VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 15

TO: Board of Directors

FROM: Edward Burnham, Director of Finance & Internal Operations
Mitch Sears, Chief Executive Officer

SUBJECT: 2026 Operating Budget Update & 2027 Preliminary Customer Rates and Budget

DATE: November 12, 2026

RECOMMENDATION

Informational – no action requested.

OVERVIEW

This update is the first of two discussions leading to Board consideration of VCE's 2027 customer rates and budget. The purpose of this staff report is to: (1) provide an update on the 2026 Operating Budget results, and (2) provide three 2027 Preliminary Customer Rates and Budget Scenarios for discussion and feedback.

The 2026 proforma (nine months of actuals and three months of forecast) projects a net loss of ($7.7 M), approximately $8.0 M better than the adopted 2026 budget net loss of ($15.8 M), primarily due to lower power costs and higher revenues. The three 2027 budget scenarios outlined in the analysis section of this report range from a ($14.2 M) to ($17.6 M) net loss based on net customer rate discounts. All scenarios maintain VCE's Operating Reserve above its 180-day target in 2027, with the net losses funded from VCE's Rate Stabilization Reserve.

VCE's longer-term outlook (2028–2031) indicates continued constraints. Updated PG&E generation rate and Power Charge Indifference Adjustment (PCIA) forecasts result in net losses in every forecast year under all three scenarios, and the Rate Stabilization Reserve falls below its 60-day minimum by 2029–2030. Future rate adjustments, reserve use, or both will be needed to maintain VCE's financial targets. Staff is completing additional analysis and considering a recommendation focused on Scenario 1 at the December 10, 2026 Board meeting which would maintain the current 5% standard and 10% CARE/FERA/Medical Baseline discounts for 2027, with a planned evaluation of PG&E's final rates, energy market prices, and updated forecasts in May 2027 that may support a recommendation to reduce the discounts mid-year.

BACKGROUND

At the VCE Board meeting on December 11, 2025, the Board approved the 2026 Customer Rates and Operating Budget (**Item 11**), which continued a 5% rate discount for all customers and a 10% rate discount for CARE/FERA and Medical Baseline customers. The 2026 budget included a net loss of ($15.8 M), with the rate discounts and PCIA increases funded through VCE's reserved customer dividend funds and a portion of VCE's rate stabilization funds. Financial forecasts incorporate analysis by CalCCA and VCE consultants NewGen and TEA, based on historical usage trends and forecasted energy markets.

In June 2026, the Board approved the allocation of VCE's 2025 net margin of approximately $32.0 M: $23.4 M to the Rate Stabilization Reserve, $4.1 M to the Customer Dividend Reserve, $2.3 M to Operating Reserves, and $2.3 M to the Local Programs Reserve (**Item 15**). At the same meeting, staff provided a mid-year financial update with 2026 actuals and the anticipated outcomes of regulatory developments, including the PCIA rulemaking's changes to the Resource Adequacy benchmark (**Item 14**). Based on staff analysis, VCE continued its then current 5% standard and 10% CARE/FERA rate discounts for the remainder of 2026, with any rate adjustments deferred to the 2027 Rates and Budget adoption in December. VCE's reserves remain above Board-approved minimums, and VCE maintains its "A-" credit rating.

ANALYSIS

This report updates information previously provided to the Board during the June 11, 2026 Mid-year Financials Update (**Item 14**). The section below provides updates on: (1) 2026 Operating Budget and (2) 2027 Preliminary Customer Rates and Operating Budget with a Multi-year Outlook (2028 through 2031).

1. 2026 Operating Budget Update

The Approved 2026 operating budget included $46.5 M of operating revenues and $62.3 M of operating expenses (including $53.8 M of power costs) for a net loss of ($15.8 M). As detailed below, 2026 results are projected to be approximately $8.0 M better than budget, due primarily to lower than budgeted power costs and higher revenues.

Key factors in the 2026 Operating Budget included the following:

- 2026 Customer Rates (VCE & PG&E Comparison) – VCE continued a 5% standard and 10% CARE/FERA/Medical Baseline discount to PG&E generation rates, funded through reserved customer dividend funds and rate stabilization funds.
- 2026 PCIA – The PCIA increased significantly for 2026, resulting in an approximately $23 M decrease in gross revenues to VCE.
- 2026 Power Costs – The budget included $53.8 M of power costs, including a 5% purchased power contingency.
- Additional considerations included program funding, strategic plan implementation, and other administrative costs.

Through September 2026, VCE recorded a net loss of ($0.9 M) compared to a budgeted net loss of ($10.0 M) for the same period. Year-to-date revenues were $2.2 M (5.8%) above budget, power costs were $4.6 M (11.2%) below budget (including $2.0 M of unused purchased power contingency), and non-power operating expenses were $2.3 M below budget, primarily due to the timing of program spending. Based on nine months of actuals and three months of forecast, the 2026 proforma net loss is estimated at ($7.7 M), approximately $8.0 M better than the adopted 2026 Budget, as shown in Table 1 below.

Table 1 – 2026 Proforma Budget (Unaudited, $000s)

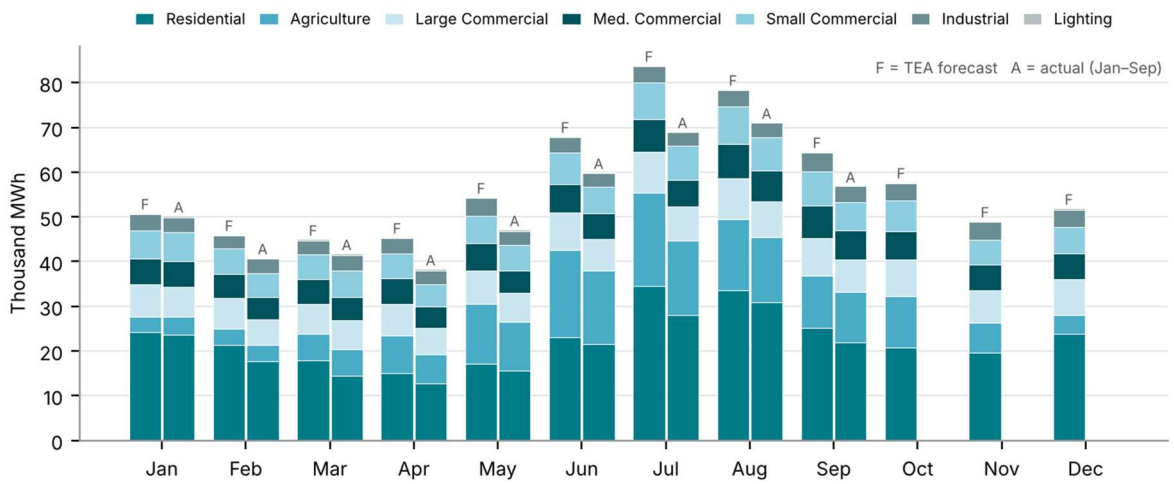
	Approved 2026 Budget	2026 Proforma (9 Mo. Actuals + 3 Mo. Forecast)	Variance Fav/(Unfav)
Revenue	45,274	48,707	3,433
Power Cost	53,800	49,196	4,604
Other Expenses	7,220	7,220	0
Net Income	**(15,746)**	**(7,709)**	**8,037**

//

Key factors influencing the 2026 Operating Budget results include:

- Load Forecast. As shown in Table 2, energy use through September 2026 was approximately 11.5% lower than forecasted, with lower than forecast use in every sector. VCE's largest sectors, residential (-11.9%) and agriculture (-12.3%), together account for about 60% of the shortfall. Lower load reflects wet winters, lower average temperatures, and higher net energy metering (NEM) adoption, which is also reducing long-term load forecasts.

Figure 1 – 2026 Load by Sector, TEA Forecast vs. Actual



Source: TEA VCE Financial Model, Load Chart (2026 TEA Load Forecast to Actual). Actuals through September 2026.

Table 2 – Load Update (2026 Forecast vs. Actuals, January–September, MWh)

Sector	Forecast	Actual	Variance	%
Residential	211,984	186,748	(25,236)	(11.9%)
Agriculture	102,769	90,125	(12,644)	(12.3%)
Large Commercial	70,836	60,893	(9,943)	(14.0%)
Small Commercial	60,187	56,175	(4,012)	(6.7%)
Medium Commercial	57,038	50,501	(6,537)	(11.5%)
Industrial	31,661	29,042	(2,619)	(8.3%)
Lighting	2,393	1,664	(729)	(30.5%)
Total	**536,868**	**475,148**	**(61,720)**	**(11.5%)**

- Revenues. Despite lower load, operating revenues are projected to be $3.4 M above budget. PG&E's final adopted 2026 rates included a true-up of additional actuals that was favorable to the PCIA, increasing VCE's net revenues relative to the budget, which was based on PG&E's earlier filed rates. Interest revenues are also above budget due to higher reserve balances.

- Power Costs. Power costs are projected to be $4.6 M below budget, reflecting lower load, unused purchased power contingency, and lower energy prices. Table 3 below illustrates the relative change in energy prices vs. other major categories in the

economy.

Table 3 – 2026 Consumer Price Index by Category (12-month change)
(as of August 2026)

Category	West Region	U.S. City Average
All items	3.2%	3.4%
Food	3.0%	2.7%
Energy	15.5%	16.3%

Source: U.S. Bureau of Labor Statistics, Sacramento Area Economic Summary (updated October 5, 2026), CPI-U.

2. 2027 Preliminary Customer Rate and Operating Budget and Multi-year Outlook (2028 through 2031).

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 information from PG&E's October 2026 filing in the annual Energy Resource Recovery Account (ERRA) proceeding and VCE's updated long-term forecast. For 2027, PG&E's residential generation rate is forecast to decrease approximately 6%, while the PCIA remains near its elevated 2026 level, as shown in Table 4.

Table 4 – PG&E Generation Rate and PCIA Forecast (Residential, ¢/kWh)

	2026	2027	2028	2029	2030
PG&E bundled generation rate	11.80	11.04	12.12	12.22	12.28
PCIA (2017 vintage)	3.67	3.60	2.42	2.29	2.01
Generation rate less PCIA	**8.13**	**7.44**	**9.70**	**9.93**	**10.27**
PCIA charges on VCE customers ($ M)	22.9	22.5	15.2	14.4	12.7

As experienced from 2023–2026, energy market decreases and regulatory changes make PG&E's portfolio less valuable and drive PCIA increases. For 2027, the lower PG&E generation rate combined with a continued high PCIA narrows the generation rate available to VCE by approximately 0.7¢/kWh (about 8.5%) compared to 2026. The PCIA is forecast to decline beginning in 2028. PCIA is outside of VCE's control and influence.

VCE's Reserve and Dividend Policy Revisions

At the December 12, 2024 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 days 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 financial 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 support VCE's strategic objectives, secure favorable commercial terms, maintain VCE's credit rating, and provide a source of funds for unanticipated expenditures. VCE's Rate Stabilization Reserve is used as a contingency to provide rate stability for VCE customers, given increasing regulations, power costs, and PCIA charges from PG&E. At the end of 2026, VCE's reserves are projected at approximately $92.4 M: Operating Reserve $50.7 M (327 days), Rate Stabilization Reserve $35.7 M (230 days), Local Programs $5.0 M, and Customer Dividends $1.1 M.

Draft 2027 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 TEA's October 30, 2026 power supply update and the same 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 2027, every 1% discount results in approximately $1.25/month reduction in the average residential customer bill and approximately $3.25/month reduction in the average small commercial customer bill.
- In 2027, every 1% standard discount is approximately $640K 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.

2027 Budget/Rate Scenarios

Three budget/rate scenarios have been modeled for Board discussion and consideration in advance of budget adoption in December. These scenarios are intended to provide a range of options for consideration. The 2027 budget options detailed in Table 5 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 $3.6M net revenue reduction;
- Scenario 2: Decrease to a 2.5% standard and 5% CARE/FERA/Medical Baseline rate

discount to PG&E generation rate; approximately $1.8M net revenue reduction;

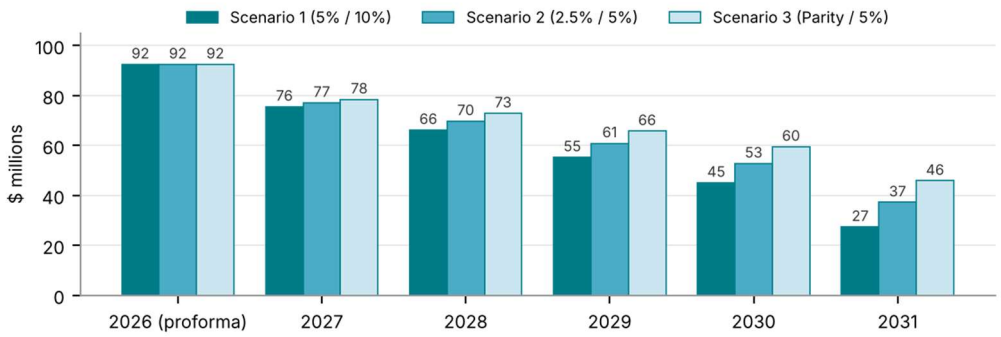
- Scenario 3: Standard rate matching (parity) and a 5% CARE/FERA/Medical Baseline discount to PG&E generation rate; approximately $235K net revenue reduction.

Table 5 – Customer Rate Discount Comparison ($ millions)

	Scenario 1 5% / 10%	Scenario 2 2.5% / 5%	Scenario 3 Parity / 5%
2027 operating revenue	42.5	44.3	45.9
2027 revenue reduction vs. parity	3.6	1.8	0.2
2027 net margin	**(17.6)**	**(15.8)**	**(14.2)**
Days of cash used in 2027	106	95	85
2027 ending reserves	75.5	77.1	78.4
2027 Operating Reserve (days)	308	307	305
2027 Rate Stabilization Reserve (days)	115	125	135
Cumulative net margin 2027–2031	(63.6)	(53.4)	(44.5)
Rate Stabilization Reserve below 60 days	2029	2029	2030
2031 ending reserves	27.4	37.2	45.8

Note: All scenarios use the same power cost, PCIA and PG&E generation rate forecasts; only the customer rate discounts differ. Discounts are held constant through 2031 to show long-term reserve impacts. These scenarios rely on future rate adjustments, reserves, or both to mitigate future power cost volatility.

Figure 2 – Projected Ending Reserves by Scenario ($ millions)



Additional Considerations – Preliminary 2027 operating expenses are 2.5% higher than the 2026 budget, compared to regional CPI of 3.2%. Staffing costs include an estimated 3% salary increase and a 6% increase in health benefits. Other expenses include strategic plan execution, IRP consultants, customer programs, and other administrative costs.

Staff Planning and Next Steps – Staff plans to continue analysis and budget planning in preparation for budget adoption in December. As noted, based on preliminary analysis, staff is considering a recommendation focused on Scenario 1: continuation of the current 5% standard and 10% CARE/FERA/Medical Baseline rate discounts.

Maintaining current discounts would provide customers with continued rate stability in 2027 while VCE's Operating Reserve remains above its 180-day target. Because Scenario 1 draws most heavily on the Rate Stabilization Reserve (a forecasted 2027 net loss of ($17.6 M), using approximately 106 days of cash), under this scenario staff would return to the Board in May 2027, in conjunction with the 2026 audited financial results and net margin allocation, of

PG&E's final adopted rates, energy market prices, and updated load, PCIA, and power cost forecasts. As in past years, based on that mid-year evaluation, staff coould return to the Board with a recommendation to reduce the rate discounts mid-year, timed with a PG&E rate change where possible to minimize billing impacts and customer confusion.

CONCLUSION

The preliminary 2027 operating budget scenarios are consistent with VCE's financial policies in 2027, maintaining the Operating Reserve above its 180-day target while using the Rate Stabilization Reserve to provide rate relief. However, all scenarios are projected to result in continued net losses through 2031, and the Rate Stabilization Reserve falls below its 60-day minimum by 2029–2030. Staff has prepared the preliminary 2027 operating budget/rate scenarios based on the best available information on PG&E generation rates and PCIA as of October/November 2026.

Based on the Board's feedback and direction, staff will return with an updated operating budget and customer rates recommendation for 2027 at the December 10, 2026 Board meeting.

Draft 2027 Operating Budget & Customer Rates Scenario 1:

Budget Scenario 1 continues a net rate discount of 5% for all customers and an additional 5% discount to CARE/FERA/Medical Baseline customers (10% total); the net revenue impact for 2027 is a reduction of $3.6M compared to parity.

- The forecasted 2027 net loss of ($17.6M) uses approximately 106 days of cash on hand.
- All scenarios assume a planned mid-year evaluation/adjustments in May 2027 based on final PG&E rates, energy prices, and updated forecasts.

Table 6 – Budget Scenario 1 ($ millions)
(5% standard / 10% CARE/FERA/Medical Baseline rate discounts)

	2027	2028	2029	2030	2031
Operating revenue	42.5	56.4	57.6	60.2	62.4
Cost of electricity	51.6	55.0	59.0	60.4	70.5
Other operating expenses	9.3	9.5	9.8	10.0	10.2
Interest revenue	0.8	0.7	0.6	0.5	0.3
Net margin	**(17.6)**	**(7.5)**	**(10.7)**	**(9.8)**	**(18.0)**
Ending reserves (all funds)	**75.5**	**66.2**	**55.3**	**45.1**	**27.4**
Operating Reserve Fund	51.5	49.6	49.3	40.1	22.4
Rate Stabilization Reserve Fund	19.1	11.6	1.0	0.0	0.0
Local Programs Fund	5.0	5.0	5.0	5.0	5.0
Operating reserve – days cash on hand	308	281	262	208	101
Rate stabilization – days cash on hand	115	66	5	0	0

///

///

///

///

Draft 2027 Operating Budget & Customer Rates Scenario 2:

- Budget Scenario 2 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 revenue impact for 2027 is a reduction of $1.8M compared to parity.
- The forecasted 2027 net loss of ($15.8M) uses approximately 95 days of cash on hand.

Table 7 – Budget Scenario 2 ($ millions)
(2.5% standard / 5% CARE/FERA/Medical Baseline rate discounts)

	2027	2028	2029	2030	2031
Operating revenue	44.3	58.4	59.6	62.2	64.5
Cost of electricity	51.6	55.0	59.0	60.4	70.5
Other operating expenses	9.3	9.5	9.8	10.0	10.2
Interest revenue	0.8	0.7	0.6	0.5	0.4
Net margin	**(15.8)**	**(5.5)**	**(8.6)**	**(7.7)**	**(15.8)**
Ending reserves (all funds)	**77.1**	**69.8**	**60.9**	**52.8**	**37.2**
Operating Reserve Fund	51.2	49.3	49.0	47.8	32.3
Rate Stabilization Reserve Fund	20.9	15.5	6.9	0.0	0.0
Local Programs Fund	5.0	5.0	5.0	5.0	5.0
Operating reserve – days cash on hand	307	279	260	248	146
Rate stabilization – days cash on hand	125	88	36	0	0

///

///

///

///

///

Draft 2027 Operating Budget & Customer Rates Scenario 3:

- Budget Scenario 3 sets standard rates at parity with PG&E generation rates and provides a 5% discount to CARE/FERA/Medical Baseline customers; the net revenue impact for 2027 is a reduction of $235K compared to parity.
- The forecasted 2027 net loss of ($14.2M) uses approximately 85 days of cash on hand.

Table 8 – Budget Scenario 3 ($ millions)
(Parity standard / 5% CARE/FERA/Medical Baseline rate discount)

	2027	2028	2029	2030	2031
Operating revenue	45.9	60.1	61.3	64.0	66.3
Cost of electricity	51.6	55.0	59.0	60.4	70.5
Other operating expenses	9.3	9.5	9.8	10.0	10.2
Interest revenue	0.8	0.7	0.7	0.6	0.5
Net margin	**(14.2)**	**(3.7)**	**(6.8)**	**(5.9)**	**(13.9)**
Ending reserves (all funds)	**78.4**	**72.8**	**65.8**	**59.5**	**45.8**
Operating Reserve Fund	50.9	49.0	48.8	48.4	40.9
Rate Stabilization Reserve Fund	22.5	18.8	12.0	6.2	0.0
Local Programs Fund	5.0	5.0	5.0	5.0	5.0
Operating reserve – days cash on hand	305	278	259	251	185
Rate stabilization – days cash on hand	135	107	64	32	0