Putah Creek Solar Farms, Winters, CA
Item 14 – Fiscal Year 2020-2021 Financial Audit
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VALLEY CLEAN ENERGY ALLIANCE
SUMMARY OF AUDIT RESULTS
JUNE 30, 2021

Presented by
James Marta CPA, CGMA, ARPM
Agenda

• Communications with Those Charged with Governance
• June 30, 2021, Valley Clean Energy Alliance (VCE) Financial Information and Auditor’s Report
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
Professional standards require that we provide you with information related to our audit of VCE. This information is summarized as follows:

- **Responsibilities and Opinion**
  - Financial statements are the responsibility of management
  - Our responsibility is to express an audit opinion
  - We issued an unmodified opinion (the best an auditor can give)
REPORT TO YOU - INTERACTIONS WITH MANAGEMENT

Management Consultations with Other Independent Accountants:
✓ None

Disagreements with Management of Difficulties Encountered:
✓ None

Management Representations:
✓ Received
REPORT TO YOU

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

- Significant Accounting Policies and Changes in Those Policies - No changes
- Management Judgments and Accounting Estimates
  - Claims liabilities, investment values, net pension liability, OPEB liability
  - Appropriate and in-line with standards
• An Audit is more than just assurance regarding the fairness of presenting financial statements. An Audit involves gaining an understanding of the organization’s systems and controls.
  - Understanding; systems, policies and procedures
  - Tests of control
  - Gathering other audit evidence, review of details, performing test calculations.
  - Review of accounting methods and reporting
## RESULTS OF THE AUDIT

<table>
<thead>
<tr>
<th>Consideration Area</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned Scope and Timing</td>
<td>Scope and timing as anticipated</td>
</tr>
<tr>
<td>Findings Identified in Performing the Audit</td>
<td>None</td>
</tr>
<tr>
<td>Significant Adjustments or Disclosures Not Reflected in the Financial Statements</td>
<td>None</td>
</tr>
</tbody>
</table>
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
• Pages 1-2 of the Audited Financial Statements
• Unmodified opinion (Page 2), the best opinion that we can provide
• Pages 3-5
  • Financial Highlights
  • Condensed financial statements and graphs plus narrative about why balances changed from prior years
  • Analysis of balances and transactions
  • Facts or conditions that are expected to have a significant effect
STATEMENT OF NET POSITION

- Cash decreased $5.2M
- Accounts Receivables are up by $2M
- Supplier deposits are up $2M
- Liabilities are up $3.3M
- Net position is down $3.8M
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Primary drivers:

- Electricity sales and costs
- Conscious pricing decisions
- COVID19
STATEMENT OF CASH FLOWS

- Operation used $4M of cash
- Financing used $453k of cash
- Net cash used this year was $4.5M

<table>
<thead>
<tr>
<th>Category</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>$(4,057,900)</td>
<td></td>
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<tr>
<td>Financing</td>
<td>$(1,937,094)</td>
<td>$(452,727)</td>
</tr>
<tr>
<td>Investing</td>
<td>$50,285</td>
<td>$102,954</td>
</tr>
<tr>
<td>Change in Cash</td>
<td>$(4,460,342)</td>
<td></td>
</tr>
</tbody>
</table>

- Total cash used this year: $7,145,965
- Pages 9-15
  - Note 1, page 11 summarizes restricted and unrestricted
  - Note 3, page 11 shows receivables and accrued; the allowance assumes certain reimbursements from the state for customer delinquent accounts.
  - Note 4 page 12, Line of Credit; balance at year end was zero
  - Note 4 page 13, reflects new loan from River City Bank
INDEPENDENT AUDITOR’S REPORT
ON INTERNAL CONTROL AND COMPLIANCE

- No Material Weaknesses identified
- No instances of noncompliance identified
Thank you to
Valley Clean Energy Alliance staff
for the partnership
in completing this engagement.
Valley Clean Energy Board Special Meeting – November 10, 2021 via video/teleconference

Item 15 – Cost-Based Rate Policy and Structure
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Overview

• Background
• Proposed Cost-Based Rates Policy
• Proposed Cost-Based Rates Structure
• Recommendation/Next Steps

Purpose: Revise VCE’s rate policy and customer rate structure enabling VCE to offer additional customer choice and set rates calibrated to actual cost and reserve requirements rather than indexed only to PG&E’s generation rates + PCIA.
**Background**

- All electric utilities develop forecasts based upon informed technical estimates. Forecasts incorporate factors such as future weather, load, market power prices, and other business conditions. Actual outcomes inevitably vary and in extreme instances, outcomes may vary significantly.

- 2017 - VCE Implementation Plan: Program rates must collect sufficient revenue from participating customers to fully fund VCE’s budget, including the need to establish sufficient operating reserve funds.

- 2020 – Strategic Plan: Maintain financial stability while continuing to offer customer choice, competitive pricing and establishment of local programs.

- 2018 – 2021 - VCE has systematically analyzed policy options and implemented strategies to stabilize customer rates, reduce cost, and manage reserves.
  - e.g.: Discontinue rate discount; scaled back REC purchases; sign long-term renewable PPA’s

- 2020-2021 – Initiated research/development of cost-based rates and expanded customer rate structure
Background/Review

- Primary financial drivers remain the same from April/May 2021 analysis included in FY 2021/22 budget adoption
  - Power market costs continuing to increase above forecast increases (short-term 2022 prices +57% since May 2021); VCE hedging strategy
  - PCIA remaining high in 2021 at approx. $33.5M (+46% v. 2020 PCIA)
- Additional financial drivers impacting short and longer-term outlook
  - Scheduled Fall 2021 PG&E Generation Rate increase (1.5%) delayed
  - Error in financial estimations overvalued positive impacts of VCE’s long-term PPA’s
- Short-term outlook (2022 and 2023) continued volatility with associated financial challenges – Approx. $13M in additional forecasted costs; requires corrective action on rates to ensure cost recovery.
- Longer-term outlook (2024+) increased stability and cost certainty due to long-term PPA’s and cost-based rate structure; rebuilt reserves + positive margins.
### Background: Budget and Updated Forecast

<table>
<thead>
<tr>
<th>Scenario 1</th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021*</th>
<th>FY2022</th>
<th>CY2022</th>
<th>CY2023</th>
<th>CY2024</th>
<th>CY2025</th>
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<td>55,249</td>
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<td>69,700</td>
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<td>5,400</td>
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<td>(2,230)</td>
<td>5,060</td>
<td>13,132</td>
<td>12,800</td>
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* Based on preliminary audit results presented in companion item 15.

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<td>7,460</td>
<td>15,532</td>
<td>15,200</td>
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## Item 15 – Cost-Based Rate Policy and Structure

### Background: Rate Actions Taken by Other CCA’s

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<th>CCA</th>
<th>IOU Territory</th>
<th>% Difference to IOU (default product)</th>
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<tbody>
<tr>
<td>Clean Power SF</td>
<td>PG&amp;E</td>
<td>+2%</td>
</tr>
<tr>
<td>MCE Clean Energy</td>
<td>PG&amp;E</td>
<td>+7%</td>
</tr>
<tr>
<td>Pioneer Community Energy</td>
<td>PG&amp;E</td>
<td>+6%</td>
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<td>San Jose Clean Energy</td>
<td>PG&amp;E</td>
<td>+8%</td>
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<td>Sonoma Clean Power</td>
<td>PG&amp;E</td>
<td>+5%</td>
</tr>
<tr>
<td>Clean Power Alliance (Los Angeles area)</td>
<td>SCE</td>
<td>+8%</td>
</tr>
<tr>
<td>Desert Clean Energy</td>
<td>SCE</td>
<td>+20%</td>
</tr>
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Note: VCE and other CCA’s procure for less than PG&E; competitive advantage eliminated by PCIA fee (PG&E received $2.4B through the PCIA for its above-market costs in 2021)
Proposed Cost-Based Rate Policy

• Current VCE Rate Policy: Match PG&E + Customer Dividend

• Proposed Cost-Based Rate Policy:
  • VCE will set customer rates to collect sufficient revenue from participating customers to fully fund VCE’s budget and establish sufficient operating reserve funds.

• Implementing Procedure (budget years 2022 and 2023): Over the next two budget years set customer rates to fully fund VCE’s budget, as may be amended from time to time, and rebuild a minimum operating reserve of 30 days cash by the end of 2023; with a targeted operating reserve of 60 days cash by the end of 2023. Beginning in 2024, establish higher operating reserve targets to support Strategic Plan goals, including achieving an investment grade credit rating.
Proposed Cost-Based Rate Structure

• Increase customer choice and incorporate cost-based rates for default and opt-up options.

Proposed Customer Rate Structure Design

- **UltraGreen**
  100% Renewable
  (Existing Opt-Up: cost-based rate)

- **Standard Green**
  (Existing Default: cost-based rate)

- **“Basic Green”**
  (New “Least Cost”: Rate and content competitive with PG&E)
Proposed Cost-Based Rate Structure
The proposed customer rate structure incorporates the following:

1. **Rate Structure** - Three customer rate options – (1) Basic (new), (2) Standard (existing default), and (3) UltraGreen (existing opt-up)

2. **Customer Distribution**
   a. All CARE/FERA customers automatically opted down (approx. 27% of VCE load)
   b. Assumed additional customer load opt-down/out: 5%

3. **Portfolio/Price (renewable/GHG content)**
   a. **Basic Green rate** (new): competitive with PG&E generation rate (+/- 2%) and maintain minimum portfolio to comply with regulatory requirements; ineligible for customer dividend program.
      i. CARE/FERA customers maintain existing VCE multi-year portfolio mix for Standard default through 2023; shift to enhanced portfolio in 2024: PG&E renewable content plus a minimum of 5%.
   b. **Standard rate** (existing default): cost-based rate and maintain existing VCE multi-year portfolio mix.
   c. **UltraGreen rate** (existing opt-up): cost-based rate and maintain existing 100% renewable/GHG free mix.
Item 15 – Cost-Based Rate Policy and Structure

Rate Adoption Process

CAC Meeting – Late Oct
- Consider Cost Based Rate Policy and Structure – 3 rate options

Regular Board Meeting – Nov
- Consider Cost Based Rate Policy and Structure – 3 rate options

Regular Board Meeting – Dec
- Adopt budget and set 2022 rates based on PCIA & PG&E Gen Rates

Note: 2022 PCIA and PG&E Gen Rates scheduled to be filed Nov 8th.
**Updated Schedule Detail**

- **Sept:** Board direction; Based on Board direction, staff + CAC Task Group finalize draft rate policy and expanded and cost-based customer rate structure.
- **Sept:** CAC examination/feedback on draft rate policy and expanded and cost-based customer rate structure; input on customer outreach strategy.
- **October:** Board update/direction; draft policy/rate structure.
- **October:** Board special meeting; approved accelerated rate adjustment for Nov 2021 – Jan 2022.
- **October 28:** CAC consideration/recommendation on final draft policy/rate structure.
- **Nov 8:** PG&E 2022 rates and PCIA update released.
- **Nov 10 (current):** Board consideration/action on final draft policy/rate structure.
- **Nov 18:** CAC update on 2022 PCIA and PG&E rates.
- **Dec 9:** Board adoption of calendar based fiscal year and budget; set 2022 VCE rates.
- **Nov-Jan 2022:** Execute customer outreach strategy.
- **Jan 2022:** Rates update report to Board/CAC.
- **Feb 2022:** Implement expanded and cost-based customer rates and structure.
- **Post-implementation:** Monitoring/reporting customer opt-out/opt-down activity.
CAC Recommendation

The CAC recommended that the Board adopt the following:

a) Cost-Based Rate Policy: VCE will set customer rates to collect sufficient revenue from participating customers to fully fund VCE’s budget and establish sufficient operating reserve funds. Changes in rates are to be approved by the Board in consultation with the Community Advisory Committee. (9-0-0);

b) Cost-Based Rate Structure: Adopt a new rate structure with three customer options: (1) Standard Green (default) and (2) UltraGreen (100% renewable) with rates based on cost-recovery and add a (3) least-cost customer rate option.

And

c) Automatically enroll California Alternative Rates for Energy (CARE) and Family Electric Rates Assistance (FERA) customers in the newly created least-cost rate option with an enhanced portfolio beginning in 2024. (7-0-2)
Recommendation

Approve Resolution Adopting:

a. Cost-based rate policy and Implementing Procedure;
b. New rate structure with three customer options: (1) Standard Green (default) and (2) UltraGreen (100% renewable) with rates based on cost-recovery and add a (3) least-cost customer rate option;
c. Automatic enrollment of California Alternative Rates for Energy (CARE) and Family Electric Rates Assistance (FERA) customers in the newly created least-cost rate option with an enhanced portfolio beginning in 2024.

Next Steps

• Nov - CAC review of 2022 PCIA and PG&E rates
• Dec – Board adoption of VCE 2022 rates
• Feb 2022 – Implementation of Cost-based rates and structure
Valley Clean Energy Board  Special Meeting – November 10, 2021  via video/teleconference

Item 16  – 2022 Preliminary Draft Operating Budget
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Overview

• Background of Budget Development

• Updated FY 2020-21 and FY 2021-22 Financials

• Key factors Influencing FY 2021-2022

• FY 2021-2022 Budget Scenarios
  
  • Option 1: Moderately discounted forecast of PG&E generation rate increases.
  
  • Option 2: High discounted forecast of PG&E generation rate increases.
  
  • Option 3: Low discounted forecast of PG&E generation rate increases.
Budget Development Background – FY 2020-21 and FY2021-22

• June 2020 - Board approved a $52.5M Operating Budget for FY 2020-2021 with Net loss of $2.8M, after factoring in fiscal mitigation policy adjustments.

• October 2020 - Mid-year budget update monitoring actuals and forecasts reflecting a net $7.1M FY 2022 deficit due to rising RA, power, and PCIA costs.

• April - May 2021, Budget draft update including the annual electricity demand forecast for VCE for a projected net income loss of approximately $7.70M for FY 2022.

• May 2021, CAC reviewed the staff recommendations for policy adjustments on VCE’s near-term acquisition of renewable and GHG-free power content.

• In June 2021, the Board extended the policy strategy adjustments and approved the FY 2021-22 Operating Budget a net loss of $6.9M
Budget Development Background – CY 2022

• In October 2021, the Board received updated power market forecasts and approved an accelerated rate adjustment of approximately 2%

Long-term Fixed Price Power Purchase Agreements

• VCE renewable power and storage resource deliveries began in 2021 and will significantly increase over 2022 and 2023.
• The PPAs are fixed-price contracts and cover over 80% of VCE’s annual load by 2024
• Cash reserves have helped VCE stabilize customer rates and partially bridge the gap until the long-term PPAs begin full delivery in the 2021-24 timeframe.
Operating Budget Update FY 2020-21

Audited financials increased losses by approximately $310K

- NEM revenues unfavorable $800K related to reporting for the annual true-up process.
- Rugged Solar PPA performance deposit of $220K was forfeited by the developer to VCE, resulting in additional other revenue
- The receivables account was reconciled for an increase of $180K
- VCE released accrued expenses of $90K as reconciled
Operating Budget Update FY 2021 (6 Month)

Draft financials decreased losses by approximately $1.6M

- **PCIA.** A net 46% increase in the PCIA from 2020/21 continues to have significant revenue erosion for approximately $23M total paid for the 9-months of the current calendar through September.
- **Power Prices.** Average forward market power prices have increased 57% since May 2021.
- **Customer Rate Increase of 2%** - The Board approved an accelerated rate adjustment of approximately 2% on the average customer bill in mid-October for $300K

<table>
<thead>
<tr>
<th>FY 2021-22</th>
<th>APPROVED BUDGET FY 2021 (6 MO)</th>
<th>Actual YTD Sept. 30 (3 MO) + Forecast (3 MO)</th>
<th>Variance</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>$ 25,043</td>
<td>$ 28,606</td>
<td>$ 3,564</td>
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<tr>
<td>Power Cost</td>
<td>$ 27,592</td>
<td>$ 29,616</td>
<td>$ (2,023)</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>$ 2,509</td>
<td>$ 2,469</td>
<td>$ 41</td>
</tr>
<tr>
<td>Net Income</td>
<td>$(5,059)</td>
<td>$(3,478)</td>
<td>$ 1,581</td>
</tr>
</tbody>
</table>
Key factors – Operating Budgets

• Power Prices. Average forward market power prices have increased by approximately 57% since the April-2021 preliminary draft budget.

• Financial Power Cost Model - Total difference between adopted and corrected forecasts is approximately $13M over the three FYs 2022 to 2024, resulting from a modeling error that overestimated the financial benefits of VCE’s long-term renewable power purchase contracts.

• PCIA. A net 46% increase in the PCIA from 2020/21 continues to have significant revenue erosion for approximately $23M for the 9-months of the current calendar through September.

• Fiscal Year and Budget adoption timing. As described in October and in the proposed adoption of companion agenda item 13 (revised fiscal year), the budget adoption process occurs during the load forecast updates and the beginning of the hedging process for the following calendar year.
CY 2022 Draft Budget Scenarios

• Option 1: Moderately discounted forecast of PG&E generation rate increases.
• Option 2: High discounted forecast of PG&E generation rate increases.
• Option 3: Low discounted forecast of PG&E generation rate increases.

Rate Forecasts and Revenue

Oct 2021 reports predict significant increases in PG&E’s generation rates and decreases in PCIA over the CY 2022. These changes are based on information from separate filings to the CPUC and are scheduled to be finalized in November 2021.

Table 1 - Rate Scenarios

<table>
<thead>
<tr>
<th>PCIA</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
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<tbody>
<tr>
<td>CY2022</td>
<td>-30%</td>
<td>12%</td>
<td>10%</td>
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<tr>
<td>CY2023</td>
<td>5%</td>
<td>-7%</td>
<td>-7%</td>
</tr>
<tr>
<td>CY2024</td>
<td>-2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>CY2025</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
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### Table 5 – Budget Scenario Comparison

<table>
<thead>
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<th>Scenario 1</th>
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<td>66,990</td>
<td>52,400</td>
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<tr>
<td>Other Expenses</td>
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<td>4,346</td>
<td>4,267</td>
<td>2,469</td>
<td>4,940</td>
<td>5,140</td>
<td>5,269</td>
<td>5,400</td>
</tr>
<tr>
<td>Net Income</td>
<td>8,646</td>
<td>9,365</td>
<td>(3,844)</td>
<td>(3,478)</td>
<td>(3,830)</td>
<td>3,560</td>
<td>11,532</td>
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</table>

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<td>8,646</td>
<td>9,365</td>
<td>(3,844)</td>
<td>(3,478)</td>
<td>(270)</td>
<td>7,460</td>
<td>15,532</td>
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</table>

* Based on preliminary audit results presented in companion item 15.

Generation rate changes (1% change approximately $650K Net Annual Impact to VCE)
PCIA (1% change approximately $300K net annual impact to VCE)
Conclusion

- Budget scenarios do not meet VCE’s 5% minimum annual net margin goal
- Continued use of cash reserves utilization as planned
- Cost normalization is still expected in CY 2023 and beyond by long-term power purchase agreements
- PG&E’s 2022 PCIA and rates are scheduled to be released the 2nd week of November
- VCE to set 2022 rates and at the December Board meeting
- CY 2022 Budget Adoption at the December Board Meeting