

# VALLEY CLEAN ENERGY ALLIANCE

## Staff Report – Item 15

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**TO:** Valley Clean Energy Alliance Board of Directors

**FROM:** Lisa Limcaco, Director of Finance & Internal Operations  
Mitch Sears, Interim General Manager

**SUBJECT:** Preliminary Operating Budget Fiscal Year 2019/2020

**DATE:** March 14, 2019

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### **BACKGROUND AND ANALYSIS**

#### Operating Budget FY 2018/2019

In June 2018, the Board approved the Operating Budget of \$46.3 M for fiscal year 2018-2019 and includes Purchased power and other operating expenses. The operating budget was based on the following:

- VCEA rates set at a 2.5% discount from PGE&E's generation rates placed into effect March 1, 2018, net of PCIA and Franchise Fees
- Power Mix of 42% renewable, 75% clean for the default product
- Contingency of 10% of other operating expenses due to uncertainty surrounding initial year of operations

#### YTD Actual plus Forecast

The YTD actual financial position for the 7 months ending January 31, 2019 plus the forecast for the remaining part of the fiscal year 2018/2019 are below the approved budget mainly due to the following:

- Reduction of Wholesale and Retail Load due to 1) Deferral of Net Metering customers and 2) Customer KWh usage down from forecasted load
- Power costs increased due to additional RA allocation by CEC for 2019
- Other operating costs are lower than expected due reduction in VCE staffing, marketing costs and operating costs based on customer counts and load
- Reduced the contingency % for the forecast to 5% of operating expenses

#### Preliminary Operating Budget FY 2019/2020

In November 2018, the Board approved several policy modifications to address the PCIA exit fee volatility and budget shortfalls due to the anticipated increase in power costs for 2019 and 2020.

**Rates** – The policy modifications included structural changes to the rate design where VCE eliminated any up-front rate discount from PG&E's generation rates net of PCIA and Franchise fees and simply matched the PG&E rates. The revenue budget is based on the following assumptions:

- PG&E generation rates will decrease by an overall average of 2% for 2019 and flat for 2020
- PCIA will increase by 17% to approximately 3.2 cents per KWh in 2019 and decrease 2% to approximately 3.1 cents per KWh in 2020

**Power Costs/Mix** – The power mix remains unchanged from the prior year’s budget with 42% renewable and 75% clean content. The load forecast has been updated for 2019 and 2020 using actual load data, opt-out rates and opt-up rates. The retail load forecast for the FY 2019/2020 is estimated at 685 GWh. Energy cost includes system energy, eligible renewables and carbon free attributes which are estimated at \$33.3 M, or 83.1% of the total power costs. Resource adequacy cost is forecasted at \$6.8 M, or 16.9% of the total power costs.

**Other Operating Expenses** – Staff has reviewed the other operating expenses and have updated the budget based on the following:

- Services currently under contract
- Anticipation of increase legal costs due to PG&E bankruptcy
- 2.2% annual inflation rate on all expense not under contract
- 5% contingency rate for unanticipated operating expenses

## **CONCLUSION**

The preliminary operating budget reflects a 5.4% net margin which meets VCE’s 5% minimum net margin to maintain financial viability. Staff has prepared the preliminary operating budget for FY 2019/2020 based on the best available information on PG&E generation rates and PCIA exit fees. The 2019 PG&E generation rates and PCIA exit fees will be effective May 2019 and will be included in the final proposed Operating Budget for FY 2019/2020. Based on the Board feedback and direction, staff will return with a final recommended Operating Budget for FY 2019/2020 for consideration in May.

## **Attachment:**

Preliminary Operating Budget FY 2019/2020

**VALLEY CLEAN ENERGY  
PRELIMINARY OPERATING BUDGET  
FY 2019/2020**

	<b>APPROVED BUDGET FY 2018/2019</b>	<b>ACTUAL YTD JAN 31, 2019 (7 MO) + FORECAST (5 MO) FY 2018/2019</b>	<b>PRELIMINARY BUDGET FY 2019/2020</b>
OPERATING REVENUE	\$ 54,314	\$ 49,526	\$ 47,260
OPERATING EXPENSES:			
Cost of Electricity	41,103	40,207	40,144
Contract Services	2,719	2,444	2,599
Staff Compensation	1,358	1,047	1,200
General, Administration and other	1,094	554	620
TOTAL OPERATING EXPENSES	<u>46,274</u>	<u>44,252</u>	<u>44,563</u>
 TOTAL OPERATING INCOME	 8,040	 5,274	 2,697
NONOPERATING REVENUES (EXPENSES)			
Interest income	89	25	54
Interest expense	(590)	(194)	(175)
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>(501)</u>	<u>(169)</u>	<u>(121)</u>
 NET MARGIN	 <u>\$ 7,539</u>	 <u>\$ 5,105</u>	 <u>\$ 2,576</u>
 NET MARGIN %	 13.88%	 10.31%	 5.45%