VALLEY CLEAN ENERGY ALLIANCE
COMMUNITY ADVISORY COMMITTEE

Staff Report – Item 9

TO: Community Advisory Committee

FROM: Edward Burnham, Chief Financial Officer

SUBJECT: Allocation of 2024 Net Margin

DATE: April 24, 2025

RECOMMENDATION
1. Informational – Discussion and Feedback

OVERVIEW
This staff report presents the various options the Board has in determining how to allocate the estimated net margin for 2024. Staff is presenting this information to the Community Advisory Committee (CAC) for discussion and feedback. 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 is considering various options outlined below for VCE's 2024 net margin of $26.4 million:

- Minimum required allocation of $245,000 to the Local Programs Reserve (LPR)
- Minimum required allocation of $8,986,000 to Operational Reserves
- Minimum required allocation of $11,517,000 to Rate Stabilization Reserves
- Discretionary Allocation (After Cash Reserves) of $5,283,000

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 operational reserves minimums and adding a Rate Stabilization Reserve. The Dividend Program with net margin allocation guidelines can be found here and the Financial Reserves Policy 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 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

Below is a summary of VCE's Allocation for 2024:

Table 1 - VCE Dividend Program Allocation - 2024

Description		2024 Financials ($1,000s)		Avg. Days Cash ($1,000s)	
Electricity Sales		97,979		197	
Operating Expense		71,948			
Operating Margin		26,031			
Principal Debt Payments		-			
Adjusted Net Margin less principal Debt Payments		26,031			
Adjusted Net Margin Percentage		26.57%			
Allocation Amount <=5%		4,899			
Allocation Amount > 5%		21,132			
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%	4,654	24	158	Minimum
Local Programs Allocation	5%	245	1	0	Minimum
Allocation of Net Margin above 5%	**Percentage**	**Allocation Amount**			
Allocation to Operating Reserves	21%	4,332	22	180	Minimum
Allocation to Rate Stabilization Reserves	55%	11,517	58	58	Minimum

Based on the customer dividend program formula above, VCE 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.

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.

Scenario 1:

	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash	
Discretionary Allocation (After Cash Reserves)	**25%**	**5,283**	**27**	**0**	Maximum
Allocation to Operating Reserves	0%	-	0	180	
Allocation to Rate Stabilization Reserves	7%	370	2	60	
Local Programs (Targeted 2025/26 Spend)	25%	1,321	7		
Customer Dividends (Targeted 2025/26 Spend)	68%	3,592	18		

Scenario 2:

	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash	
Discretionary Allocation (After Cash Reserves)	**25%**	**5,283**	**27**	**0**	Maximum
Operating Reserves Allocation	0%	-	0	180	
Allocation to Rate Stabilization Reserves	15%	792	4	62	
Local Programs (Targeted 2025/26 Spend)	25%	1,321	7		
Customer Dividends (Targeted 2025/26 Spend)	60%	3,170	16		

Scenario 3:

	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash	
Discretionary Allocation (After Cash Reserves)	**25%**	**5,283**	**27**	**0**	Maximum
Operating Reserves Allocation	25%	1,321	7	187	
Allocation to Rate Stabilization Reserves	25%	1,321	7	65	
Local Programs (Targeted 2025/26 Spend)	25%	1,321	7		
Customer Dividends (Targeted 2025/26 Spend)	25%	1,321	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.

CONCLUSION

Staff believe that these 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. Staff is seeking feedback from the CAC to inform its recommendation on the allocation of the 2024 net margin that is anticipated to be taken to the Board in June.