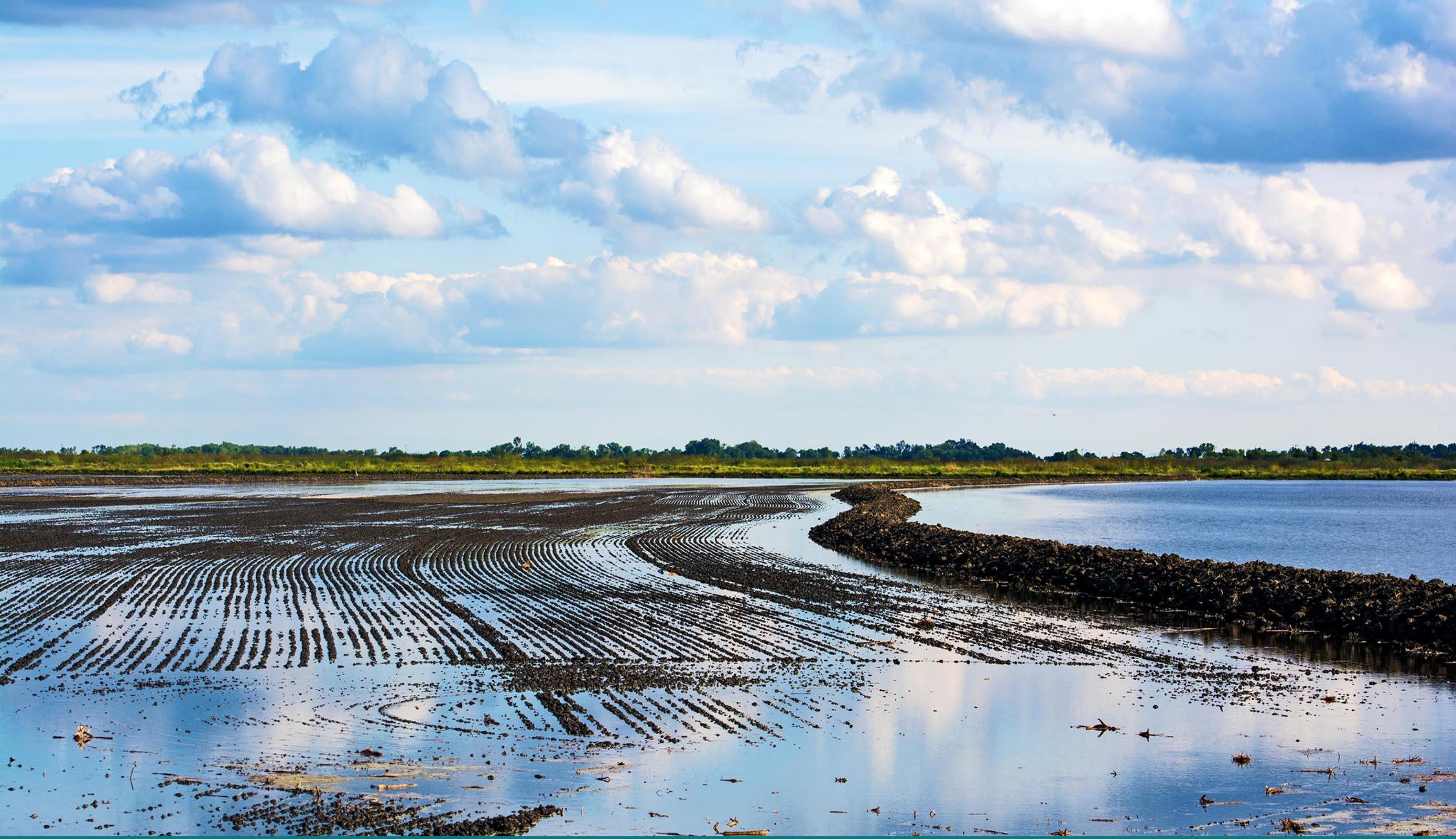

Valley Clean Energy CAC Meeting – November 19, 2020
Via Teleconference

Item 10 – Load, Revenue & Power Cost Forecast Update

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Item 10 - Contents

- Section 1 – Discussion of Load & Revenue Forecast Updates (informational)
- Section 2 – Summary of Board Action on Net Margin Allocation & Dividends (Board action on 11/12/20)

This CAC presentation is providing updates on the two items above that went to the Board on November 12 for consideration.

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Item 10 - May 2020 Load Forecast

- At the May Board Meeting staff and SMUD presented scenarios showing load forecasts resulting from the COVID-19 pandemic, shelter-in-place orders, and the predicted economic recession

- Best Case, Worst Case, and Most Likely Cases were developed. The Most Likely case, used for the budget, reflected 3.8% and 3.6% load reductions in 2020 and 2021 compared to pre-COVID estimates

		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%

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Item 10 - October 2020 Load Forecast Update

In late October SMUD and VCE updated the 2020-2022 load forecast, which included:

- Pre-COVID load forecast produced by SMUD in 1st quarter of 2020
- January through mid-August actual load data
- SMUD estimation of weather versus COVID shutdown load impact
- Reforecast of COVID shutdown/recessionary impact to future load
- Consideration of National Oceanic and Atmospheric Administration (NOAA) forecast of a warm California winter

	Total Impact	COVID Shutdown	Weather
Residential	12%	4%	8%
Small Commercial	-13%	-16%	3%
Medium Commercial	-11%	-13%	2%
Large Commercial	-7%	-9%	2%

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Item 10 - October 2020 Load Forecast Update

To summarize the findings since May:

- The updated forecast reflects the following increases from May to October forecasts:
  - 6.3% load increase for 2020 from Most Likely (budget) case
  - 2.8% load increase for 2021 from Most Likely (budget) case
- An unusually hot summer increasing load
- The forecast residential load increase offsets almost all of the commercial load reductions

The higher load will increase both revenue and power cost. For the two years of FY2021 and FY2022, revenue has increased $5.3 million while power cost is increasing $5.9 million, for a two-year reduction in net income of $0.6 million.

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Item 10 - P&L and Cash Flow Impacts

FY2021 and FY2022 Profit & loss and cash outlook has not changed significantly since the Board approved the budget in June 2020:

- Operating losses in both FY2021 and FY2022
- Significant revenue erosion from PCIA both years
- Notable power cost increase due largely to increased Resource Adequacy (RA) costs
- Cash reserves being utilized to stabilize customer rates through the end of FY2022

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Item 10 - P&L and Cash Flow Impacts

PCIA and power costs may start to normalize in 2023 and beyond, but margins will be very low or negative until that occurs. Some of these potentially helpful interventions may include:

- PCIA costs normalizing due to regulatory/legislative decisions
- Reduced power costs as VCE long-term power purchase agreements (PPA's) start coming on-line
- Change in market factors, such as Diablo Canyon units coming off the books for PG&E
- Favorable regulatory decisions

Staff believes that VCE should not rely on positive outcomes from these interventions until they become more certain, and that the organization should make financial decisions, including potential dividends, through a lens of prudency.

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Item 10 - P&L and Cash Flow Impacts

	FY2020	FY2021	FY2022
May 2020 Forecast			
Revenue	$ 55,249	$ 49,467	$ 49,400
Power Cost	$ 41,538	$ 47,695	$ 50,335
Other Expenses	$ 4,346	$ 4,611	$ 4,992
Net Income	$ 9,365	$ (2,839)	$ (5,927)
Oct 2020 Forecast			
Revenue	$ 55,249	$ 53,038	$ 51,159
Power Cost	$ 41,538	$ 50,630	$ 53,288
Other Expenses	$ 4,346	$ 4,671	$ 4,990
Net Income	$ 9,365	$ (2,263)	$ (7,119)
Difference			
Revenue	$ -	$ 3,571	$ 1,759
Power Cost	$ -	$ 2,935	$ 2,953
Other Expenses	$ -	$ 60	$ (2)
Net Income	$ -	$ 576	$ (1,192)
Unrestricted Cash	$ 13,334	$ 9,397	$ 363
Load (Kwh)	690,231	689,988	721,345

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Item 10 - Section 2 Overview

- Dividend Program Guidelines
- Dividend Program Calculations
- Cash Considerations
- Recommended Allocation of Net Margin
- Dividend Sensitivities
- Program Reserve Prior to Dividend Program
- Financial Summary

Purpose: Sought – and gained - Board decision on allocation of audited Net Margin for the fiscal year ended June 30, 2020.

Item 10 - Section 2 Overview

- Dividend Program Guidelines and Calculations
- Cash Considerations
- Allocation of Net Margin
- Dividend Sensitivities
- Program Reserve Prior to Dividend Program
- Financial Summary

<u>Board Action (11/12/20)</u>

Allocation of VCE's $6.318 million audited net margin for FY2020:

- $138,000 to the Local Programs Reserve (LPR)
- $0 to dividends, given the current cash reserve forecast
- The balance ($6,180,000) to cash reserves to help stabilize customer rates over the next two fiscal years

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Item 10 - Dividend Program Guidelines

Guidelines of the Dividend Program:

- Every fiscal year, the audited Net Margin (Less Principal Debt Payments) is to be allocated amongst Cash Reserves, Local Program Reserve, and Cash Dividends, at the Board's discretion
- VCE to match PG&E's generation rates (less PCIA)
- Before any dividends are paid:
  - VCE must have > 5% Net Margin (less debt payments)
  - The enrollment process for the legacy NEM accounts must have begun

For fiscal year ended June 30, 2020, these criteria have been met.

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Item 10 - Dividend Program Calculations

Dividend Program Formula

The adopted Dividend Program formula recommends allocating the net margin as follows:

- Any Net Margin up to 5% is allocated as follows:
  - At least 5% (of the 5%) goes to Local Programs Reserve (LPR)
  - Up to 95% to Cash Reserves

- Any Net Margin > 5% is allocated as follows:
  - At least 50% to Cash Reserves
  - Remaining allocated among customer Dividends and LPR

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Item 10 - Dividend Formula Calculations

FY2020 produced Net Margin (less debt payments) of $6.3M, which is 11.4%.

Based on Dividend Program guidelines, the ranges of allocations are:

- Local Programs Reserve: at least $140,000
- Customer Dividends: $0 to $1.8M
- The balance goes to Cash Reserves

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Item 10 - Cash Considerations

Although VCE has strong cash reserves at June 30, 2020, it is expected to experience significant cash challenges in the next two fiscal years due to continuing regulatory pressures related to the Power Charge Indifference Adjustment (PCIA/Exit Fee) and changing Resource Adequacy requirements.

Projected Days Cash on Hand:
June 30, 2020: 103 days
June 30, 2021: 70 days
June 30, 2020: 3 days

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Item 10 - Recommended Allocation of Net Margin

Based on the Dividend Program parameters and cash reserves, staff recommended the following allocation of VCE's $6.318 million audited net margin for FY2020:

- $138,000 to the Local Programs Reserve (LPR)
- $0 to dividends, given the current cash reserve forecast
- The balance ($6,180,000) to cash reserves to help stabilize customer rates over the next two fiscal years

The Board voted and agreed with the above recommendations at the November 12 Board Meeting.

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Item 10 - Dividend Sensitivities

For reference, had the Board decided to institute a small dividend this year the effects would be:

- A 1% dividend in FY2020 would be an $800,000 reduction in cash reserves and reduce days cash on hand going forward by 6 days
- A 2% dividend in FY2020 would be a $1,600,000 reduction in cash reserves and reduce days cash on hand going forward by 12 days

A 1% dividend would be approximately $1.50/mo. reduction in the average residential customer bill and an approximately $3.75/mo. reduction in the average small commercial customer bill

These levels of customer dividends would not likely have significant effects on customer retention or recruitment.

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Item 10 - Program Reserve Prior to Dividend Program

Prior to the introduction of the Dividend Program, VCE set aside 1% of net income as funds for local program development. This was based on the Board's Financial Reserve Policy adopted on December 14, 2017.

Based on the Financial Reserve Policy's 1% calculation, VCE has approximately $86,500 set aside as of June 30, 2019 for programs.

The $138,000 approved by the Board for FY2020 added to this existing total, bringing the total program reserve amount as of June 30, 2020, to $224,500.

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Item 10 - Financial Summary

	Audited 2020 Results	
Electricity Sales	$ 55,248,868	
Operating Expense	$ 45,887,956	
Principal Debt Payments	$ 3,042,674	
Net Margin Less Principal Debt Payments	$ 6,318,238	
Net Margin %	11.4%	
5% Net Margin	$ 2,762,443	
Amount > 5% NM	$ 3,555,794	
Disposition of First 5% Net Margin	$ 2,762,443	
At least 5%: Local Programs Reserve (LPR)	$ 138,122	Minimum
Up to 95% to Cash Reserves	$ 2,624,321	Maximum
Disposition of Net Margin >5%	$ 3,555,794	
At least 50% to Cash Reserves	$ 1,777,897	Minimum
Remaining (after Cash Reserves) - Split between LPR and Dividends	$ 1,777,897	Maximum

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Item 10 - Financial Summary

FY 2020 Summary		
Minimum Amount to LPR	$	138,122
Minimum Amount to Dividends	$	-
Maximum Amount to Dividends	$	1,777,897
FY 2019 Summary		
Minimum Amount to LPR	$	86,463
Total 2019-20 (2 Years)	$	224,585
Days Cash on Hand at 6/30/2020		103
Projected Days Cash on Hand at 6/30/2021		70
Projected Days Cash on Hand at 6/30/2022		3

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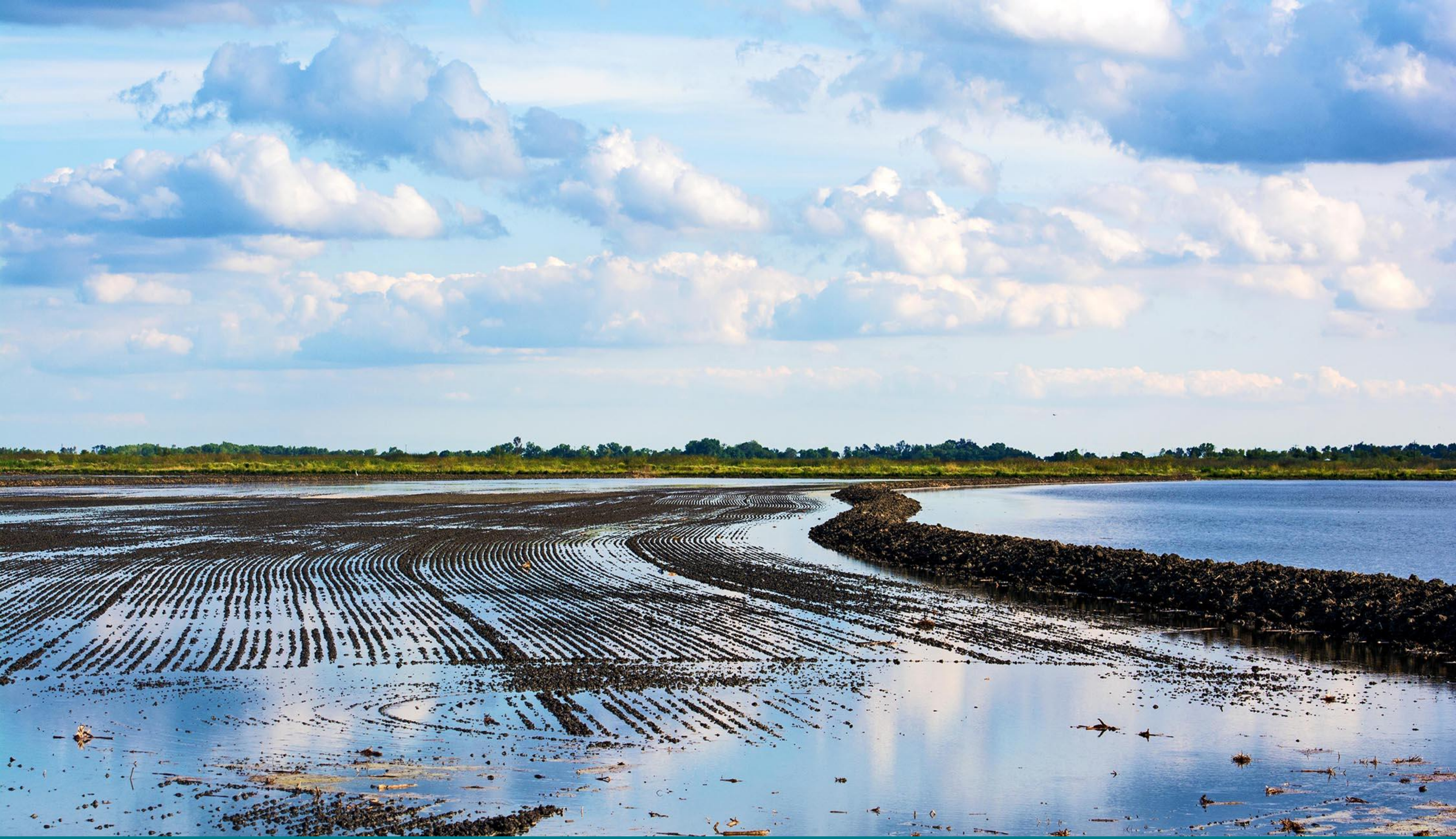

Valley Clean Energy CAC Meeting – November 19, 2020
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Item 11 – Draft updated Legislative Platform

VALLEY CLEAN ENERGY

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Item 11 - Legislative Platform

Background:

- The original 2020 Legislative Platform was prepared at request of Board Chair Don Saylor and was adopted at the July 8, 2020 board meeting.
- The Legislative Platform is to be updated annually and in advance of the new legislative session.
- VCE's Vision Statement and positions taken on past and current legislation serve as the basis for the proposed actions and positions outlined in the Legislative Platform.
- The VCE Board has adopted a strategic plan as well as a Statement on Environmental Justice; both documents are incorporated in this iteration of the Legislative Platform.
- The Legislative Platform will serve as a guide for VCE's lobbyist, Pacific Policy Group, to evaluate bills and positions to recommend to VCE staff and the Board.

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Item 11 - Legislative Platform

Updated Issue Areas:

A. Section 2 – Restructuring the Electric Utility Sector

B. Section 3 – Resource Adequacy

New Issue Areas:

A. Section 6 – Covid-19 Response

B. Section 9 – Environmental Justice

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