Background

• Policy modifications approved by the Board in November 2018 included to study adoption of a new rate structure starting in July 2019 (VCE’s 2020 Fiscal Year)

• Staff and CAC Rates and Services Task Group collaborated in developing this New Dividend program
Key considerations

- Rate design impacts on customer opt-outs
- Trigger for payment of customer dividend – minimum net margin
- Impact on financial stability of VCE
- Allocation of revenue to reserves, dividends, and local program development/implementation
  - Short-term consideration of NEM Enrollment
Item 18 – Dividend Program Guidelines

• Match PG&E electric generation rates less PCIA exit fee
• Require a minimum 5% net margin (less principal payments) before any dividends are paid to VCE customers
• Require the enrollment process for the legacy NEM accounts in the VCE service area has begun before any dividends are paid to VCE customers
• Annually based on the audited financial statements:
  • Calculate the Net margin less principal debt payments
  • If Net margin < 5% - no customer dividends and Board determine allocation of net margin to Cash reserves and Local Program reserves
  • If Net margin > 5% - Board determine allocation of any surplus (over 5%) to Cash reserves, Local Program reserves and Customer Dividends
Item 18 – Dividend Program Guidelines

• Guidelines of Allocation of Net Margin
  • Net Margin <= 5%
    • Up to 95% to Cash Reserves (Until 90-days of cash reserves met)
    • At least 5% to Local Program Reserves
  • Net Margin > 5%
    • Follow guidelines for Net Margin up to 5%
    • Net margin in excess of 5%:
      • At least 50% to Cash Reserves (Until 90-days cash reserves met)
      • Remaining excess split 50%/50% between Cash Dividends and Local Programs Reserve
Item 18 – Dividend Program Guidelines

• Board approves allocation of Net Margin on or around the September Board meeting

• Any surplus allocation to customer dividends will appear as bill credits or the customer may have the option to apply their dividend to the Local Program Reserve

• Customer dividends will appear as bill credits as follows:
  • Residential customers – annually in October bill
  • Non-residential customers – bi-annually in October and April bills
Item 18 – SMUD Task Proposal

- Amendment 11 to SMUD Task Order 2 – to develop technology enhancements to support VCE’s annual Dividend program
- Fixed Fee is $75,000
  - Budgeted in FY 2019/2020 Operating Budget
Item 18 – CAC Recommendation

- The Community Advisory Committee recommends the adoption of the new Rate Structure and Dividend Program Guidelines
Board adopt a resolution:

1. Approving the New Rate Structure and Dividend Program Guidelines
2. Authorizing the Interim General Manager to approve and sign Amendment 11 to Task Order 2 (Data Management and Call Center Services) of the Sacramento Municipal Utility District Professional Services Agreement
Item 19 - Approval of enrollment of NEM legacy accounts beginning January 2020; revisions to the approved NEM Policy; and, Amendment 12 to Task Order 2 of SMUD Agreement
Item 19 - Recommended Action

Adopt a resolution:
2. Approving a minor revisions to the approved NEM policy related to net excess generation.
3. Authorizing the Interim General Manager to sign Amendment 12 to Task Order 2 (Data Management and Call Center Services) of the Sacramento Municipal Utility District Professional Services Agreement.
NEM Policy has been delayed twice:

1. **Issues with original policy were identified**
   - NEM enrollment was delayed to address issues
   - Worked with public, CAC, board to revise the policy
   - New policy was approved by the board at the Sept 2018 meeting
   - Policy was scheduled to go into effect beginning January 1, 2019

2. **California Public Utilities Commission (CPUC) Decision**
   - Decision of 10/11/2018, changed methodology for calculating the Power Charge Indifference Adjustment (PCIA)
   - Expected increased power procurement costs
   - Expected increased Resource Adequacy costs
   - Board decision to defer NEM enrollment “at least until 2020” but as soon as practical at November 15 Special Meeting
   - “Reassessment of the future enrollment date in mid-2019”; (Current recommendation to Board)
CPUC Energy Division issued Final Disposition letter on the PG&E 2019 ERRA forecast proceeding on June 10, 2019

- Financial impact on VCE:
  - PG&E generation rates increased by approximately 6.74% from 2018 rates (VCE rates followed the increase per VCE board decision to match PG&E rates)
  - PCIA exit fee based on VCE load forecast is essentially flat from 2018 ~ average $0.0265/kWh
Financial impact comparison of November 2018 (Board approved policy modifications) vs. Current 2019 ERRA information

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income before policy modifications</td>
<td>$ 2,259</td>
<td>$ (911)</td>
</tr>
<tr>
<td>Postpone NEM enrollment</td>
<td>779</td>
<td>1,767</td>
</tr>
<tr>
<td>Net income after Postponement of NEM</td>
<td>3,038</td>
<td>856</td>
</tr>
<tr>
<td>Match PG&amp;E generation rate</td>
<td>783</td>
<td>1,744</td>
</tr>
<tr>
<td><strong>Net income after modification of rate discount</strong></td>
<td><strong>$ 3,821</strong></td>
<td><strong>$ 2,600</strong></td>
</tr>
<tr>
<td>Enroll Legacy NEM customers (1)</td>
<td>-</td>
<td>(600)</td>
</tr>
<tr>
<td>Changes to 2019 PCIA, PG&amp;E rates, load forecasts &amp; operating costs</td>
<td>4,764</td>
<td>7,289</td>
</tr>
<tr>
<td><strong>Net income with 2019 ERRA &amp; NEM enrollment January 2020</strong></td>
<td><strong>$ 8,585</strong></td>
<td><strong>$ 9,289</strong></td>
</tr>
</tbody>
</table>

(1) - Enroll Legacy NEM customers beginning January 2020
Item 19 - Financial Update

• Net margin for FY 2019/2020 $9.3 million or 16.32%
• Improved fiscal outlook puts VCE in position to enroll legacy NEM customers as soon as practical- beginning in January 2020
Item 19 - Enrollment Method and PG&E Costs

- NEM customers will be enrolled in monthly batches
- VCE pays PG&E $4,475 per batch to move customer groups greater than 100
  - Monthly batching makes the most sense
  - Less frequent batching would negatively impact true-up dates
  - More frequent batching would cost more
SMUD developed a Task Proposal to enable NEM enrollment that mirrors PG&E NEM billing

- Task will take 6 months to complete
- Fixed fee for task is $100,000

<table>
<thead>
<tr>
<th>Milestone</th>
<th>Responsible Party</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Task Proposal approved</td>
<td>VCE</td>
<td>June 17, 2019</td>
</tr>
<tr>
<td>2  Requirements gathering initiated</td>
<td>SMUD</td>
<td>July 1, 2019</td>
</tr>
<tr>
<td>3  Customer list to mass enroll on each policy approved</td>
<td>VCE</td>
<td>September 30, 2019</td>
</tr>
<tr>
<td>4  Development complete</td>
<td>SMUD</td>
<td>October 3, 2019</td>
</tr>
<tr>
<td>5  User testing complete</td>
<td>SMUD</td>
<td>October 25, 2019</td>
</tr>
<tr>
<td>6  CRM go-live: Customers begin pre-enrollment period on proper NEM policy</td>
<td>SMUD</td>
<td>November 1, 2019</td>
</tr>
<tr>
<td>7  Billing go-live: Customers begin receiving bills on proper NEM policy</td>
<td>SMUD</td>
<td>January 1, 2020</td>
</tr>
</tbody>
</table>
1. Residential NEM customers with solar systems installed prior to June 2018 may retain their existing PG&E annual billing cycle unless their annual balance exceeds $500.

2. Residential NEM customers with solar systems installed prior to June 2018 with annual balances exceeding $500 will be transitioned to monthly billing with a February true-up date.

3. Residential customers with solar systems installed prior to June 2018 that have been placed on a monthly billing cycle can request to move back to an annual billing cycle if their annual bill is less than $500 per year for a consecutive two-year period.

4. Non-residential NEM customers with solar systems installed prior to June 2018 may retain their existing PG&E annual billing cycle, unless their annual balance exceeds $5,000.

5. Non-residential NEM customers with annual balances exceeding $5,000 may be transitioned to monthly billing with a February true-up.

6. NEM customers may choose a monthly billing cycle with February true-up in lieu of an annual billing and true-up cycle.

7. NEM customers with solar systems installed prior to June 2018 that are on annual billing cycles will retain their current true-up month.

8. The transition from PG&E to VCE will occur on the customer’s true-up date in 2019.
9. NEM customers with less than $100 in wholesale credits will have the credit balance roll over to the next billing cycle (with no loss of credits). NEM customers with a wholesale credit balance exceeding $100 on their annual true-up date will be cashed-out, unless they choose to roll over the balance or donate the funds.

10. NEM customers that generate excess energy on a monthly basis will receive the retail value plus a $0.01/kWh credit for the excess generation, without additional compensation for participation in renewable programs.

11. Customers on time-of-use (TOU) rate schedules will receive a $0.01/kWh credit for net excess generation during any TOU period on a monthly basis.

12. NEM customers that generate excess energy on an annual basis will receive the wholesale value of net surplus generation, plus a $0.01/kWh adder.

13. NEM customers may opt-out of VCE’s NEM program and return to PG&E at their discretion.

14. Residential customers adding solar systems beginning June 1, 2018 will be placed on monthly billing with an annual true-up date in February.

15. Non-residential customers adding solar systems beginning June 1, 2018 may be placed on monthly billing with an annual true-up in February.
Item 19 - CAC Recommendation

- The Community Advisory Committee (CAC) recommends starting NEM enrollment for legacy solar customers beginning January 2020
Item 19 - Recommended Action

Adopt a resolution:
2. Approving minor revisions to the approved NEM policy related to net excess generation.
3. Authorizing the Interim General Manager to sign Amendment 12 to Task Order 2 (Data Management and Call Center Services) of the Sacramento Municipal Utility District Professional Services Agreement.
Background

• Operating Budget FY 2018-2019 - In June 2018, the Board approved the Operating Budget of $46.3 M
  • VCE rates set at 2.5% discount of PG&E’s generation rates
  • 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
In November 2018 – Board approved several policy modifications to address 1) PCIA Exit fee volatility and 2) Anticipated increase in power costs for 2019 and 2020

• Rates – eliminated up-front rate discount and simply matched PG&E rates for 2019 with Board direction to design a customer revenue sharing system for adoption in 2019

• Deferral of NEM customer enrollment from January 2019 to 2020 or 2021 with Board direction to enroll as soon as practical
Assumptions

• Electric Revenue:
  • Match PG&E generation rates net of PCIA and Franchise Fees
  • Estimated ERRA 2019 rates:
    • 2019 PG&E generation rates increase 6.74%
    • 2019 PCIA exit fee essentially flat to ~ 2.64 cents/KWh
  • Estimates from CalCCA consultant MRW at April 2019:
    • 2020 PG&E generation rates decrease 3%
    • 2020 PCIA exit fee increase 9% (1/2 of cap) ~ 2.89 cents/KWh
  • Enrollment of legacy NEM customers beginning January 2020
Assumptions

• Power Costs/Mix:
  • 42% renewable and 75% clean content
  • Updated load forecast for 2019 & 2020 based on actual load data, opt-out rates and opt-up rates
  • Retail load forecast estimated 690 GWh
• Power costs:
  • System energy, eligible renewables and carbon free attributes - $34.16M or 82.15% of power costs
  • Resource Adequacy (RA) costs $7.42M or 17.85% of power costs
Assumptions

• Other Operating Costs:
  • Increase in head count – 2 Senior interns to assist developing customer programs and outreach for new member jurisdictions
  • Costs related to the addition of new member jurisdictions
  • Services currently under contract
  • Anticipation of increase legal costs due to PG&E bankruptcy
  • Increase in Joint CCA regulatory costs related to 2020 ERRA proceeding
  • 2.2% annual inflation rate on all expense not under contract
  • 5% contingency rate for unanticipated operating expenses
### VALLEY CLEAN ENERGY

#### BUDGET SUMMARY

**FY 2019/2020**

<table>
<thead>
<tr>
<th></th>
<th>YTD ACTUAL</th>
<th>APPROVED BUDGET</th>
<th>APR 30, 2019 (10 MO)</th>
<th>PROPOSED BUDGET</th>
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<tbody>
<tr>
<td><strong>OPERATING REVENUE</strong></td>
<td>$54,314</td>
<td>$51,043</td>
<td>$</td>
<td>$55,708</td>
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<tr>
<td><strong>OPERATING EXPENSES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Cost of Electricity</td>
<td>41,103</td>
<td>38,577</td>
<td>41,575</td>
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<tr>
<td>Contract Services</td>
<td>2,719</td>
<td>2,318</td>
<td>2,910</td>
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<tr>
<td>Staff Compensation</td>
<td>1,358</td>
<td>1,003</td>
<td>1,183</td>
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<tr>
<td>General, Administration and other</td>
<td>1,094</td>
<td>428</td>
<td>728</td>
<td></td>
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<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td>46,274</td>
<td>42,326</td>
<td>46,396</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL OPERATING INCOME</strong></td>
<td>8,040</td>
<td>8,717</td>
<td>9,312</td>
<td></td>
</tr>
<tr>
<td><strong>NONOPERATING REVENUES (EXPENSES)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>89</td>
<td>40</td>
<td>132</td>
<td></td>
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<tr>
<td>Interest expense</td>
<td>(590)</td>
<td>(191)</td>
<td>(155)</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL NONOPERATING REVENUE (EXPENSES)</strong></td>
<td>(500)</td>
<td>(151)</td>
<td>(23)</td>
<td></td>
</tr>
<tr>
<td><strong>NET MARGIN</strong></td>
<td>$7,539</td>
<td>$8,565</td>
<td>$9,289</td>
<td></td>
</tr>
<tr>
<td><strong>NET MARGIN %</strong></td>
<td>13.88%</td>
<td>16.78%</td>
<td>16.67%</td>
<td></td>
</tr>
</tbody>
</table>
• Net Margin – 16.67% - meets VCE’s minimum 5%
• Based on estimates provided with Disposition Letter from CPUC Energy Division on PG&E Advice Letter 5527-EB issued June 10, 2019
• Enrollment of legacy NEM customers beginning January 2020
Item 20 – Recommendation

Staff recommends Board adopt resolution approving Operating Budget of $46.4 million of Operating Expenses for Fiscal Year 2019/2020
Valley Clean Energy Board
Item 22 – Amendment #1 to Wholesale Risk Policies
June 17, 2019
Woodland City Council Chambers
Amendment #1 to Wholesale Energy Risk Management Policy

Background

• The current policy sets Credit Exposure Limits to $1.5 M per counter party.

• With the increase in market power prices over the last year, Credit Exposure Limits of some key trading partners has risen to levels above $1.5M.

• Current credit policy dictates that we do no more business with those counter parties until exposure drops below the $1.5M.

• The $1.5M limit creates challenges for Resource Adequacy (RA) procurement that could further constrain RA availability for VCE.
Amendment #1 to Wholesale Energy Risk Management Policy

Credit Exposure

• What is Credit Exposure?

• For power purchases, it’s the financial exposure that VCE has if the seller defaults and doesn’t deliver the expected product.

  Counter Party Credit Exposure = Cost of Replacement Power Contract – Total Existing Contract Value

  Counter Party Credit Exposure = Contract Volume x (Current Market Price – Contract Price)
Amendment #1 to Wholesale Energy Risk Management Policy
Credit Exposure

**Counter Party "A" Purchase Contract Information**

<table>
<thead>
<tr>
<th>Contract Volume, MWhs</th>
<th>200,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery Term</td>
<td>2020</td>
</tr>
<tr>
<td>Contract Price, $/MWh</td>
<td>$22.50</td>
</tr>
<tr>
<td>Contract Execution Date</td>
<td>6/1/19</td>
</tr>
<tr>
<td>Total Contract Value, $</td>
<td>$4,500,000</td>
</tr>
<tr>
<td>Market Price at time of Contract, $/MWh</td>
<td>$22.50</td>
</tr>
<tr>
<td>Market Price on 12/1/2019, $/MWh</td>
<td>$31.60</td>
</tr>
</tbody>
</table>

**Counter Party "A" Credit Exposure Calculation**

<table>
<thead>
<tr>
<th>Time of Calculation</th>
<th>Volume</th>
<th>Market Price</th>
<th>Contract Price</th>
<th>Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>At Time of Contract</td>
<td>200,000</td>
<td>$22.50</td>
<td>$22.50</td>
<td>$0</td>
</tr>
<tr>
<td>12/1/2019</td>
<td>200,000</td>
<td>$31.60</td>
<td>$22.50</td>
<td>$1,820,000</td>
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</tbody>
</table>
Amendment #1 to the Risk Policy will modify the credit limit exposure calculation to exclude Resource Adequacy purchase contracts.

6.1 Credit Limit and Monitoring

In executing transactions on VCEA’s behalf, the WESP will observe a pass-through counterparty credit maximum limit equal to $1.5 million, with an exception for Resource Adequacy capacity purchase/buy transactions, which will not be included in this credit limit.
• Staff recommends adoption of Amendment #1 to the VCE Wholesale Energy Risk Management Policy.
Valley Clean Energy Board Sub Committee
Item 22 – Update on LT Renewable Solicitation Short List
June 17, 2019
Woodland City Council Chambers
Long Term Renewable Solicitation – Short List Update

Current Status

- Projects previously selected for short listing
  - 72 MW solar project (project withdrawn by developer – no longer available)
  - 40 MW solar project (no longer available)
  - 100 MW solar project (other project selected from preferred list)

- Contribution to Portfolio:

<table>
<thead>
<tr>
<th></th>
<th>PPA Capacity</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
<th>2030</th>
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</thead>
<tbody>
<tr>
<td>Total Supply</td>
<td>100 MWs</td>
<td>0</td>
<td>10,536</td>
<td>278,561</td>
<td>278,561</td>
<td>278,561</td>
<td>278,561</td>
<td>278,561</td>
<td>278,561</td>
<td>278,561</td>
<td>278,561</td>
<td>278,561</td>
<td>278,561</td>
</tr>
<tr>
<td>Implicit Combined Premium</td>
<td></td>
<td>$1.22</td>
<td>$1.22</td>
<td>$1.22</td>
<td>$1.22</td>
<td>$1.22</td>
<td>$1.22</td>
<td>$1.22</td>
<td>$1.22</td>
<td>$1.22</td>
<td>$1.22</td>
<td>$1.22</td>
<td>$1.22</td>
</tr>
<tr>
<td>VCEA Retail Load</td>
<td></td>
<td>$686,131</td>
<td>$705,123</td>
<td>$715,572</td>
<td>$715,596</td>
<td>$717,257</td>
<td>$722,514</td>
<td>$724,832</td>
<td>$728,923</td>
<td>$733,079</td>
<td>$738,723</td>
<td>$741,959</td>
<td>$746,451</td>
</tr>
<tr>
<td>Incremental Contribution to Renewable Content</td>
<td></td>
<td>0.0%</td>
<td>1.5%</td>
<td>38.9%</td>
<td>38.9%</td>
<td>38.8%</td>
<td>38.6%</td>
<td>38.4%</td>
<td>38.2%</td>
<td>38.0%</td>
<td>37.8%</td>
<td>37.5%</td>
<td>37.3%</td>
</tr>
<tr>
<td>IRP Targets</td>
<td></td>
<td>42.0%</td>
<td>42.0%</td>
<td>51.0%</td>
<td>60.0%</td>
<td>62.5%</td>
<td>65.0%</td>
<td>67.5%</td>
<td>70.0%</td>
<td>72.5%</td>
<td>75.0%</td>
<td>77.5%</td>
<td>80.0%</td>
</tr>
</tbody>
</table>
Long Term Renewable Solicitation – Short List Update
Next Steps

• Complete Short-Listing
  • Close to execution of an LOI with developer of 100 MW project
  • Still reaching out to have discussions with developers having projects on the short list.
• Negotiate PPA(s)
• Obtain Board approval