Valley Clean Energy Community Advisory Committee Meeting
February 27, 2020, Davis Senior Center

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Item 3B: 2/13/20 Board Mtg. Update – GHG Free Potential Savings for VCE

Potential savings is based on historical generation using a $6/MWh premium for carbon free energy. Volume can vary widely. Price and demand are likely to drop if PG&E proposal is approved. The savings indicated below assume VCE can sell these allocations to recover what it already pays thru PCIA.

	Forecasted Allocated Volumes	Minimum 50% Probability	Medium 40% Probability	Maximum 10% Probability
Hydro + Nuclear	230 GWh	$0	up to $270,000	up to $1,380,000
Nuclear only	140 GWh	$0	$0	up to $840,000
Hydro only	90 GWh	$0	up to $270,000	up to $540,000

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Item 3B: 2/13/20 Board Mtg. Update – GHG Free
Challenges in Realizing Potential Savings

- The energy market showed a pause in demand for 2020 Large Hydro energy since the filing of the advice letter.
- Since demand for this attribute largely comes from CCA's, the approval of this advice letter could further suppress demand.
- Ability to re-sell carbon free attributes from nuclear is unlikely unless large CCA's are willing to take on nuclear in their portfolio.
- Each CCA is in a different position on their procurement progress for 2020. VCE is already fully procured for 2020 forecasted load.
- Quantities from PG&E are variable and highly uncertain. We won't know until after the fact. Attributes can't be exchanged afterwards.
- To realize any potential savings, VCE would have to take a risk on these uncertain quantities.

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Item 9 - PCIA Update

February 27, 2020

Community Advisory Committee

Item 9 - PCIA Update
Background

- Due to the recent CPUC Proposed Decision (PD) on the PG&E ERRA filing, PCIA rates will increase substantially in 2020, triggering a mechanism to enable PCIA to exceed the current cap

- VCE's current PCIA rate of approximately 2.7 cents/kWh will increase to the PCIA cap of 3.2 cents per kWh by May 1, increasing to an estimated 4.6 cents for calendar year 2020 (70% increase) when the cap exception is triggered in Q4 2020

- PG&E generation rates, which VCE currently matches, are forecast to decrease 4% in 2020, causing additional financial pressure, and rebound in 2021 – 2022

- Currently, this information is not final. We will have more certainty when we receive a final decision – expected February 27 – and once PG&E initiates its cap exception trigger

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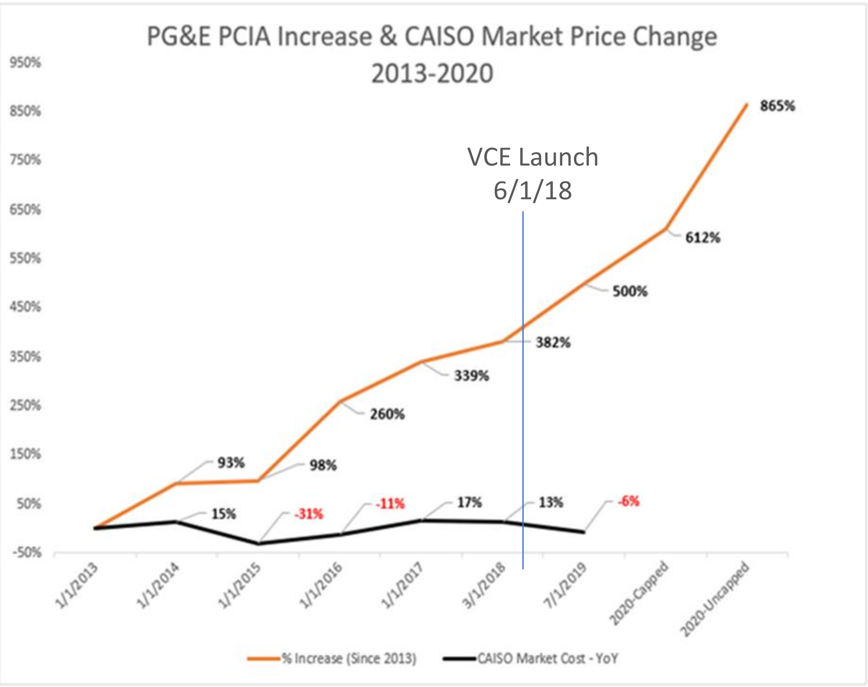
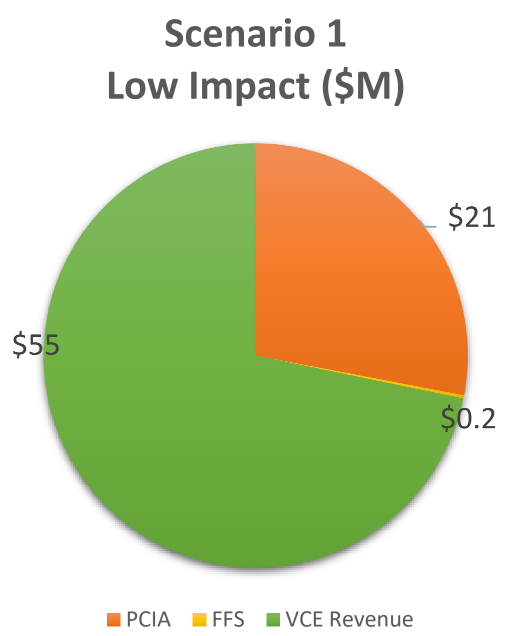
Item 9 - PCIA Update
PCIA Volatility

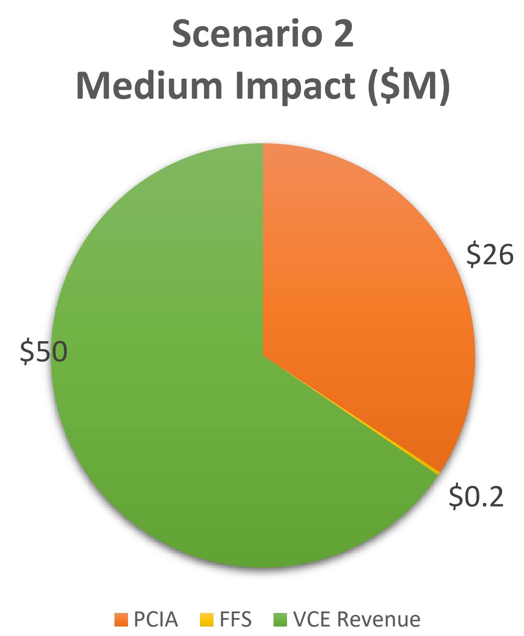
- PCIA is an existential threat to all CCAs
- The post-trigger PCIA will make up 38% of total customer billings in FY21
- For FY21, VCE is only left with 6.7 cents per residential kWh to procure power and pay all other operating costs; compared to 9.0 cents today
- PCIA increases result in a $7.7 million (14%) revenue decrease to VCE in fiscal year 2021 compared to capped rates
- Under current CPUC regulatory framework PCIA costs have increased 800% since 2013

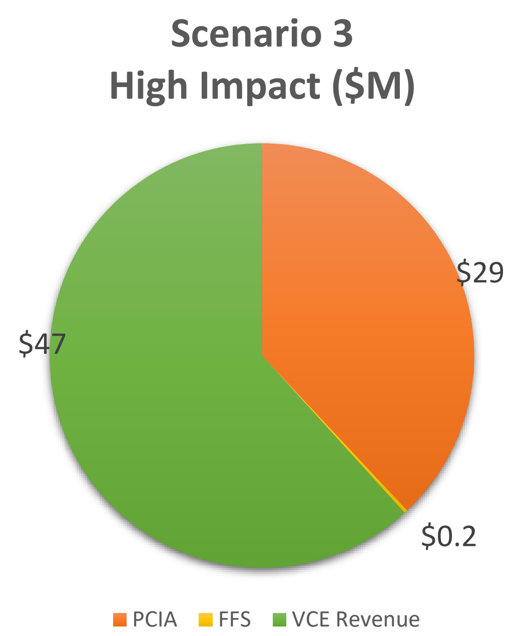


Item 9 - PCIA Update
PCIA Effect on VCE Revenue

- Assuming VCE continues to match PG&E gen rates, every dollar that PCIA increases directly reduces VCE revenue and cash flow by the same amount
- The charts below show total annual customer billings split into component parts for FY 2021 – with the High-Range being most likely and most detrimental:







FFS = Franchise Fee Surcharge

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Item 9 - PCIA Update
Preliminary Analysis

PRELIMINARY ANALYSIS:

- VCE staff evaluated three PCIA scenarios:
  - Scenario 1 – CPUC Capped Rate (Low Impact): Assume that PCIA rises to the cap of approx. 3.2 cents per kWh and stays at that rate (no cap exception trigger)
  - Scenario 2 – Mid-Range (Medium Impact): Assume that PCIA rises to the cap of 3.2 cents, then up to approximately 4.1 cents for calendar year 2020
  - Scenario 3 – High-Range (High Impact)- Assume that PCIA rises to the cap of 3.2 cents, then up to approximately 4.6 cents for calendar year 2020
- PG&E Generation Rate Sensitivity:
  - All scenarios assume a 4% *decrease* in PG&E generation rates in 2020, followed by 2% increase in 2021 and 5% increase in 2022 (MRW forecast)
- Revolving Line of Credit (RLOC):
  - All scenarios assume VCE does not draw upon the $11 million RLOC. The RLOC will provide a potential “backstop” for a period of time if necessary

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Item 9 - PCIA Update
2021 Fiscal Year

	Fiscal Year Ended June 30, 2021		
	Scenario 1	**Scenario 2**	**Scenario 3**
	Low Impact	**Medium Impact**	**High Impact**
Assumptions			
PCIA - 2020	3.1 cents	4.1 cents	4.6 cents
Key Financial Measures			
Customer Payments - Gen Rates	$76,584	$76,584	$76,584
Less PCIA	($21,638)	($26,451)	($29,342)
Revenue to VCE	$54,946	$50,133	$47,242
Power Cost	$48,174	$48,174	$48,174
Operating Expense	$4,813	$4,812	$4,831
Net Margin	$1,959	($2,853)	($5,763)
Cash (Unrestricted)	$10,173	$7,537	$4,159
Days Cash	45	33	18

NOTE: All data is preliminary and will be solidified as firmer data and regulatory decisions arise.

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Mitigation Strategies

Revenue Enhancement:

- Generation rate increase

Cost Mitigation:

- Power Content changes:
  - Reduce renewables to RPS minimum (2020: 33% / 2021: 35%)
  - Reduce carbon-free energy procurement
  - Accept large hydro allocation
  - Accept nuclear allocation
- Overhead expense reduction
- Adjust energy hedging strategies to reduce hedging levels, increasing volatility

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Item 9 - PCIA Update
Conclusions

- Based on VCE's preliminary assessment, the impact of the potential PCIA rate increases could be substantial. Following are the key takeaways:
  - VCE is able to absorb Scenario 1 (Low Impact) without incurring additional debt or missing key covenants – this shows that capped rates are reasonable and can work for the CCA business model
  - VCE can work around Scenario 2 (Medium Impact) but with significant impacts to future business needs and the potential to increase debt – this provides a substantial threat to future cash flow and reserves, increasing business risk
  - VCE and the CCA business model face significant challenges in Scenario 3 (High Impact) and would require a major strategic change such as consolidation with another CCA or an increase in VCE customer rates over PG&E to remain solvent in the long-run; this in turn could lead to customer opt-outs and revenue decline
  - Under Scenario 3, VCE's cash reserves will be drawn down by 2022 unless further debt is taken on

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