VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 13

TO: Board of Directors

FROM: Edward Burnham, Chief Financial Officer

SUBJECT: Allocation of 2024 Net Margin

DATE: June 12, 2025

RECOMMENDATION

Adopt a resolution approving the allocation of the $26.9M 2024 Audited Net Margin between cash reserves, local program reserve (LPR), and Customer Dividends program as follows:

1. $9,106,000 (34%) of Net Margin to operational cash reserves;
2. $12,284,000 (46%) of Net Margin to rate stabilization reserves;
3. $1,624,000 (6%) of Net Margin to the Local Programs Reserve (LPR).
4. $3,856,000 (14%) of Net Margin designated to the Dividends Program in the form Rate Credits

OVERVIEW

Each Spring the Board considers allocation of the previous year's net margin based on guidelines adopted in 2019. This report presents the various options the Board has in determining how to allocate the estimated net margin for 2024. In April, staff presented this information to the Community Advisory Committee (CAC) for feedback which is summarized later in this report. VCE's audit of the 2024 fiscal year has been completed and financial statements were presented to the Board at their April 10, 2025 meeting. Taking into account VCE's Dividend Program guidelines, as well as available and forecast cash reserves, Staff concluded that the following allocation met VCE's policy objectives for VCE's 2024 net margin of $26.9 million:

- Minimum required allocation of $247,000 to the Local Programs Reserve (LPR)
- Minimum required allocation of $9,106,000 to Operational Reserves
- Minimum required allocation of $12,009,000 to Rate Stabilization Reserves
- Discretionary Allocation (After Cash Reserves) of $5,509,000

BACKGROUND AND ANALYSIS

The Board adopted the VCE Rate Structure and Dividend Program Guidelines on June 17, 2019, to guide the allocation of the audited net margin for each year. The guidelines can be found here.

Key aspects of the Dividend Program are:

- Every year, the audited Net Margin (Less Principal Debt Payments) is to be allocated amongst Cash Reserves, Local Programs Reserve, and Customer Dividends, at the

Board's discretion

- Require a minimum 5% net margin before considering if any dividends are paid

Based on the estimated 2024 Financial Statements, the conditions above have been met. Staff will present the final recommendation of the allocation of net margin to the Board on June 12, 2025. As noted, when the Board adopted the Dividend Program Guidelines, a 5% minimum net margin is in the lower range of typical net margin goals for the utility sector and most other industries.

Dividend Program Formula

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

- Net margin up to 5% is to be allocated as follows:
  - At least 5% (of the 5%) goes to Local Programs Reserve (LPR) for program implementation
  - The balance goes to cash reserves
- Net margin above 5% is to be allocated as follows:
  - At least 75% to cash reserves – Operational and Stabilization
  - Remainder allocated amongst customer dividends and LPR

Staff applied the Dividend Program formula above to VCE's 2024 audited net margin. The following table summarizes the analysis.

Table 1 – 2024 Audited Net Margin Summary

Description		2024 Financials ($1,000s)		Avg. Days Cash ($1,000s)	
Electricity Sales		98,929		197	
Operating Expense		71,948			
Operating Margin		26,981			
Principal Debt Payments		-			
Adjusted Net Margin less principal Debt Payments		26,981			
Adjusted Net Margin Percentage		27.27%			
Allocation Amount <=5%		4,946			
Allocation Amount > 5%		22,035			
2025 Beginning Reserves Balance		26,395		134	
Allocation of Net Margin up to 5%	**Percentage**	**Allocation Amount**	**Operating Days Cash**	**Total Operating Days Cash**	
Operating Reserves Allocation	95%	4,699	24	158	Minimum
Local Programs Allocation	5%	247	1	0	Minimum
Allocation of Net Margin above 5%	**Percentage**	**Allocation Amount**			
Allocation to Operating Reserves	20%	4,407	22	180	Minimum
Allocation to Rate Stabilization Reserves	55%	12,009	61	61	Minimum

As shown in Table 4, VCE's minimum allocations result in $245,000 to LPR, $0 to dividends, and the balance to operational and rate stabilization reserves. The estimated discretionary allocation amount for 2024 is $5,283,000.

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Discretionary Allocation Considerations

A range of scenarios exist for the allotment of discretionary allocations – three within that range are presented in the tables below. Based on the current and forecasted cash reserves for 2024 and 2025, Staff is considering a recommendation of Scenario 1 to allocate a majority of the discretionary allocation to customer dividends and programs. VCE will meet the minimum reserve targets with the 2024 allocation and continue to contribute additional reserves in 2025. All scenarios described later in this report provide for additional program funds, dividend funds in the form of additional rate discounts, and reach reserve targets of 180+ days of cash on hand for VCE to obtain its initial investment grade credit rating in 2025. Staff is considering the allocation of reserve funds to be held for future discounts at our current levels as current forecasts are expecting increases in PCIA rates and decreases in PG&E rates.

Staff considered the following key factors related to this preliminary recommendation.

- Power Costs - Staff anticipates ongoing power cost increases and regulatory pressures related to changing resource adequacy requirements (increased costs = decreased days cash on hand)
- VCE's current 180-day cash reserve target is a minimum for investment grade credit rating.
- VCE's current 60-day rate stabilization reserve target is a minimum for rate variability.

Staff considered the following allocation scenarios. Note: the "25%" starting amount in each scenario is the remaining amount of the total net margin above 5% after 75% has been allocated to cash reserves per the Dividend Program guidelines (see Dividend Program Formula above). For example, in Scenario 1, zero percent would be allocated to "Operating Reserves" because the 180-day cash reserve target has already been met.

Allocation Scenarios

Staff analyzed three basic scenarios related to the allocation of discretionary funds to help inform its recommendation and the Board decision.

Scenario 1: Balanced Allocation (Staff Recommended)

	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash	
Discretionary Allocation (After Cash Reserves)	**25%**	**5,509**	**28**	**0**	Maximum
Allocation to Operating Reserves	0%	-	0	180	
Allocation to Rate Stabilization Reserves	5%	275	1	62	
Local Programs (Targeted 2025/26 Spend)	25%	1,377	7		
Customer Dividends (Targeted 2025/26 Spend)	70%	3,856	20		

Scenario 2: Increased Rate Stabilization

	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash	
Discretionary Allocation (After Cash Reserves)	**25%**	**5,509**	**28**	**0**	Maximum
Operating Reserves Allocation	0%	-	0	180	
Allocation to Rate Stabilization Reserves	15%	826	4	65	
Local Programs (Targeted 2025/26 Spend)	25%	1,377	7		
Customer Dividends (Targeted 2025/26 Spend)	60%	3,305	17		

Scenario 3: Equal Allocation

	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash	
Discretionary Allocation (After Cash Reserves)	**25%**	**5,509**	**28**	**0**	Maximum
Operating Reserves Allocation	25%	1,377	7	187	
Allocation to Rate Stabilization Reserves	25%	1,377	7	68	
Local Programs (Targeted 2025/26 Spend)	25%	1,377	7		
Customer Dividends (Targeted 2025/26 Spend)	25%	1,377	7		

Notes: (1) a 1% dividend would be approximately $1.50/month reduction in the average residential customer bill and an approximately $3.75/month reduction in the average small commercial customer bill; (2) anecdotal information from other CCAs indicate that these levels of customer dividends/discounts while helpful in communicating a CCA's value do not have significant effects on customer retention or new customer recruitment.

Based on the cash reserve forecast in the coming years, Staff is recommending the Board allocate the discretionary allocation Scenario 1. Key factors in the staff's analysis of these options include:

- Cash Reserves Allocation. VCE's strategic goal of obtaining its initial investment credit rating by 2028 will require a minimum of +180 days of operating cash reserves and +60 days of rate stabilization reserves.
- Customer Dividend Allocation. Available funds for dividends would be designated to maintain, if possible, our current customer 5% rate discount for all customers and 10% for CARE/FERA customers beyond the current budget cycle.

Community Advisory Committee (CAC) Consideration

The staff presented to the CAC at its April 24, 2025 meeting for discussion and feedback based on estimated results. CAC feedback was aligned with the recommended scenario 1 providing customer dividends in the form of rate credits, continuing to build programs, and building cash reserves towards the minimum 180+ cash reserve targets.

CONCLUSION

Staff believe that all scenarios represent a disciplined and financially prudent approach to building reserves and preserving long-term rate relief. The longer-term outlook (2025+) shows increased power cost stability due to VCE's fixed price long-term renewable power purchase contracts and VCE's recent prepay transaction savings. However, current forecasts from analysts show significant changes in PCIA (increasing) and PG&E rates (decreasing) due to regulatory changes in market price benchmarks.

ATTACHMENT:

1. Resolution 2025-XXX – Allocation of 2024 Net Margin

VALLEY CLEAN ENERGY ALLIANCE

RESOLUTION NO. 2025 - ___

A RESOLUTION OF THE BOARD OF DIRECTORS OF VALLEY CLEAN ENERGY ALLIANCE APPROVING THE RECOMMENDED ALLOCATION OF NET MARGIN FOR THE AUDITED YEAR ENDED DECEMBER 31, 2024

WHEREAS, Valley Clean Energy ("VCE") was formed as a community choice aggregation agency ("CCA") on November 16, 2016, under the Joint Exercise of Power Act, California Government Code section 6500 et seq., among the County of Yolo, and the Cities of Davis and Woodland, to reduce greenhouse gas emissions, provide electricity, carry out programs to reduce energy consumption, develop local jobs in renewable energy, and promote energy security and rate stability in all of the member jurisdictions. The City of Winters, located in Yolo County, was added as a member of VCE and a party to the JPA in December of 2019; and,

WHEREAS, the Board adopted a Rate Structure & Dividend Program Guidelines (Dividend Program) on June 17, 2019, to be effective starting at the beginning of the following fiscal year on July 1, 2019; and

WHEREAS, the Dividend Program guides how audited positive Net Margin for each fiscal year can be allocated amongst operational and rate stabilization cash reserves, customer dividends, and local program reserve (LPR), at the Board's discretion; and

WHEREAS, VCE staff analyzed the allocation options for Board consideration based on the final, audited Net Margin for the year ended December 31, 2024.

NOW, THEREFORE, the Board of Directors of Valley Clean Energy resolves as follows:

1. For the audited year ended December 31, 2024, allocate the Net Margin of $26.9 million as follows: $1,624,000 to local program reserve, $3,856,000 to cash dividends, $9,106,000 to operational reserves and $12,284,000 to rate stabilization reserves.

PASSED, APPROVED AND ADOPTED, at a regular meeting of Valley Clean Energy, held on the ____ day of _______________, 2025, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

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Bapu Vaitla, VCE Chair

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Alisa M. Lembke, VCE Board Secretary