



Valley Clean Energy Special Board Meeting

Thursday, October 10, 2019 at 3:00 p.m.
Woodland Council Chambers, Woodland, CA





James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

Valley Clean Energy Alliance – Item 13: FY18/19 Financial Audit June 30, 2019

Presented by

James Marta, CPA, CGMA, ARPM

Partner

Audit Highlights

- Audit opinion is unmodified
- Management's Discussion & Analysis
- Internal control letter – no material weaknesses.
- Audit covers periods ending June 30, 2019 and 2018



Financial Results

- Operating revenues of \$51M
 - These revenues represent the first full year of operations
 - Prior year was only for one month of operations
- Operating expenses were \$42.2M
- Net Position increased by \$8.6M
- Total assets \$18.2M
 - \$9.2M in accounts receivable and accrued revenues
 - \$1.8M in restricted assets
- Total liabilities \$11M
 - Accrued cost of electricity \$5.1M
 - Line of Credit \$2M
 - Loans from member agencies \$1.5M



	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,914,296	\$ 963,388
Accounts receivable, net of allowance	4,952,577	5,621
Accrued revenue	4,295,713	2,824,540
Inventory - renewable energy credits	207,168	436,587
Deposits	2,540	2,540
Total current assets	<u>16,372,294</u>	<u>4,232,676</u>
Restricted assets:		
Debt service reserve fund	1,100,000	1,100,000
Power purchase reserve fund	655,745	-
Total restricted assets	<u>1,755,745</u>	<u>1,100,000</u>
Noncurrent assets:		
Other noncurrent assets and deposits	100,000	600,000
Total noncurrent assets	<u>100,000</u>	<u>600,000</u>
Total assets	<u>18,228,039</u>	<u>5,932,676</u>
LIABILITIES		
Current liabilities:		
Accounts payable	670,305	137,475
Accrued cost of electricity	5,058,656	2,673,938
Accrued payroll	3,789	1,624
Interest payable	112,312	61,556
Due to member agencies	410,309	534,639
Other accrued liabilities	1,273,626	847,296
Revolving line of credit	1,976,610	1,600,000
Total current liabilities	<u>9,505,607</u>	<u>5,856,528</u>
Noncurrent liabilities		
Loans from member agencies	1,500,000	1,500,000
Total noncurrent liabilities	<u>1,500,000</u>	<u>1,500,000</u>
Total liabilities	<u>11,005,607</u>	<u>7,356,528</u>
NET POSITION		
Restricted - Local Programs Reserve	\$ 86,463	\$ -
Unrestricted	7,135,969	(1,423,852)
Total net position	<u>\$ 7,222,432</u>	<u>\$ (1,423,852)</u>

	<u>2019</u>	<u>2018</u>
OPERATING REVENUE		
Electricity sales, net	\$ 51,035,167	\$ 2,820,188
OPERATING EXPENSES		
Cost of electricity	38,539,605	2,237,352
Contract services	2,309,962	1,848,165
Staff compensation	981,805	17,922
General, administration, and other	392,897	95,448
Total operating expenses	<u>42,224,269</u>	<u>4,198,887</u>
Operating income (loss)	8,810,898	(1,378,699)
NONOPERATING REVENUES (EXPENSES)		
Interest income	37,943	16,403
Interest and related expenses	(202,557)	(61,556)
Total nonoperating revenues (expenses)	<u>(164,614)</u>	<u>(45,153)</u>
CHANGE IN NET POSITION		
Net position at beginning of period	8,646,284	(1,423,852)
Net position at end of period	<u>\$ 7,222,432</u>	<u>\$ (1,423,852)</u>

Letter

- **Communication to those Charged with Governance**
 - No disagreements with management
 - Audit conducted as planned
 - No material weaknesses identified





Items for Consideration

- Continuing rate changes determined by the CPUC
- Service rate concerns with PG&E due to legal liabilities



VCE Special Board Meeting

Item 14 – River City Bank Revolving Line of Credit / Debit Restructuring
October 10, 2019, Woodland City Council Chambers



Item 14 - Background

- May 10, 2018 Board meeting – Board approved the Credit Agreement with River City Bank
 - \$11 M Revolving Line of Credit (RLOC)
 - Term – 12 months (May 2019) with 6 month option to extend (Nov 2019)
 - Member jurisdictions signed Subordination Agreements for \$500K loan to RCB
- April 11, 2019 Board meeting – Board approved to exercise option to extend RLOC term to November 2019
- September 6, 2019 - RCB terminated the Subordination Agreements with member jurisdictions
- September 12, 2019 Board meeting - Board gave direction to pay off the \$500,000 agency loans
- Current RLOC balance \$1,976,610 (last draw in August 2018)

Item 14 - Bank Update

River City has agreed to:

- Renewal of the existing RLOC with the following major terms of the agreement:
 - Up to \$11.0 M available credit (reduced by any amounts that have been converted to a Term loan on the existing RLOC)
 - One-year term
 - Ability to issue Letters of Credit
 - RLOC interest at a variable rate equal to the One (1) Month LIBOR plus 1.75%, subject to a floor rate of 1.75%
 - Term loan interest is fixed at the three (3) year US Treasury note yield plus 2.00%
 - Loan fee of 0.25% of the loan amount
- An additional 30-day administrative extension to finalize the credit agreement after the Board approval

Itm 14 - Analysis

Options:

	Option 1	Option 2
Repay Member Loans	Yes	Yes
Repay RLOC	Yes	No
Convert to Term Loan (5yr Repayment)	No	Yes
Dividend Rate FY 2020	2%	2%
Dividend Rate FY 2021	1%	1%

Assumptions:

- Convert RLOC to Term Loan at current outstanding balance of \$1,976,610
- Dividends accrued and paid in accordance with VCE's dividend program approved in June 2019
- Smaller dividend in FYE 2021 due to projected increase in RA costs resulting in a lower Net Margin

Item 14 - Analysis

	6/30/2020 ('000)	6/30/2020 ('000)	6/30/2021 ('000)	6/30/2021 ('000)
	Option 1	Option 2	Option 1	Option 2
Revenues	\$ 54,594	\$ 54,594	\$ 56,271	\$ 56,271
Power Costs	41,392	41,392	47,246	47,246
Gross Margin	13,202	13,202	9,025	9,025
Other Expenses	4,783	4,821	4,648	4,703
Net Margin	\$ 8,419	\$ 8,381	\$ 4,377	\$ 4,322
Net Margin %	15.42%	15.35%	7.78%	7.68%
Cash:				
Unrestricted	\$ 9,603	\$ 11,344	\$ 10,819	\$ 12,110
Restricted	2,636	2,636	3,450	3,450
Total cash (1)	\$ 12,239	\$ 13,980	\$ 14,269	\$ 15,560
Debt:				
Member Loans	\$ -	\$ -	\$ -	\$ -
RLOC	-	1,779	-	1,384
Total Debt	\$ -	\$ 1,779	\$ -	\$ 1,384
Net Position	\$ 15,667	\$ 15,629	\$ 20,044	\$ 19,951

1. VCE staff, in a separate Board staff report for this October 10, 2019 meeting, is recommending Board approval to change the Net Energy Metering (NEM) policy. If approved, the changes would result in an approximately \$2.0 to \$4.0 million one-year lag on cash collection of net revenues from NEM customers. This would in turn result in a one-year delay in achieving 90-day cash reserves. It will push the time to reach the Board's goal to achieve a 90 days cash reserve to July 2022 for Option 1 and July 2021 for Option 2

Item 14 - Staff Recommendation on Repayment of Debt

Staff recommends Option 2, since it gives VCE the financial flexibility to:

- Negotiate Long-term Renewable Power purchase agreements
- Achieve 90-days cash reserves more quickly
- Increase ability to pay customer dividends earlier
- Enhance ability to manage cash flow and cost of NEM annual billings in year one as described in the revised NEM policy (if adopted)
- Address potential impacts associated with ongoing uncertainty of PG&E's Power Charge Indifference Adjustment (PCIA) and electric generation rates
- Increase VCE's chance to obtain credit rating targets sooner

Summary of Staff Recommendation

Recommendations:

1. Approve the conversion of the current \$1,976,610 Revolving Line of Credit (RLOC) balance to an amortizing 5-year term loan
2. Adopt a resolution:
 - a) Approving the River City Bank renewal terms for the existing RLOC;
 - b) Authorizing the VCE Interim General Manager, in consultation with VCE Legal Counsel, to negotiate the Credit Agreement with River City Bank based on the renewal terms. The final Credit Agreement will be submitted to the Board for final approval at the November 14, 2019 board meeting.



Item 15

Solar NEM Policy Changes and Workshop Update

October 10, 2019 - Woodland Council Chambers



Item 15 - Requested Action

- Approve NEM policy changes



Item 15 - Background

- We are scheduled to enroll Net Energy Metered (NEM) customers in 2020
- The policy contained elements that were based on cash flow concerns at the time
 - Annual true-ups require us to “float” funds for a year
 - This impacts our ability to quickly build up reserves
- Our financial position has improved
- Staff believes the first-year cash flow issues are manageable and adjustments to the NEM policy are justified

Item 15 - Proposed NEM policy changes

Additions not in the Staff Report—

4. NEM customers on monthly billing cycles may choose to adopt an annual billing cycle. The request must coincide with their existing PG&E true-up period.
11. NEM customers may opt-out of VCE's NEM program and return to PG&E at their discretion. Departing customers will be trued-up with VCE upon return to PG&E.

Item 15 - Proposed NEM policy changes

- Place all Residential and Business NEM customers on their existing billing cycle (monthly or annual) and true-up date
 - Remove the requirement that Residential NEM customers with annual VCE bills over \$500, be automatically place on a monthly billing cycle
 - Remove the “may be placed on monthly billing” language for Business NEM customers with annual VCE balances exceeding \$5,000
- A few editorial changes

Item 15 - Benefits of NEM Policy Changes

- Streamlines enrollments
- Simplifies the NEM policy
- Easier for customers to understand
- Easier to implement from a billing/back-office perspective

Item 15 - Financial Impact of Policy Changes

	Conservative Assumptions		Best-Case Assumptions	
	July 2020	July 2021	July 2020	July 2021
Projected Unrestricted Cash Reserves under Existing NEM Policy	\$ 11.34	\$ 12.11	\$ 11.34	\$ 12.11
Short-Term Cash Flow Affect of Additional Annual Residential Customers	\$ (0.38)	\$ (0.75)	\$ (0.38)	\$ (0.75)
Additional Annual Non-Residential Customers	\$ (1.57)	\$ (3.13)	\$ (0.59)	\$ (1.17)
Short-Term Cash Flow Affect from Interest Expense	\$ (0.08)	\$ (0.16)	\$ (0.04)	\$ (0.08)
Projected Unrestricted Cash Reserves with new NEM Policy	\$ 9.32	\$ 8.07	\$ 10.34	\$ 10.11
Cumulative Short-Term Cash Flow Affect of new NEM Policy	\$ 2.02	\$ 4.04	\$ 1.00	\$ 2.00
*Additional access to cash via Revolving Line of Credit	\$ 9.02	\$ 9.02	\$ 9.02	\$ 9.02

Item 15 - NEM Workshop Update

- Workshop held at Davis City Council Chambers, Oct 2
- 50 in attendance—~1/3 had not heard of VCE
- Agenda included
 - Explanation of terms
 - What is Valley Clean Energy?
 - Program details with sample bills
 - Explanation of Residential, Business and Aggregation policies
 - Early opt in
- Lots of good questions from the group—only 1 question needed follow-up
- It seemed like there was general support for VCE at the end of the meeting

Item 15 - Purpose of workshops

Valley Clean Energy's NEM policy explained

- What stays the same as PG&E?
- What changes?
- Are there any options I should know about?



Item 15 - One question from the workshop—What if I pay ahead?

Rate Schedule: ETOUA S Residential Time-of-Use Service

Summary of NEM Charges

Bill Period End Date	Net Peak Usage (kWh)	Net Off Peak Usage (kWh)	Net Usage (kWh)	Estimated NEM Charges Before Taxes	Estimated Taxes	Estimated Total NEM Charges
09/13/2018	16	89	105	\$16.85	\$0.06	\$16.91
10/15/2018	84	400	484	76.09	0.27	76.36
11/14/2018	105	394	499	79.04	0.27	79.31
12/13/2018	128	553	681	119.65	0.37	120.02
01/14/2019	157	715	872	156.30	0.48	156.78
02/13/2019	173	692	865	153.69	0.48	154.17
03/17/2019	199	794	993	177.34	0.56	177.90
04/16/2019	163	511	674	111.86	0.39	112.25
05/15/2019	97	363	460	69.94	0.26	70.20
06/16/2019	131	497	629	108.06	0.37	108.43
07/16/2019	149	496	645	114.39	0.40	114.79
08/15/2019	181	575	756	137.92	0.51	138.43
TOTAL	1583	6079	7663	\$1,321.13	\$4.42	\$1,325.55

Differences in net usage may occur due to rounding

For **customers that pay ahead** to avoid a large bill at true-up—

- PG&E retains excess funds as a credit
- At the end of the year, they pay themselves first, then VCE
- The customer will be billed for any outstanding balance

Item 15 - Residential and Business NEM

“What changes?”



- Policy is similar to PG&E
- For customers that installed solar systems prior to June 2018—
 - Maintain existing PG&E billing cycle (annual or monthly)
 - Receive 1 cent/kWh for excess generation on a monthly basis—*more than with PG&E*
 - True up on your established true-up month
 - If on a monthly billing cycle, you will true up in February
 - We are allowing early opt-in through the call center

Item 15 - Thank You

<https://valleycleanenergy.org/energy-choices/pge-nem-solar/>



*"It's another step
toward a GREENER
and CLEANER planet."*

*– Jake & Ed Clemens,
Davis residents and UltraGreen customers*



IT'S IN OUR POWER

ValleyCleanEnergy.org

VCE Awareness Campaign

- Campaign starts mid-late October
- ½ page inserts in Woodland Democrat, Davis Enterprise and Winters Express
- 1 ad per week for 8 weeks, ending mid-December
- Will also have ads in electronic newspapers
- Will have ads on buses (Yolo Bus)—king, queen and tail

Newspaper ad samples

*"We believe smart,
LOCAL RESOURCES
benefit all of us."*

*– Johanna Abasto,
Marketing Manager, Davis Food Co-op*



IT'S IN OUR POWER
ValleyCleanEnergy.org

Newspaper ad samples



*"We strive to live
in a SUSTAINABLE way."*

*– The Kane Family, Rumsey
Capay Atelier Academic Nature School*



**VALLEY
CLEAN ENERGY**

IT'S IN OUR POWER

ValleyCleanEnergy.org

Newspaper ad samples

"It's one more way
I can make a dent in
the CLIMATE CRISIS."

– Gil Walker, Woodland resident
and UltraGreen customer



IT'S IN OUR POWER
ValleyCleanEnergy.org

Newspaper ad samples



"We OPTED UP
to ULTRAGREEN
— you can too."

— Mele Echiburu
Davis homeowner and UltraGreen customer


VALLEY
CLEAN ENERGY

IT'S IN OUR POWER
ValleyCleanEnergy.org

Bus ad samples



– Do Tromp, Founder Davis CoWorking, Davis resident, UltraGreen customer

"CLEANER energy is SMARTER."

ValleyCleanEnergy.org  IT'S IN OUR POWER

This bus advertisement features a woman with long brown hair, Do Tromp, smiling against an orange background. The text is in a white, handwritten-style font. The logo consists of a sun and a leaf inside a circle, with the words 'VALLEY CLEAN ENERGY' below it.



– Clyde and Peggy Froehlich, Davis residents and UltraGreen customers

AFFORDABLE, CLEANER energy

ValleyCleanEnergy.org  IT'S IN OUR POWER

This bus advertisement features an elderly couple, Clyde and Peggy Froehlich, smiling outdoors. The background is a mix of green and brown tones. The text is in a white, handwritten-style font. The logo is the same as in the first ad.



– Cody Rominger and fiancée Meli Valderrama, Western Yolo County

"We choose CLEANER energy."

ValleyCleanEnergy.org  IT'S IN OUR POWER

This bus advertisement features a young man and woman, Cody Rominger and Meli Valderrama, smiling in a field. The background is a mix of blue and green tones. The text is in a white, handwritten-style font. The logo is the same as in the previous ads.