

**VALLEY CLEAN ENERGY ALLIANCE  
COMMUNITY ADVISORY COMMITTEE**

**Staff Report – Item 8**

**TO:** Community Advisory Committee

**FROM:** Edward Burnham, Chief Financial Officer

**SUBJECT:** Allocation of 2025 Net Margin

**DATE:** May 28, 2026

**RECOMMENDATION**

1. Informational – Discussion and Feedback

**OVERVIEW**

This staff report presents a scenario for allocating the estimated net margin for 2025. Staff is presenting this information to the Community Advisory Committee (CAC) for discussion and recommendation. VCE’s 2025 audit has been completed, and the financial statements will be presented at the June 11<sup>th</sup>, 2026 Board. Taking into account VCE’s Dividend Program [guidelines](#), as well as available and forecast cash reserves, Staff is considering various options outlined below for VCE’s 2025 net margin of \$32 million:

- Minimum required allocation of \$225,000 to the Local Programs Reserve (LPR)
- Discretionary allocation of \$2,026,000 to the Local Programs Reserve (LPR)
- Discretionary allocation of \$2,251,000 to Operational Reserves
- Discretionary allocation of \$27,526,000 to Rate Stabilization Reserves

**BACKGROUND AND ANALYSIS**

The Board adopted the VCE Rate Structure & Dividend Program Guidelines on June 17, 2019, to guide the allocation of the audited net margin for each year. The Board updated the original guidelines in December 2024, increasing the minimums for Operational Reserves to 120 days and Rate Stabilization Reserves to 60 days. The Dividend Program with net margin allocation guidelines can be found [here](#), and the Financial Reserves Policy can be found [here](#).

**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
<b>Total Unrestricted Cash</b>	<b>62,163</b>	<b>316</b>	<b>180</b>

\*VCE Operational Cash Reserve Target is 180 days.

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, both the Dividend Program conditions above and the Reserve Policy minimums have been met. Staff will present the final recommendation of the allocation of net margin to the Board on June 11, 2026. 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.

#### 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**

<b>Valley Clean Energy</b>	
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

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### 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 can be held to support anticipated rate competitiveness and customer discounts in 2027.

**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.

**Table 4 - Allocation of Net margin up to 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

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.

### **CONCLUSION**

Staff believes that this approach represents a disciplined and financially prudent way to maintain reserve policy minimums and preserve long-term rate relief. The longer-term outlook (2026+) shows greater power cost stability due to VCE's fixed-price long-term renewable power

purchase contracts and savings from VCE's recent prepay transaction. However, current forecasts from analysts indicate significant changes in PCIA (increasing) and PG&E rates (decreasing) due to additional regulatory changes to market price benchmarks and overall calculations. Staff is seeking feedback from the CAC to inform its recommendation on the allocation of the 2025 net margin, which is anticipated to be presented to the Board in June.