

## VALLEY CLEAN ENERGY ALLIANCE

### Staff Report – Agenda Item 10

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**TO:** Valley Clean Energy Alliance Community Action Committee

**FROM:** Mitch Sears, Interim General Manager  
Gary Lawson, Sacramento Municipal Utility District (SMUD)

**SUBJECT:** Initial Generation Rates, Power Mix, and Operating Budget

**DATE:** March 22, 2018

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#### RECOMMENDATION

Staff is requesting the Community Advisory Committee (CAC) recommend to the VCEA Board to approve the proposed PG&E rate discount, VCEA rates, power mix, and operating budget.

#### BACKGROUND AND ANALYSIS

In December, the Board reviewed pro forma financials and set targets for the mix of renewable and clean power, as well as for rates relative to PG&E. The pro forma financials were based on expected power prices, load forecast, and operating budget. Over the past months, staff has procured power, hedged power prices for the expected load volumes, refined the operating budget, and updated revenue forecasts based on phase-in schedule, NEM policy, and newly released PG&E generation rates. These changes have been factored into a revised set of pro forma financials that are provided in Attachment 2. These pro forma financials show that continuing with existing policy decisions will achieve desired outcomes while ensuring financial stability.

**Rates** – The current pro forma financials continue to model a 2% rate discount. They also model additional revenue from the Board approved NEM policy, which has been forecast to be put into the local renewable development fund. Since the December Board meeting, PG&E has announced 2018 rate increases larger than forecasted. This increase in rates is currently modeled as providing faster repayment of startup capital and higher cash balances. VCEA rates, once established, will be in effect until they are changed by a subsequent Board action. The VCEA rates, set at a 2% discount from the recently confirmed 2018 PG&E rates, are provided in Attachment 1. Staff recommends that the Board delegate authority to the Interim General Manager to approve any new rates that appear midyear at an amount 2% below PG&E's rate.

**Power Mix** – The power mix remains unchanged from previous Board conversations with 42% renewable and 75% clean content. Procurements are in place for the bulk of expected load. The expected power budget for 2018 was \$26.45M, and actual forward power purchases came in lower than expected, putting the current power budget forecast for 2018 at \$26.14M. Later in the year, after launch, a more accurate load forecast will be built with actual load data, opt-out rates, and opt-up rates. This updated load forecast will be used to guide a true-up procurement to ensure renewable and carbon-free content goals are met for 2018.

**Operating Budget** – Staff has developed a draft operating budget based on known and expected costs. Several services are already under contract, and others are currently in the process of being procured. The current operating budget will support expected VCEA operations, and previously approved staff and outside services contracts. There is considerable uncertainty around unknown expenses in the initial year, as there is no operating history to ensure all items are accounted for. Therefore, a 10% contingency has been built into the operating budget. This budget will replace the previously approved launch budget. Any additional information obtained in the last months of FY 2017-18 will be used to inform an updated 2018-19 operating budget. The draft operating budget is included as Attachment 3.

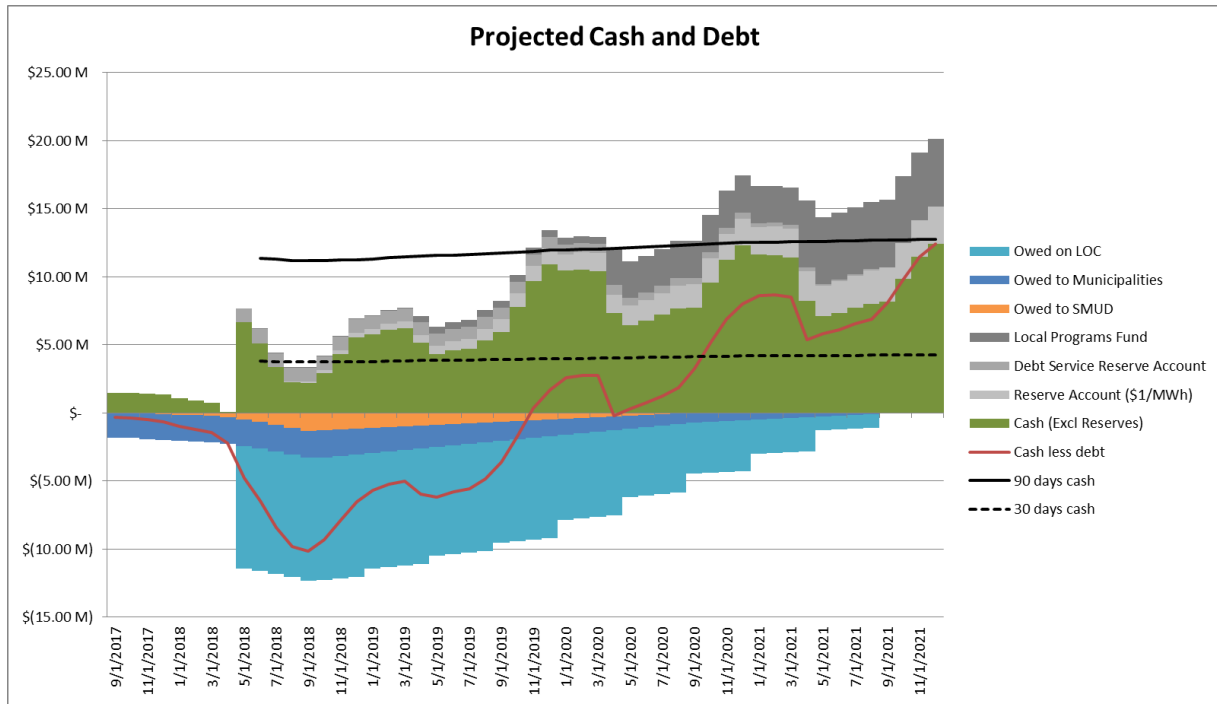
## **CONCLUSION**

Staff is requesting the Community Advisory Committee (CAC) recommend to the VCEA Board to adopt a resolution establishing the following:

- The rates, included as Attachment 1, which are set at a 2% discount from PG&E's rates placed into effect March 1, 2018, net of PCIA and Franchise Fees.
- A Power Mix of 42% renewable, 75% clean.
- An Operating Budget of \$1.48M for March-June 2018.
- Delegating authority to the Interim General Manager to approve any new rates that appear mid-year at an amount 2% below PG&E's rate.

## Attachment 1 – VCEA Rate Sheets

## Attachment 2 – Pro Forma Financials



	2018	2019	2020	2021
Accounts	64,521	65,239	65,966	66,702
Retail Load (MWh)	439,008	757,840	760,165	762,817
(Thousands of Dollars)				
Revenue (net uncollectible)	\$ 33,758	\$ 54,667	\$ 56,585	\$ 56,866
Power Costs	\$ 26,135	\$ 39,882	\$ 42,672	\$ 44,861
<b>Gross Margin</b>	<b>\$ 7,622</b>	<b>\$ 14,784</b>	<b>\$ 13,913</b>	<b>\$ 12,004</b>
Operating Costs	\$ 4,796	\$ 5,038	\$ 5,066	\$ 5,162
<b>Operating Income</b>	<b>\$ 2,826</b>	<b>\$ 9,746</b>	<b>\$ 8,848</b>	<b>\$ 6,842</b>
Interest Income [Expense]	\$ [336]	\$ [456]	\$ [228]	\$ 27
<b>Net Income</b>	<b>\$ 2,490</b>	<b>\$ 9,290</b>	<b>\$ 8,619</b>	<b>\$ 6,869</b>

**Attachment 3 – Draft Operating Budget  
Remainder of FY 2017-18**

	3/31/2018	4/30/2018	5/31/2018	6/30/2018
<b>Operating Expenses</b>	<b>\$ 338,353</b>	<b>\$ 405,871</b>	<b>\$ 295,871</b>	<b>\$ 436,523</b>
Labor	\$ 61,157	\$ 61,157	\$ 61,157	\$ 61,157
Contract Labor	\$ 58,333	\$ 58,333	\$ 58,333	\$ 58,333
Non-Labor	\$ 188,103	\$ 249,483	\$ 149,483	\$ 277,349
PG&E Data Fees	\$ -	\$ -	\$ -	\$ 32,261
Office Space	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Technology	\$ 6,000	\$ 1,000	\$ 1,000	\$ 1,000
Contracts	\$ 78,825	\$ 79,205	\$ 79,205	\$ 174,310
Launch Support	\$ 94,678	\$ 159,678	\$ 59,678	\$ 59,678
Supplies	\$ 100	\$ 100	\$ 100	\$ 100
Marketing Collateral	\$ -	\$ -	\$ -	\$ -
Community Engagement Activities & Sponsorships	\$ -	\$ 1,000	\$ 1,000	\$ 1,000
Customer Credits and Adjustments	\$ -	\$ -	\$ -	\$ 500
Travel (Excl Key Account)	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Travel (Key Account 50mi/day)	\$ 500	\$ 500	\$ 500	\$ 500
CalCCA Dues	\$ -	\$ -	\$ -	\$ -
Memberships	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Contingency	\$ 30,759	\$ 36,897	\$ 26,897	\$ 39,684

**Total: \$1.48M**

## FY 2018-19 Forecast Operating Budget

	7/31/2018	8/31/2018	9/30/2018	10/31/2018	11/30/2018	12/31/2018	1/31/2019	2/28/2019	3/31/2019	4/30/2019	5/31/2019	6/30/2019
<b>Operating Expenses</b>	\$ 533,857	\$ 463,154	\$ 415,549	\$ 406,452	\$ 401,865	\$ 404,363	\$ 519,823	\$ 400,749	\$ 405,573	\$ 401,410	\$ 412,718	\$ 428,383
Labor	\$ 61,157	\$ 61,157	\$ 61,157	\$ 61,157	\$ 61,157	\$ 61,157	\$ 62,380	\$ 62,380	\$ 62,380	\$ 62,380	\$ 62,380	\$ 62,380
Contract Labor	\$ 58,333	\$ 58,333	\$ 49,167	\$ 49,167	\$ 49,167	\$ 49,167	\$ 49,167	\$ 49,167	\$ 45,383	\$ 45,383	\$ 45,383	\$ 45,383
Non-Labor	\$ 365,834	\$ 301,559	\$ 267,448	\$ 259,179	\$ 255,008	\$ 257,279	\$ 361,020	\$ 252,770	\$ 260,939	\$ 257,155	\$ 267,435	\$ 281,676
PG&E Data Fees	\$ 32,261	\$ 32,261	\$ 32,261	\$ 32,261	\$ 32,261	\$ 32,261	\$ 32,906	\$ 32,906	\$ 32,906	\$ 32,906	\$ 32,906	\$ 33,272
Office Space	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,100	\$ 5,100	\$ 5,100	\$ 5,100	\$ 5,100	\$ 5,100
Technology	\$ 1,000	\$ 1,000	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,520	\$ 1,520	\$ 6,620	\$ 1,520	\$ 1,520	\$ 1,520
Contracts	\$ 278,573	\$ 214,248	\$ 202,031	\$ 193,761	\$ 189,590	\$ 191,861	\$ 192,385	\$ 186,135	\$ 189,204	\$ 190,500	\$ 200,780	\$ 214,401
Launch Support	\$ 43,901	\$ 43,901	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Supplies	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 102	\$ 102	\$ 102	\$ 102	\$ 102	\$ 102
Marketing Collateral	\$ -	\$ -	\$ 21,507	\$ 21,507	\$ 21,507	\$ 21,507	\$ 21,937	\$ 21,937	\$ 21,937	\$ 21,937	\$ 21,937	\$ 22,181
Community Engagement Activities & Sponsorships	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,020	\$ 1,020	\$ 1,020
Customer Credits and Adjustments	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 510
Travel (Excl Key Account)	\$ 2,000	\$ 2,040	\$ 2,040	\$ 2,040	\$ 2,040	\$ 2,040	\$ 2,040	\$ 2,040	\$ 2,040	\$ 2,040	\$ 2,040	\$ 2,040
Travel (Key Account 50mi/day)	\$ 500	\$ 510	\$ 510	\$ 510	\$ 510	\$ 510	\$ 510	\$ 510	\$ 510	\$ 510	\$ 510	\$ 510
CalCCA Dues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 102,000	\$ -	\$ -	\$ -	\$ -	\$ -
Memberships	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,020	\$ 1,020	\$ 1,020	\$ 1,020	\$ 1,020	\$ 1,020
Contingency	\$ 48,532	\$ 42,105	\$ 37,777	\$ 36,950	\$ 36,533	\$ 36,760	\$ 47,257	\$ 36,432	\$ 36,870	\$ 36,492	\$ 37,520	\$ 38,944

**Total: \$5.19M**