Valley Clean Energy Board Meeting – April 8, 2021
via video/teleconference

Item 15 – Preliminary draft FY21/22 Operating Budget
To Provide Public Comment on any agenda item please:

➢ E-mail 300 words or less to: meetings@valleycleanenergy.org

OR

Join the Public Comment Queue by

➢ “Raising Hand” on Zoom Meeting

OR

➢ Press *9 if joining by phone

Emailed comments received before the item has concluded will be read into the record.

Emailed comments received after the item has concluded but before the end of the meeting will not be read but will be included in the meeting record.
Overview

• Draft Budget presentations in April and May; Budget adoption in June

• The purpose of this presentation is to:
  • Provide an update on the current fiscal year budget
  • Introduce the preliminary draft operating budget for FY 2021-22

• Net $0.1M or ~1% difference from previous forecasted budgets
  • FY 2020-2021 approximately $0.8M better than the approved budget
  • FY 2021-2022 Preliminary Draft Budget is approximately $0.9M lower
Operating Budget FY 2019-2020 Update
Operating Budget FY 2019-2020 Overview

June 2020

• Board approved a $52.5M Operating Budget for FY 2020-2021
  • Net loss of $2.8M, after factoring in fiscal mitigation policy adjustments.
• Current operating budget was based on the following key factors:
  • Covid-19. Substantial reductions in load and revenue related largely to COVID and anticipated recessionary factors.
  • PG&E Generation Rates. 1.4% increase of PG&E’s generation rates.
  • Power Charge Indifference Adjustment (PCIA). Overall, an approximately 44% increase.
  • Power costs. $6.1 million increase in forecasted power costs – due primarily to increasing Resource Adequacy (RA) costs and an anticipated delay in generation from pending long-term solar projects.
  • Fiscal Mitigation Policy Adjustments.
    • Power Planning Resource Adjustment- reduce purchase costs by $2.25 million.
    • Accepting large hydro allocations from PG&E - avoided a net $125,000 expenditure for GHG free energy.
Current FY Update - Year to Date Actual plus Forecast FY 20-21

• FY 2020-2021 net financial position is forecasted to be favorable by approximately $0.8M due mainly to the following factors:
  • Positive Factors:
    • Revenue increases from higher customer demand from COVID-19 impact load forecast.
    • Lower actual expenditures related to marketing, new member agency on-boarding, legal support and contingency.
    • Contract labor expenditures below budget due to staffing.
    • Fiscal Mitigation Policy Adjustments – tracking as forecast
  • Offsetting Factors:
    • The net effect of PG&E’s average generation rate change (+2.8%) and PCIA increase.
    • COVID-19 net impact resulted in higher costs for short-term power purchases.
Preliminary Draft Budget FY 2021-22
Preliminary Draft Budget FY 2021-22 – Overview

• Preliminary Draft 2022 Budget is nearly flat v. FY20-21 budget (~1% difference) – less than CPI

• Preliminary Draft 2022 Budget includes a forecasted net income loss of $6.9M. This is an approximately $0.9M greater loss from the $6.0M net loss forecasted and presented to the Board last June.

• The increased net loss is due primarily to the following major factors that are outside of VCE’s direct control:
  
  • RA cost volatility/increases in power costs due to higher than forecasted resource adequacy resulting from a tightening market, shifting market rate design and CPUC requirements.
  
  • COVID-19 load forecast uncertainty related changes in long-term load requirements result in more conservative forecasting.
  
  • TOU rate transitions of some non-residential customers from their legacy rates.
Preliminary Draft Budget Energy Expenses

- Energy Expense net increase of ~1.48% compared to FY20-21 actual to FY21-22 forecast budget
  - Increases – RA 31%
  - Reductions – Hydro -92% and Energy Costs -6%

Preliminary Draft Budget Other Operating Expenses

- Expense net increase of ~1% compared to the FY20-21 budget
  - Increases - VCE Community Programs and Strategic Plan Implementation
  - Reductions - new member support and legal support
- Primary factors in this category of expenses include:
  - Services currently under contract
  - Transition to internal VCE staff and away from SMUD staffing services
  - 1.5% annual inflation rate on most expenses not under contract
  - 5% contingency rate - post COVID transition.
Preliminary Draft Budget Other Considerations

• PCIA is incorporated into the draft preliminary FY 2022 at the previously forecasted net increase of 39%.

• Generation Rate is forecasted with a 1% increase in PG&E generation rates

• Both the PCIA and PG&E’s generation rate setting are factors outside of VCE control.
## Item 15 – Preliminary Draft Budget FY 2021-22 – Summary

<table>
<thead>
<tr>
<th></th>
<th>ACTUAL YTD</th>
<th></th>
<th>PRELIMINARY BUDGET</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>APPROVED BUDGET</td>
<td>JAN 31, 2021 (7 MO) + FORECAST (5 MO)</td>
<td>FY 2020-21</td>
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<tr>
<td>Energy - Megawatt Hours</td>
<td>$717,987</td>
<td>$762,289</td>
<td>$769,935</td>
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### OPERATING REVENUE

|                      | $49,638 | $53,981 | $49,047 |

### OPERATING EXPENSES:

<table>
<thead>
<tr>
<th>Description</th>
<th>APPROVED</th>
<th>JAN 31, 2021 (7 MO) + FORECAST (5 MO)</th>
<th>FY 2020-21</th>
<th>FY 2020-21</th>
<th>FY 2021-2022</th>
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<tbody>
<tr>
<td>Cost of Electricity</td>
<td>47,670</td>
<td>51,663</td>
<td>51,082</td>
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<tr>
<td>Contract Services</td>
<td>2,723</td>
<td>2,577</td>
<td>2,559</td>
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<tr>
<td>Outreach &amp; Marketing</td>
<td>241</td>
<td>177</td>
<td>241</td>
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<tr>
<td>Programs</td>
<td>12</td>
<td>3</td>
<td>135</td>
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<tr>
<td>Staffing</td>
<td>1,132</td>
<td>1,116</td>
<td>1,164</td>
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</tr>
<tr>
<td>General, Administration and other</td>
<td>772</td>
<td>577</td>
<td>829</td>
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</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td>52,550</td>
<td>56,113</td>
<td>56,010</td>
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</tr>
</tbody>
</table>

### TOTAL OPERATING INCOME

|                      | (2,912) | (2,131) | (6,964) |

### NONOPERATING REVENUES (EXPENSES)

<table>
<thead>
<tr>
<th>Description</th>
<th>APPROVED</th>
<th>JAN 31, 2021 (7 MO) + FORECAST (5 MO)</th>
<th>FY 2020-21</th>
<th>FY 2020-21</th>
<th>FY 2021-2022</th>
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</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>135</td>
<td>101</td>
<td>139</td>
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<tr>
<td>Interest expense</td>
<td>(57)</td>
<td>(56)</td>
<td>(42)</td>
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<td><strong>TOTAL NONOPERATING REV/(EXPENSES)</strong></td>
<td>78</td>
<td>45</td>
<td>97</td>
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### NET MARGIN

|                      | $ (2,834) | $ (2,086) | $ (6,866) |
| NET MARGIN %         | -5.7%     | -3.9%      | -14.0%     |
Preliminary Draft Budget Conclusions

• The preliminary draft FY 2022 operating budget reflects a -14% net margin
  • less than 1% difference from the net margin position forecasted last June.
  • As forecasted last June, net margin position does not meet VCE’s 5% minimum annual goal.

• Fiscal Mitigation Policy Adjustments Adopted by the Board in June 2020 have helped blunt fiscal impacts – tracking as forecast

• Continuing volatility and uncertainty in the RA market, PCIA and load forecast due to Covid-19 are the primary drivers of the negative net margins.

• Utilizing reserves for rate stabilization will maintain rate competitiveness with PG&E and bridge the gap until long-term renewable contracts come on-line in 2021/22/23.