

VALLEY CLEAN ENERGY ALLIANCE**Staff Report – Item 10**

TO: Board of Directors

FROM: Edward Burnham, Chief Financial Officer
Mitch Sears, Chief Executive Officer

SUBJECT: 2025 Operating Budget Update & 2026 Preliminary Customer Rates and Budget

DATE: November 13, 2025

RECOMMENDATION

Informational – no action requested.

OVERVIEW

This update is the first of two discussions leading to Board consideration of VCE's 2026 customer rates and budget. The purpose of this staff report is to: (1) provide an update on the 2025 Operating Budget results, and (2) provide three 2026 Preliminary Customer Rates and Budget Scenarios for discussion and feedback.

The three 2026 budget scenarios outlined in the analysis section of this report meet VCE's financial policies, updated reserve targets, and customer program expansions with a range between (\$11.9 M) to (\$15.7 M) net loss based on net customer rate discounts. Recommended 2026 customer rate discounts are paid for through use of VCE's reserved customer dividend funds and a portion of VCE rate stabilization funds.

VCE's longer-term outlook (2027+), indicates continued constraints due to both regulatory changes expected in Power Charge Indifference Adjustment (PCIA) calculations and lower overall forward current price curve driving higher PCIA rates.

BACKGROUND

At the VCE board meeting on December 12, 2024, the Board approved the 2025 Customer Rates and Operating Budget, which included a 5% rate credit for all customers and a 10% rate credit for CARE/FERA and Medical Baseline customers. The 2025 budget included a positive net income of \$29.4 M, allowing VCE to reach its primary financial objectives of building cash reserves, including a rate stabilization fund, while maintaining competitive rates and executing local programs. Financial forecasts incorporate analysis by CalCCA, and VCE consultants New Gen and TEA based on historical usage trends and forecasted energy markets.

Staff provided a mid-year financial update in June with 2025 actuals and the anticipated outcomes of recent regulatory developments for 2026, particularly the California Public Utilities Commission's (CPUC) decisions in the 2025 PCIA and Energy Resource Recovery Account (ERRA) proceedings. Based on staff analysis, the Board approved maintaining VCE's existing rate discounts for the remainder of 2025. Based on these decisions, forecasts, and reserve balances, VCE was able to obtain an initial investment-grade credit rating of "A-."

ANALYSIS

This report updates information in [Item 12](#) previously provided to the Board during the June 2025 Mid-year Financials Update. The section below provides updates on: (1) 2025 Operating Budget and (2) 2026 Preliminary Customer Rates and Operating Budget Update with a Multi-year Outlook (2027 through 2029).

1. 2025 Operating Budget Update

The Approved 2025 operating budget included \$102.1 M of operating revenues and \$72.7 M of operating expenses for a net income of \$29.4 M. As detailed in the analysis section below, the net financial results are different from the budget forecast and are due primarily to a significantly lower load due to cooler than average weather during the Summer/early Fall of 2025.

Key factors in the 2025 Operating Budget included the following:

- 2025 Customer Rates (VCE & PG&E Comparison) - VCE set customer rates to collect sufficient revenue from participating customers to fully fund VCE's Budget and continue to contribute to reserve funds to obtain an initial investment grade credit rating.
- 2025 PCIA Forecast –The updated PCIA increased from ~.002 KW/\$2M to .004 KW/\$4M
- 2025 Customer Rates Forecast – The updated forecast for PG&E rates results in a projected 5-7% generation rate increase (higher increases currently being considered by the CPUC are associated with non-VCE portions of the bill such as transmission and distribution charges).
- Additional considerations included program funding, staffing increases, strategic plan implementation, and office leasehold improvements.

As presented to the Board in June, VCE experienced a ~\$1M decline in net income compared to the Budget through April from operating revenues and power costs. Based on the most recent financial update through August 2025 and updated forecasts, the forecast has been further revised downward by an additional ~\$2M. As noted for the board in June, these net income reductions are driven primarily by load reductions outside of VCE's direct control (weather, power market prices, and regulatory changes). These have been partially offset by higher interest revenues, lower administrative costs and lower program spending deferred into 2026. The 2025 budget is estimated to have a total net income of \$26.6, ~\$3M lower than forecast in the adopted 2025 Budget as shown in Table 1 below.

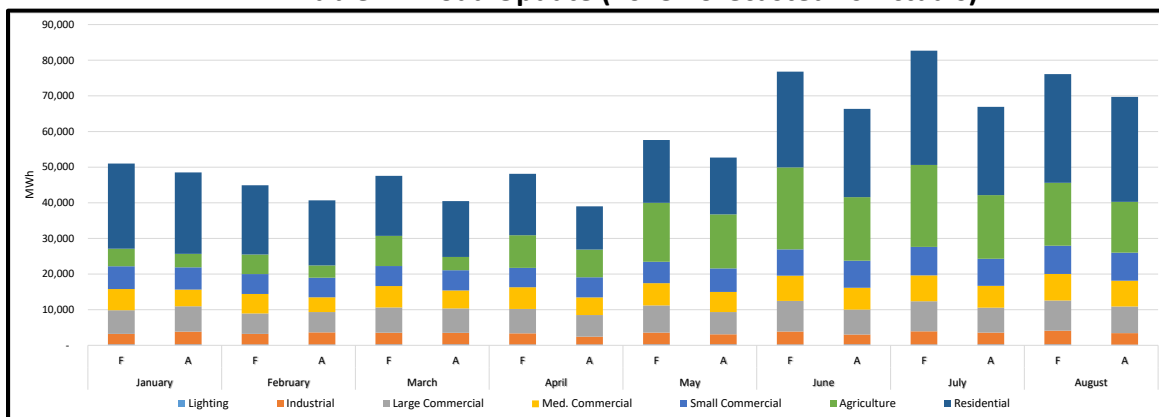
Table 1 - 2025 Proforma Budget (Unaudited)

		2025 Proforma (8 Month Actuals + 4 Month forecast)	
Description	APPROVED 2025 BUDGET		Variance
Revenue	\$ 101,200	\$ 88,670	\$ (12,530)
Power Cost	\$ 64,100	\$ 57,100	\$ 7,000
Other Expenses	\$ 7,750	\$ 4,950	\$ 2,800
Net Income	\$ 29,350	\$ 26,620	\$ (2,730)

Key factors influencing the 2025 Operating Budget results include:

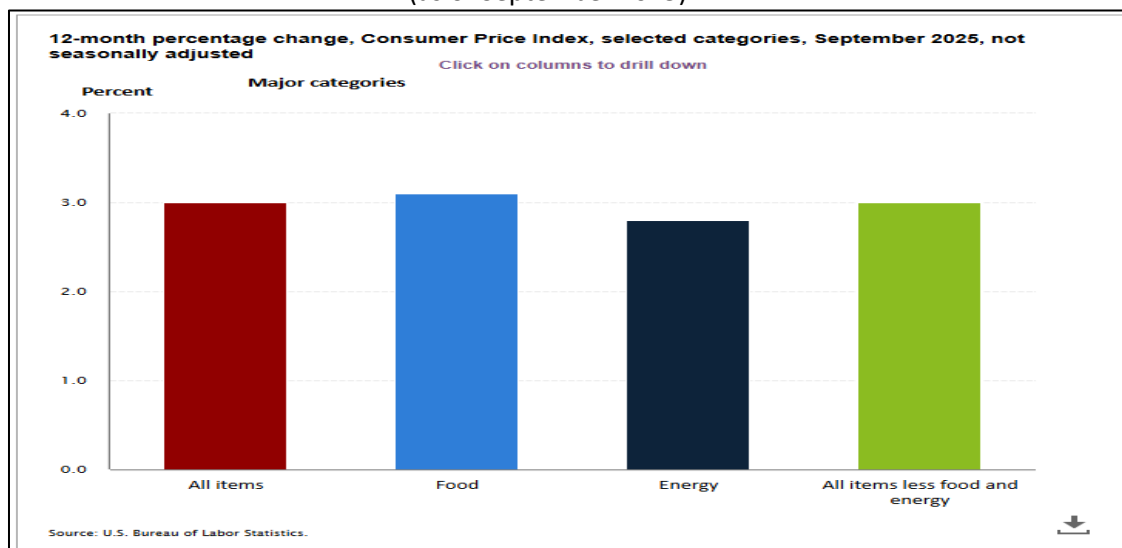
- **Load Forecast.** As shown in Table 2, in the first half of 2025 energy use in most sectors has been lower than forecasted. The overall load for the first 8 months has come in approximately 10% lower than forecasted. VCE's two largest sectors showed lower than forecast energy use: (1) residential (AC load) and (2) commercial use related to lower overall summer temperatures, and reduced extreme heat events.

Table 2 – Load Update (2025 Forecasted vs Actuals)



- **Budgeted revenues.** The 2025 Budget incorporated revenues associated with a normalized load. These revenues have not fully materialized in the actuals for 2025 due to the lower overall load as described above, resulting in lower revenues throughout 2025.
- **Power Costs.** Average forward market power prices have decreased and remained relatively consistent throughout 2025, stable natural gas storage levels, increased battery capacity in California, and lower natural gas plant operations (Peak Loads reduced) for an overall decrease of 3%. Table 3 below helps illustrate the relative impact to energy sector prices vs. other major categories in the US economy resulting from economy wide financial impacts.

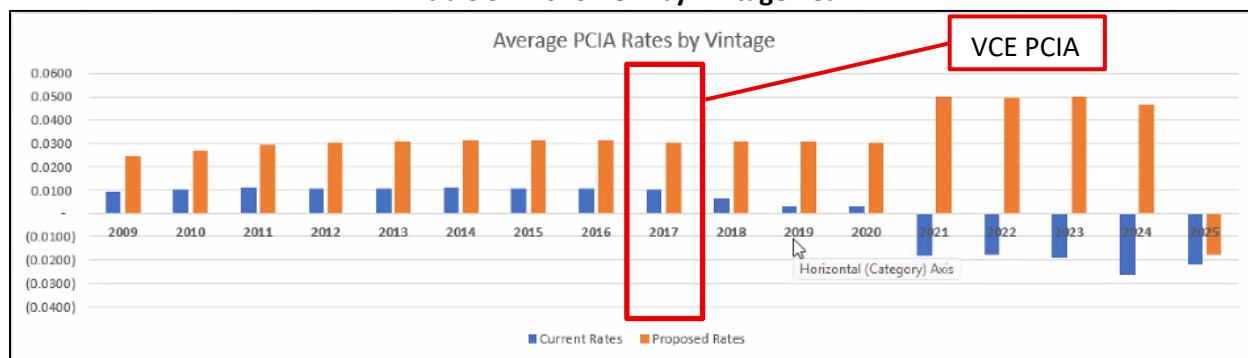
Table 3 – 2025 US Consumer Price Index by Category
(as of September 2025)



2. 2026 Preliminary Customer Rate and Operating Budget and Multi-year Outlook (2027 through 2029).

VCE, along with all other California CCAs, receives PG&E PCIA and generation rate modeling produced by financial analysts under contract with CalCCA. This updated forecast incorporates updated information based on PG&E's October filing from the annual Energy Resource Recovery Account (ERRA) Proceeding as part of the annual rate and PCIA rate setting process. Based on the most updated PG&E filing and market price benchmarks for Resource Adequacy (RA) and Renewable Energy Credits (RECs), set by the CPUC's energy division, PCIA is forecasted to increase significantly for 2026.

Table 3 – 2026 PCIA by Vintage Year



As experienced from 2023-25, power market increases drive future decreases to PG&E's PCIA due to the fact that power market increases make PG&E's portfolio more valuable. Through regulatory changes and recent power market decreases, the forecasted increase in the PCIA for 2026 has resulted in a ~\$23M decrease in gross revenues to VCE. PCIA is outside of VCE's control and influence.

VCE's Reserve and Dividend Policy Revisions

At the December 12, 2025 meeting, the Board adopted updated reserve policy and dividend program guidelines as described in [Item 15](#).

The policy modifications approved by the Board included:

1. An increased Operational Financial Reserve minimum from 30 days to 120 days
2. An Increased Operational Financial Reserve Target of 180 from 90 days (this increase aligns with current minimums typically seen for CCA qualification for investment grade credit ratings)
3. Addition of a Rate Stabilization Reserve minimum target of 60 days
4. Increased the minimum net margin allocation of 75% from 50% towards financials reserves of net margin above > 5%
5. Administrative updates and references to VCE cost recovery rate policy and rate adjustment policy.

VCE's operational reserve funds are used to meet VCE's strategic objectives, secure favorable commercial terms, secure future stand-alone VCE credit rating(s), and provide a source of funds for unanticipated expenditures. VCE's Rate Stabilization is used as a contingency to provide rate stability for VCE customers, given increasing regulations, power costs, and Power Charge Indifference Adjustment (PCIA) charges from the investor-owned utility (PG&E).

Draft 2026 Operating Budget & Rate Discount/Revenue Investment Scenarios

Staff have developed three budget scenarios to model various rate discounts/revenue investments to show impacts on VCE's short-term and long-term financial outcomes. All scenarios incorporate the same power cost assumptions based on the best available market information and forecasts for the PCIA and PG&E generation rates. Consistent with prior Board direction, staff believe that all scenarios represent a disciplined and financially prudent approach.

Rate Discounts/Revenue Investment

- Revenues can be "invested" in rate discounts, programs, increased procurement of clean energy resources (e.g. short-term RECs), or a combination of these and other elements.
- In 2026, for every 1% discount results in approximately \$1.50/month reduction in the average residential customer bill and approximately \$3.75/month reduction in the average small commercial customer bill
- In 2026, for every 1% discount would be approximately \$500K in reduced net income available for cash reserves, rate stabilization, programs, and procurement of additional clean energy resources. Net Income allocations for reserves and programs are normally evaluated in May as part of VCE's audited financial results.
- If selected, rate discounts are best implemented during PG&E rate changes (e.g. January), to minimize billing efforts, risk of errors, and customer messaging.

Customer dividends and discounts help communicate a CCA's value but do not appear to have a significant impact on retention or recruitment based on information gathered from other CCA's. Having said that, it is clear that affordability remains crucial due to widespread cost sensitivity, and rate discounts can also enhance credibility with potential member agencies and policymakers. Staff does note that budgeted rate discounts in current years use rate stabilization funds that could lead to the need to increase rates above PG&E in future years.

The 2026 budget options detailed in Table 4 below incorporate the following rate forecasts:

- Scenario 1: Continuation of the current 5% standard and 10% CARE/FERA/Medical Baseline rate discounts to PG&E generation rate; approximately \$3.8M net revenue reduction;
- Scenario 2: Decrease to a 2.5% standard and 5% CARE/FERA/Medical Baseline rate discounts to PG&E generation rate; approximately \$1.9M net revenue reduction;
- Scenario 3: Decrease to a standard rate matching and 2.5% CARE/FERA/Medical Baseline discount to PG&E generation rate; approximately \$750K net revenue reduction;

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Table 4 – Customer Rate Discount Comparison

			Actual YTD August 31 (8 MO) + Forecast (4 MO)	Proposed Budget	Preliminary Forecast*		
Scenario 1 5% Standard /10% CARE/FERA Discount	2023	2024	2025	2026	2027	2028	2029
Customer Revenue	95,430	97,979	88,670	45,010	68,100	66,180	63,750
Power Cost	68,528	64,723	57,100	53,550	54,380	58,380	60,200
Other Expenses	6,030	6,275	4,950	7,120	7,660	7,850	8,050
Net Income	20,872	26,981	26,620	(15,660)	6,060	(50)	(4,500)
Scenario 2 2.5% Standard /5% CARE/FERA Discount	2023	2024	2025	2026	2027	2028	2029
Revenue	95,430	97,979	88,670	46,910	70,270	68,470	66,150
Power Cost	68,528	64,723	57,100	53,550	54,380	58,380	60,200
Other Expenses	6,030	6,275	4,950	7,120	7,660	7,850	8,050
Net Income	20,872	26,981	26,620	(13,760)	8,230	2,240	(2,100)
Scenario 2 Standard Matching / 5% CARE/FERA Discount	2023	2024	2025	2026	2027	2028	2029
Revenue	95,430	97,979	88,670	48,810	72,430	70,490	67,950
Power Cost	68,528	64,723	57,100	53,550	54,380	58,380	60,200
Other Expenses	6,030	6,275	4,950	7,120	7,660	7,850	8,050
Net Income	20,872	26,981	26,620	(11,860)	10,390	4,260	(300)

* Revenues are highly subject to PG&E filings that impact generation rates and PCIA.

Note: Rate options include the current rate discount from the ERRA forecasts, which is considered by staff to be a solid baseline outcome, as displayed in Table 4 – Customer Rate Discount Comparison. These scenarios rely on the use of future rate adjustments, reserves, or both to mitigate future power cost volatility.

Additional Considerations – Preliminary 2026 Budget Other operating expenses (not including power costs) are nearly flat compared to the 2025 budget, reflecting only a 3% increase, reflective of the 2025 CPI of ~3%. These expenses include strategic plan development and execution, IRP consultants, customer focus groups, and other administrative costs.

CONCLUSION

The preliminary 2026 operating budget scenarios meet VCE's current and anticipated fiscal policy updates while providing funds for rate relief and/or other customer focused investments (e.g. programs, additional clean energy procurement). Staff has prepared the preliminary 2026 operating budget/rate scenarios based on the best available information on PG&E generation rates and PCIA as of October 2025 CPUC filings. Based on the Board's feedback and direction, staff will return with an updated operating budget and customer rates recommendation for 2026 in December.

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Draft 2026 Operating Budget & Customer Rates Scenario 1:

Budget Scenario 1 incorporates a net rate discount of 5% for all customers and an additional 5% discount to CARE/FERA/Medical baseline customers (10% total); the net impact for 2025 is a reduction of \$3.8M.

- The forecasted net loss with the discounts uses approximately 70 days of cash on hand.

Table 5 – Budget Scenario 1
(5% standard / 10% CARE/FERA rate discounts)

VALLEY CLEAN ENERGY DRAFT BUDGET SUMMARY 2026 - BUDGET SCENARIO 1			
	APPROVED BUDGET 2025	ACTUAL YTD AUG (8 MO) + FORECAST (4 MO) 2025	PRELIMINARY BUDGET 2026
OPERATING REVENUE	\$ 101,200	\$ 89,673	\$ 45,010
OPERATING EXPENSES:			
Cost of Electricity	64,000	57,100	53,550
Contract Services	2,640	2,415	2,625
Outreach & Marketing	370	246	370
Programs	2,170	670	1,500
Staffing	2,100	1,791	2,184
General, Administration and other	1,560	1,189	1,431
TOTAL OPERATING EXPENSES	72,840	63,411	61,660
TOTAL OPERATING INCOME	28,360	26,262	(16,650)
NONOPERATING REVENUES (EXPENSES)			
Interest income	990	1,358	990
Interest expense			
TOTAL NONOPERATING REV/(EXPENSES)	990	1,358	990
NET MARGIN	\$ 29,350	\$ 27,620	\$ (15,660)
NET MARGIN %	29%	31%	-35%

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Draft 2025 Operating Budget & Customer Rates Scenario 2:

- Budget Scenario 1 incorporates a net rate discount of 2.5% for all customers and an additional 2.5% discount to CARE/FERA/Medical baseline customers (5% total); the net impact for 2025 is a reduction of \$1.9M.
- The forecasted net loss with the discounts uses approximately 60 days of cash on hand.

Table 6 – Budget Scenario 2
(2.5% standard and 5% CARE/FERA/Medical Baseline rate)

VALLEY CLEAN ENERGY DRAFT BUDGET SUMMARY 2026 - BUDGET SCENARIO 1			
	APPROVED BUDGET 2025	ACTUAL YTD AUG (8 MO) + FORECAST (4 MO) 2025	DRAFT BUDGET 2026
OPERATING REVENUE	\$ 101,200	\$ 89,673	\$ 46,910
OPERATING EXPENSES:			
Cost of Electricity	64,000	57,100	53,550
Contract Services	2,640	2,415	2,625
Outreach & Marketing	370	246	370
Programs	2,170	670	1,500
Staffing	2,100	1,791	2,184
General, Administration and other	1,560	1,189	1,431
TOTAL OPERATING EXPENSES	72,840	63,411	61,660
TOTAL OPERATING INCOME	28,360	26,262	(14,750)
NONOPERATING REVENUES (EXPENSES)			
Interest income	990	1,358	990
Interest expense			
TOTAL NONOPERATING REV/(EXPENSES)	990	1,358	990
NET MARGIN	\$ 29,350	\$ 27,620	\$ (13,760)
NET MARGIN %	29%	31%	-29%

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Draft 2026 Operating Budget & Customer Rates Scenario 3:

- Budget Scenario 1 incorporates a net rate discount of 5% for all customers and an additional 5% discount to CARE/FERA/Medical baseline customers (10% total); the net impact for 2025 is a reduction of \$750K.
- The forecasted net loss with the discounts uses approximately 50 days of cash on hand

Table 7 – Budget Scenario 3

(standard rate matching and 2.5% CARE/FERA/Medical Baseline discount)

VALLEY CLEAN ENERGY DRAFT BUDGET SUMMARY 2026 - BUDGET SCENARIO 1			
	APPROVED BUDGET 2025	ACTUAL YTD AUG (8 MO) + FORECAST (4 MO) 2025	DRAFT BUDGET 2026
OPERATING REVENUE	\$ 101,200	\$ 89,673	\$ 48,810
OPERATING EXPENSES:			
Cost of Electricity	64,000	57,100	53,550
Contract Services	2,640	2,415	2,625
Outreach & Marketing	370	246	370
Programs	2,170	670	1,500
Staffing	2,100	1,791	2,184
General, Administration and other	1,560	1,189	1,431
TOTAL OPERATING EXPENSES	72,840	63,411	61,660
TOTAL OPERATING INCOME	28,360	26,262	(12,850)
NONOPERATING REVENUES (EXPENSES)			
Interest income	990	1,358	990
Interest expense			
TOTAL NONOPERATING REV/(EXPENSES)	990	1,358	990
NET MARGIN	\$ 29,350	\$ 27,620	\$ (11,860)
NET MARGIN %	29%	31%	-24%