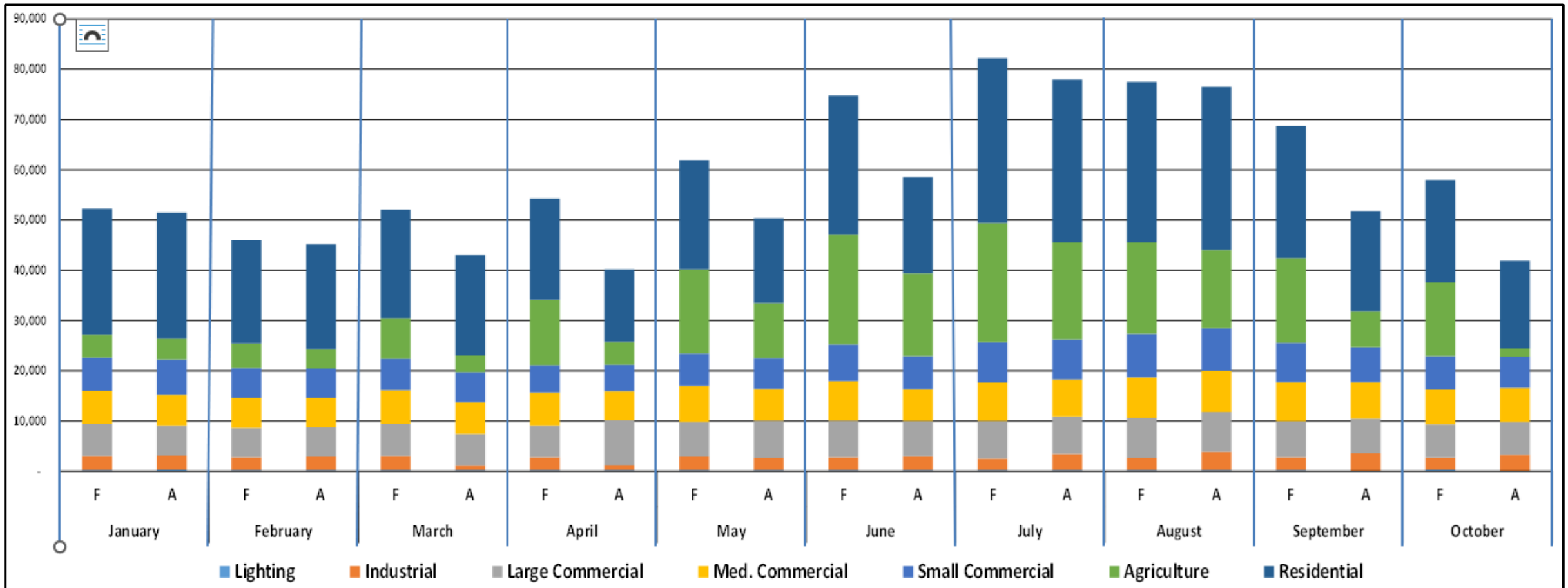
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Key Factors influencing the VCE 2023 Budget

- **Load Forecast** - 2023 Actual energy use lower than forecasted mostly related to agriculture due to a wet and long winter, lower overall summer temperatures, and reduced heat events.
- **Budgeted revenues** – 2023 Revenues lower than forecasted driven by lower usage as described above.
- **Power Costs** – Near Neutral Near Term Impact
 - Power prices have decreased from the high 2022/23 winter costs due to an abnormally wet winter and increased hydro production (additional natural gas storage)
 - Lower long-term energy hedging prices and day-ahead purchase prices in the recent months of 2023.
 - Power prices are expected to remain at near current prices through 2024.
 - Lower power costs forwards have been largely offset by significant price increases in RA and RECs (near term)

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VCE Retail Load Update – Forecast vs Actual





2. 2023 Operational Budget Update

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2023 Operational Budget Update

Description	APPROVED 2023 BUDGET	2023 Proforma (10 Month Actuals + 2 Month forecast)	Variance
Revenue	\$ 109,500	\$ 96,250	\$ (13,250)
Power Cost	\$ 71,650	\$ 72,500	\$ (850)
Other Expenses	\$ 6,430	\$ 6,100	\$ 330
Net Income	\$ 31,420	\$ 17,650	\$ (13,770)

Note: The 2022 interim audit will begin in December 2022 and will be completed in March 2023. Adjustments, if any, will be included in the annual report.



3. Recommended 2024 Customer Rates

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VCE 2024 Proposed Rates

VCE Cost-Based Rate Policy: (Update Adopted November 2021)

- VCE will set customer rates to collect sufficient revenue from participating customers to fully fund VCE's Budget and establish sufficient operating reserve funds.
- VCE's 2023 Target was set to fully fund 180 days of operating cash reserves and incorporated into 2024 rate setting.

2024 Customer Rates - Key Drivers

Based on information from VCE and CalCCA's analysts on the proposed PG&E rates decision outlined above, VCE has incorporated the following assumptions in its updated financial forecasts for 2024 (assuming PG&E rates/PCIA are implemented on January 1, 2024):

- **PCIA: 100% increase over 2023 PCIA (net zero charge)**- Results in approximately (\$1.9M) revenue for 2024
- **PG&E Bundled rates (PCIA & Generation): 5-7% increase** – Results in approximately \$6M revenue for 2024



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Customer Outreach & Communications Strategy

- Emphasizing VCE's continuing cost competitiveness and value
- Additional benefits such as more choice in electricity supply, local control, and community
- Reinvestment through energy contracts and programs.

Based on VCE matching PG&E rates and other CCAs undertaking similar rate actions, Staff does not anticipate significant opt-out customer activity in response to the rate changes.

VCE will continue to monitor customer activity as the rates are implemented for possible adjustments.

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VCE 2024 Proposed Rates

The fiscal effects on VCE customers are relatively small -> 3% increase of total bill

- 5-7% generation rate increase - Avg. approx. \$5 per month on Standard Green Residential
- Continuing rate credits for low income and vulnerable customers (CARE, FERA, and Medical Baseline)

VCE Rates Recommendation

Approve 2024 VCE Customer Rates:

- a. Standard Green Rates for 2024 to match PG&E 2024 generation rates.
- b. Base Green Rate 2.5% lower than PG&E 2024 generation rates
 - i. Automatically provide CARE and FERA customers the lowest rate (Base Green)



4. Recommended 2024 Budget & debt payment

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2024 Budget (Proposed) & Multi-Year Forecast - Key Factors

- 2024 Customer Rates (VCE & PG&E Comparison)
 - Fully fund VCE's Budget and continue to
 - Contribute to +180 days cash reserve funds (initial investment grade credit rating)
- 2024 PCIA Forecast –The updated PCIA increased from ~.002 KW/\$2M to .004 KW/\$4M
- 2024 Customer Rates Forecast –
 - The updated forecast for PG&E rates results in a projected 5-7% generation rate increase
 - Higher PG&E increases associated with transmission and distribution (non-VCE portions of the customer bill)

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2024 Budget (Proposed)

VALLEY CLEAN ENERGY 2024 DRAFT BUDGET SUMMARY	APPROVED	ACTUAL (YTD)	PROPOSED
	2023 BUDGET	Oct. 31 2023 2023 Proforma	2024 BUDGET
OPERATING REVENUE	\$ 109,458	\$ 96,250	\$ 106,500
OPERATING EXPENSES:			
Cost of Electricity	71,650	72,500	75,200
Contract Services	2,807	2,825	2,260
Outreach & Marketing	264	295	300
Programs	834	841	2,020
Staffing	1,442	1,413	1,630
General, Administration and other	1,017	950	1,140
TOTAL OPERATING EXPENSES	78,014	78,824	82,550
TOTAL OPERATING INCOME	31,444	17,426	23,950
NONOPERATING REVENUES (EXPENSES)			
Interest income	42	240	550
Interest expense	(66)	(16)	-
TOTAL NONOPERATING REV/(EXPENSES)	(24)	224	550
NET MARGIN	\$ 31,420	\$ 17,650	\$ 24,500
NET MARGIN %	28.7%	18.3%	23.0%

- 3% rate increase for Standard Green (Total Bill)
- 2.5% rate credit for CARE/FERA and Medical Baseline customers
- Includes a target of ~180+ days cash reserves by the end of 2024.
- \$2M in Programs

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Updated Multi-Year Forecast

Description	Actuals	(10 Month Actuals + 4 Month Budget)	Preliminary Forecast*			
	2022	2023	2024	2025	2026	2027
Customer Revenue	85,323	96,250	106,500	99,810	108,300	103,950
Power Cost	75,130	72,500	75,200	62,700	66,300	68,300
Other Expenses	4,469	6,100	6,800	7,200	7,600	8,000
Net Income	5,724	17,650	24,500	29,910	34,400	27,650
Gross Margin	12%	25%	29%	37%	39%	34%
Net Margin	7%	18%	23%	30%	32%	27%

Additional Programs & +180 Days Operating Cash

Note: Forecasted financials are based on the most current available data and assumptions. These scenarios rely on future rate adjustments, reserves, or both to mitigate future power cost volatility.

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Other Considerations – Other Operating Expenses

Nearly flat compared to the 2023 budget - 8% increase (2022 CPI ~6%)

The primary factors of increased costs in this category of expenses include:

- \$2M in customer programs related to AgFIT and other programs.
- Staffing includes the addition of one Program Specialist / Junior Analyst and prior part-time positions allocations for Regulatory Analyst and Office Support Specialist.
- Additional costs related to strategic goal implementation (e.g. 100% renewable by 2030)
- Reduced interest expenses related term loan prepayment.
- Increased interest income with rising interest rates and increased cash reserves
- 5% annual salary and contractor inflation rate based on the 2023 6% inflation rate.
- 5% administrative contingency rate for unanticipated expenses.
- Additional cost related to post covid operations (e.g. remote meeting technology) and Board stipends to match other local JPA stipends.

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Operating Budget Outlook Summary

VCE's 2024 short-term outlook allows VCE to reach its primary financial objectives of building reserves while maintaining competitive rates and executing local programs. VCE's longer-term outlook (2025+) indicates increased stability and cost certainty with VCE's long-term PPA's on-line combined with continued growth in cash reserves which would place VCE in a position to receive an initial investment grade credit rating within the next several years.

Recommendation

1. Approve 2024 Budget with \$106.5 M of operating revenues and \$82M of operating expenses for a net income of \$24.5 M.
2. Approve prepayment of \$185 K for retirement of term loan with River City Bank by December 31, 2023.