

VALLEY CLEAN ENERGY ALLIANCE**Staff Report – Item 15**

TO: Board of Directors

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

SUBJECT: Allocation of 2025 Net Margin

DATE: June 11, 2026

RECOMMENDATION

Adopt a resolution approving the allocation of the \$32M 2025 Audited Net Margin between cash reserves, local program reserve (LPR), and Customer Dividends program as follows:

1. Minimum required allocation of \$225,000 to the Local Programs Reserve (LPR)
2. Discretionary allocation of \$2,026,000 to the Local Programs Reserve (LPR)
3. Discretionary allocation of \$2,251,000 to Operational Reserves
4. Discretionary allocation of \$4,129,000 to Customer Dividend Reserves
5. Discretionary allocation of \$23,397,000 to Rate Stabilization Reserves

BACKGROUND AND ANALYSIS

Each spring, the Board considers allocation of the previous year's net margin based on VCE's Customer [Dividend Program Guidelines](#), adopted in 2019 and updated December 12, 2024. This report presents the various options the Board has in determining how to allocate the estimated net margin for 2025. The Dividend Program Guidelines update in December 2024 increased the minimums for Operational Reserves to 120 days and Rate Stabilization Reserves to 60 days. The current Financial Reserves Policy can be found [here](#).

VCE's audit of the 2025 fiscal year has been completed, and financial statements were presented as an earlier companion item in today's 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 2025 net margin of \$32 million:

Net margin up to 5% is to be allocated as follows:

- Minimum required allocation of \$225,000 (5%) to the Local Programs Reserve (LPR)
- Discretionary allocation of \$2,026,000 (45%) to the Local Programs Reserve (LPR)
- Discretionary allocation of \$2,251,000 (50%) to Operational Reserves

Net margin above 5% is to be allocated as follows:

- Discretionary allocation of \$4,129,000 (15%) to Customer Dividend Reserves
- Discretionary allocation of \$23,397,000 (85%) to Rate Stabilization Reserves

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 audited 2025 Financial Statements, the conditions above have been met, including our Reserve Policy Minimums. As noted when the Board adopted the Dividend Program Guidelines in 2019, a 5% minimum net margin is in the lower range of typical net margin goals for the utility sector and most other industries.

Table 1 - 2025 Beginning Reserve Balance

Description	2025 Beg. Cash Balance	Days Cash	Minimum Reserve Policy
Operating Reserves - 2025 Beginning Balance	43,314	220	120*
Local Programs Reserves - 2025 Beginning Balance	2,709	14	0
Customer Dividend Reserves - 2025 Beginning Balance	3,856	20	0
Rate Stabilization Reserves - 2025 Beginning Balance	12,284	62	60
Total Unrestricted Cash	62,163	316	180

*VCE Operational Cash Reserve Target is 180 days.

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%) to LPR for program implementation
 - Up to 95% to Operational Cash Reserves (Until 180-day Target is met)
- Net margin above 5% is to be allocated as follows:
 - 50% to Operational Cash Reserves (Until 180-day target is met)
 - 25% to Rate Stabilization (Until 60-day minimum is met)
- Discretionary Allocation is between additional operational cash, rate stabilization, customer dividends, and local program reserves at the discretion of the Board annually.

Below is a summary of VCE's Net Margin Calculation for 2025:

Table 2 - VCE Dividend Program Allocation - 2025

Valley Clean Energy	
Description	2025 Financials (\$1,000s)
Electricity Sales	90,024
Operating Expense	57,997
Operating Margin	32,027
Principal Debt Payments	-
Adjusted Net Margin less principal Debt Payments	32,027
Adjusted Net Margin Percentage	35.58%
Allocation Amount <=5%	4,501
Allocation Amount > 5%	27,526

Discretionary Allocation Considerations

Based on the current and forecast cash reserves for 2026 and 2027, Staff recommends allocating the majority of the discretionary allocation to operational and rate-stabilization reserves. The 2026 adopted budget forecasts a (\$15.8M) net loss. VCE will maintain the minimum reserve targets for 2026 and 2027 based on current forecasts. VCE does anticipate additional increases in PCIA (net revenue reduction) and PG&E generation rate reductions (due to lower energy market prices) in 2027. Rate stabilization funds are discretionary and held to support anticipated rate competitiveness and customer discounts.

Table 3 - Allocation of Net Margin up to 5%

Allocation of Net Margin up to 5%	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash
Operating Reserves Allocation	50%	2,251	11	231
Local Programs Allocation	50%	2,251	11	25

Based on the customer dividend program formula above, VCE's minimum allocations result in \$245,000 to LPR. Staff is considering an additional \$2,025,000 to LPR and the balance to operational reserves. Additional Operational reserves provide VCE with flexibility to absorb additional unexpected operational expenses and maintain the recommended 180 minimum target for investment-grade credit ratings. Additional LPR funds allow for a multi-year balance, enabling VCE to take on long-term program initiatives with community impact, given that 2026 and 2027 may not meet minimum net margin requirements for the allocation of funds.

Tables 4 and 5 provide two potential scenarios for Board consideration. Table 4 allocates all discretionary funds above the 5% minimum net margin to rate stabilization to better prepare for potential future rate variability. Staff is not recommending this approach as it is considered overly cautious given PCIA and rate forecasts for the next several years. Staff believes that scenario 2 shown in table 5 strikes a more appropriate balance between current rate affordability objectives (customer dividends in the form of maintaining VCE current rate discounts), and maintaining future rate stability (rate stabilization fund).

Table 4 - Scenario 1 - Allocation of Net margin above 5%

Allocation of Net Margin above 5%	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash
Operating Reserves Allocation	0%	-	0	230
Local Programs Allocation	0%	-	0	25
Customer Dividends	0%	-	0	20
Rate Stabilization Allocation	100%	27,526	140	202

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Table 5 - Scenario 2 - Allocation of Net margin above 5%

Allocation of Net Margin above 5%	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash
Operating Reserves Allocation	0%	-	0	0
Local Programs Allocation	0%	-	0	0
Customer Dividends	15%	4,129	21	31
Rate Stabilization Allocation	85%	23,397	119	130

Note: (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.

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

- Power Costs - Staff anticipates ongoing regulatory pressures related to changing PCIA and 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 and maintaining customer discounts.

Community Advisory Committee (CAC) Consideration

The staff presented to the CAC at its May 28, 2026 meeting for discussion and feedback based on estimated results. CAC feedback aligned with the staff's initial allocation included in scenario 1, which focuses on building programs and additional operational and rate stabilization reserves.

After further consideration and internal staff discussion, Scenario 2 shown in Table 5 above was developed. Both allocation scenarios 1 and 2 incorporate conservative assumptions that reflect unfavorable forecast conditions, ensuring that potential risks are accounted for in the analysis. Notably, the updated Scenario 2 further strengthens expectations that VCE may continue its discount program into 2027, providing added reassurance regarding rate stability and ongoing customer benefits despite a challenging market outlook.

CONCLUSION

Staff believe that both scenarios represent a disciplined and financially prudent approach to building reserves and preserving long-term rate relief. The longer-term outlook (2026+) shows overall stability in power costs due to VCE's fixed-price long-term renewable power purchase contracts, VCE's recent prepay savings, and our A- credit rating amid continued regulatory and power market uncertainty.

ATTACHMENT:

1. Resolution 2026-XXX – Allocation of 2025 Net Margin

VALLEY CLEAN ENERGY ALLIANCE

RESOLUTION NO. 2026-___

**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, 2025**

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, 2025.

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

1. For the audited year ended December 31, 2025, allocate the Net Margin of \$32 million as follows: \$2,251,000 to local program reserve, \$4,129,000 to customer dividends, \$2,251,000 to operational reserves, and \$23,397,000 to rate stabilization reserves.

PASSED, APPROVED AND ADOPTED, at a regular meeting of Valley Clean Energy, held on the ___ day of _____, 2026, by the following vote:

- AYES:
- NOES:
- ABSENT:
- ABSTAIN:

Jesse Loren, VCE Chair

Alisa M. Lembke, VCE Board Secretary