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## Valley Clean Energy Board Meeting – Thursday, December 12, 2024



## Item 19 – 2025 Operating Budget & Customer Rates

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# Item 19 – 2025 Operating Budget & Customer Rates

## Overview

VCE's financial outlook indicates increased stability and cost certainty with VCE's long-term PPA's on-line combined with continued growth in cash reserves positioning VCE to receive an initial investment grade credit rating in 2025. 2025 Proposed Customer Rates and Budget include the following Items:

- Lower 2025 VCE Customer Rates vs. PG&E Generation Rates
- Continues to build programs in 2025
- Updated Financial Reserves Policy (Item 15) - Continues to build cash reserves for VCE's credit rating & rate stabilization

### **This presentation provides:**

1. Update on the 2024 Operational Budget (10 Months actuals)
2. Recommended 2025 Customer Rates
3. Proposed 2025 Budget



## **1. 2024 Operational Budget Update**

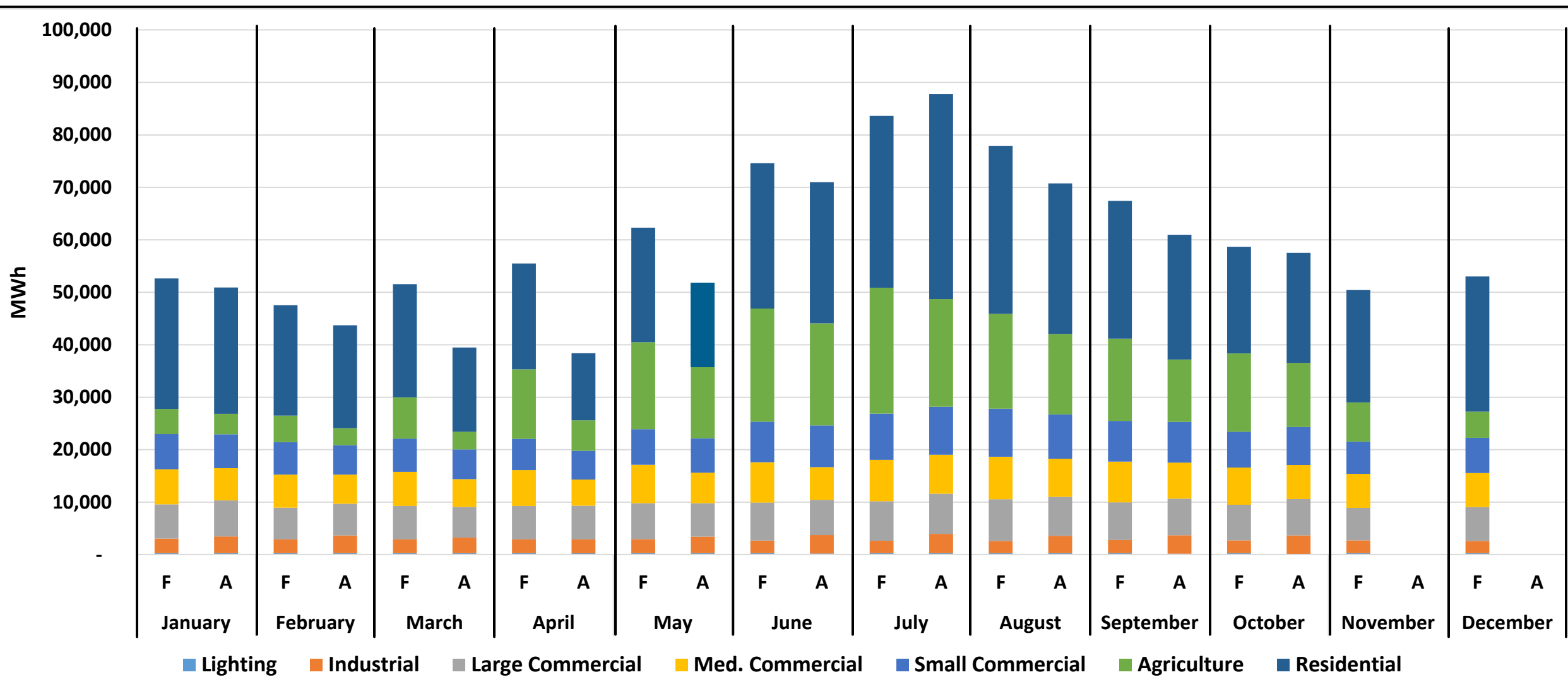
# Item 19 – 2025 Operating Budget & Customer Rates

## Key Factors influencing the VCE 2024 Budget

- **Load Forecast** - 2024 energy use in most sectors have been lower than forecasted in first half of 2024. 2024 Actual energy use lower than forecasted mostly related to agriculture due to a wet and long winter and cooler spring temperatures . Retail load normalized in the second half of 2024.
- **Budgeted revenues** – 2024 Revenues lower than forecasted driven by lower usage as described above.
- **Power Costs** – 2024 power prices remained fairly consistent throughout 2024 despite lower load demand, stable natural gas storage levels and lower natural gas prices for an overall decrease of approximately 4%.

# Item 19 – 2025 Operating Budget & Customer Rates

## VCE Retail Load Update – Forecast vs Actual



# Item 19 – 2025 Operating Budget & Customer Rates

## 2024 Operational Budget Update

Description	APPROVED 2024 BUDGET	2024 Proforma (10 Month Actuals + 2 Month Budget)	Variance
Revenue	\$ 103,881	\$ 100,800	\$ (3,081)
Power Cost	\$ 75,200	\$ 71,500	\$ 3,700
Other Expenses	\$ 6,800	\$ 6,305	\$ 495
<u>Net Income</u>	<u>\$ 21,881</u>	<u>\$ 22,995</u>	<u>\$ 1,114</u>

Note: The 2024 interim audit will begin in January 2025 and will be completed in the second quarter of 2025. Adjustments, if any, will be included in the annual report.



## **2. Recommended 2025 Customer Rates**



# Item 19 – 2025 Operating Budget & Customer Rates

## VCE 2025 Proposed Rates

### **VCE Cost-Based Rate Policy: (Update Adopted November 2021)**

- VCE sets rates to collect sufficient revenue from participating customers to fully fund VCE's Budget and establish sufficient operating reserve funds.
- VCE's 2024 Target was set to fully fund 180 days of operating cash reserves and incorporated into 2024 rate setting.

### **2025 Customer Rates - Key Drivers**

VCE has incorporated the following assumptions in its updated financial forecasts for 2025 (assuming PG&E rates/PCIA are implemented on January 1, 2025):

- **PCIA:** 75% decrease over 2024 PCIA (net zero charge)- Results in approximately + \$4M in revenue for 2025
- **PG&E Bundled rates (PCIA & Generation):** 5-7% increase – Results in approximately + \$6M revenue for 2025



Note: Staff continues to evaluate the balancing of rate affordability, rate equity, and environmental impacts through the cost recovery rate setting process.

# Item 19 – 2025 Operating Budget & Customer Rates

## 2025 Rate Discounts/Revenue Investment

Revenues can be “invested” in rate discounts, programs, increased procurement of clean energy resources (e.g. short-term RECs), or a combination of these and other elements.

- Every 1% discount results in approximately \$1.50/month reduction in the average residential customer bill and approximately \$3.75/month reduction in the average small commercial customer bill
- Every 1% discount would be approximately \$1M in reduced net income available for cash reserves, rate stabilization, programs, and procurement of additional clean energy resources. Net Income allocations for reserves and programs are normally evaluated in May as part of VCE’s audited financial results.
- If selected, rate discounts are best implemented during PG&E rate changes (e.g. January), to minimize billing efforts, risk of errors, and customer messaging.

# Item 19 – 2025 Operating Budget & Customer Rates

## VCE Rates Recommendation

Approve 2025 VCE Customer Rates:

1. Standard Green Rates (default rate): 5% Discount to PG&E's 2025 generation Rates (increase VCE's 2024 rate discount by 3%)
  - i. 10% Discount to PG&E 2025 Rates for CARE/FERA and Medical Baseline customers (increase VCE's 2024 rate discount by 5.5%)
2. Base Green Rate (Opt-down rate option): discount of 2.5% to PG&E 2025 generation

## 3. Proposed 2025 Budget



# Item 19 – 2025 Operating Budget & Customer Rates

## **2025 Budget (Proposed) & Multi-Year Forecast - Key Factors**

- 2025 Customer Rates (VCE & PG&E Comparison) VCE will set customer rates to collect sufficient revenue from participating customers to fully fund VCE's Budget and continue to contribute to reserve funds to obtain an initial investment grade credit rating.
- 2025 PCIA Forecast –75% decrease over 2024 PCIA (net zero charge)- Results in approximately \$4M increase in revenue for 2025
- 2025 Customer Rates Forecast – 5-7% increase for PG&E Generation Rates – Results in approximately \$6M revenue for 2025.

# Item 19 – 2025 Operating Budget & Customer Rates

## 2025 Budget (Proposed)

VALLEY CLEAN ENERGY 2025 DRAFT BUDGET SUMMARY			
	APPROVED 2024 BUDGET	ACTUAL (YTD) Oct. 31 2024 2024 Proforma	PROPOSED 2025 BUDGET
<b>OPERATING REVENUE</b>	<b>\$ 106,500</b>	<b>\$ 96,250</b>	<b>\$ 101,200</b>
<b>OPERATING EXPENSES:</b>			
Cost of Electricity	75,200	72,500	64,000
Contract Services	2,261	2,196	2,640
Outreach & Marketing Programs	300	235	370
Staffing	2,018	1,102	2,170
General, Administration and other	1,632	1,632	2,100
	1,139		1,560
<b>TOTAL OPERATING EXPENSES</b>	<b>82,550</b>	<b>77,665</b>	<b>72,840</b>
<b>TOTAL OPERATING INCOME</b>	<b>23,950</b>	<b>18,585</b>	<b>28,360</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	550	826	990
Interest expense		-	-
<b>TOTAL NONOPERATING REV/(EXPENSES)</b>	<b>550</b>	<b>826</b>	<b>990</b>
<b>NET MARGIN</b>	<b>\$ 24,500</b>	<b>\$ 19,411</b>	<b>\$ 29,350</b>
<b>NET MARGIN %</b>	<b>23.0%</b>	<b>20.2%</b>	<b>29.0%</b>

- 5% rate discount for Standard Green (Total Bill)
- 10% rate discount for CARE/FERA and Medical Baseline customers
- Includes a target of ~180+ days cash reserves by the end of 2024 & Rate Stabilization Reserves in 2025.
- \$2M in Customer Programs

# Item 19 – 2025 Operating Budget & Customer Rates

## Updated Multi-Year Forecast

Description	Actuals		Actual YTD August 31 (10 MO) + Forecast (2 MO)	2025 Proposed Budget	*Preliminary Forecast		
	2022	2023	2024	2025	2026	2027	2028
Customer Revenue	85,323	95,430	100,800	101,200	97,300	100,500	101,700
Power Cost	75,130	68,528	71,500	64,100	72,100	69,700	68,400
Other Expenses	4,469	6,030	6,305	7,750	8,138	8,544	8,972
Net Income	5,724	20,872	22,995	29,350	17,063	22,256	24,328
Programs & +180 Days Operating Cash				Customer Discounts, Programs & Rate Stabilization Reserves			

Note: Forecasted financials are based on the most current available data and assumptions. These scenarios rely on future rate adjustments, reserves, or both to mitigate future power cost volatility.



\* The preliminary forecast is based on analysis by CalCCA, MRW, and TEA and power cost forwards.

# Item 19 – 2025 Operating Budget & Customer Rates

## Other Considerations – Other Operating Expenses

Proposed costs in this category of expenses include:

- VCE’s initial investment grade credit rating in 2025
- Customer Programs - \$2.2 M in customer programs related to AgFIT expansion, ERRO, EV Phase II, Member Agency Energy Advisory, and other programs.
- Additional cost for office leasehold improvements
- Strategic Plan - “Major Update” and customer focus groups
- Staffing Positions - Sr. Financial Analyst and Regulatory & Legislative Analyst
- Staffing Adjustments - Allowance for Staffing market adjustments based on recent salary survey results; between 5-9% dependent on position and potential promotions.
- 4% annual salary and contractor inflation rate based on the 2024 4% inflation rate.



# Item 19 – 2025 Operating Budget & Customer Rates

## Operating Budget Outlook Summary

Consistent with the adopted Reserves, Rates, and Budget policy, Staff is recommending that VCE set rates and adopt a budget for 2025 at a level that will fully fund the 2025 budget, offer more affordable rates to VCE customers with additional financial relief to CARE/FERA and Medical Baseline customers while positioning VCE to achieve and maintain an investment grade credit rating in 2025.

## Recommendation

Approve 2025 Budget with \$102.1 M of operating revenues and \$72.7 M of operating expenses for a net income of \$29.4 M.



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## Valley Clean Energy Board Meeting – December 12, 2024



### Item 20 – GHG-Free Allocations From Large Hydro and Nuclear Resources

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# Item 20: PG&E Carbon Free Hydro Allocations

- PG&E has historically provided hydro allocations to all eligible LSEs
  - Eligible LSE defined as:
    - 1) Having forecasted load identified in PG&E's ERRA Forecast Application for the first calendar year of the delivery period in which the allocation amount is accepted
    - 2) Serves customers who pay the PCIA departing load charges for the market cost of non-RPS-eligible large hydro resources
  - Allocation amount is the amount of GHG-Free Energy generated from the non-RPS-eligible large hydro resources corresponding to each eligible LSE's allocation ratio
  - Allocation ratio is the monthly % share allocated to each LSE calculated based on LSE's load forecast for PCIA-paying customers responsible for the cost of the non-RPS-eligible large hydro resources and the total forecasted load for PCIA-paying customers responsible for the cost of the non-RPS-eligible large hydro resources
- VCE's 2024 average monthly hydro allocation ratio = 1% (~89K MWhs for 2024)<sup>1</sup>

1) VCE rec'd 83k in '23, and '24 is tracking similar to yr 2023. VCE will not know the final 2024 volume until April 2025.

2) Hydro facilities are comprised of 25+ different resources from the PG&E system located in the Sierra's.

## Item 20: PG&E Carbon Free Nuclear Allocation

- Diablo Canyon Power Plant (DCPP) is licensed to operate until 11/2/24 (Unit 1) and 8/26/25 (Unit 2)
- An exception has been granted to continue operations until 10/31/29 (Unit 1) and 10/31/30 (Unit 2)<sup>1</sup>
  - Under this extension, Unit 1 will be online as of 1/1/25 and Unit 2 will be online as of 9/1/25.
- Because PCIA-paying customers are paying for the extended operations, PG&E will allocate the “benefits” to eligible LSEs statewide beginning 1/1/25 (i.e. GHG-free attributes)
- Eligible LSEs:
  - 1) Pays for eligible DCPP extended operations costs
  - 2) Has been identified by the Commission for the nuclear energy allocation ratio

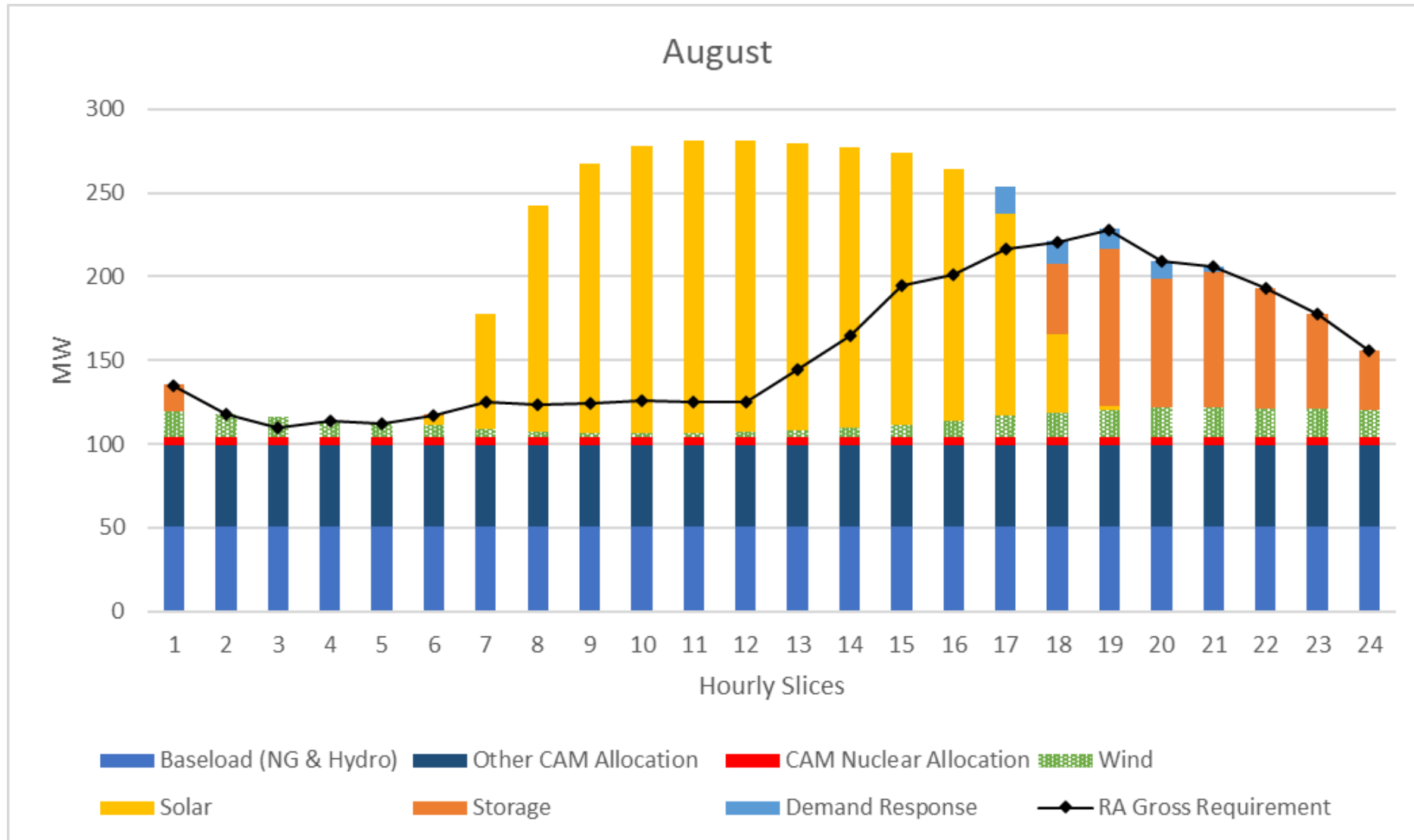
1) CPUC Decision 23-12-036 extended the operation of Diablo Canyon Nuclear Power Plant.

## Item 20: DCPD Allocation

- Nuclear allocation ratios will be an annual percentage share of the nuclear allocation amount
  - Annual percentage shares will be calculated by the CPUC with input from the CEC
- VCE's 2025 estimated nuclear allocation is ~21K MWh (0.4% annual allocation ratio)
  - Estimation is based on historical DCPD generation, historical IOU load data, and historical VCE load data
  - Estimation reflects DCPD Unit 1 online date of 1/1/25 and DCPD Unit 2 online date of 9/1/25
- Nuclear allocation ratio (0.4%) vs. hydro allocation ratio (1%)
  - Nuclear allocation is statewide
  - Hydro allocation is PG&E TAC area only
- VCE is allocated resource adequacy (RA) capacity from DCPD for the 2025 RA compliance year, with an average of 6 MW of nuclear capacity per month (ranges from approximately 4MW up to 10 MW)<sup>1</sup>

1) RA nuclear allocation is generally new for 2025, but it was also included in the November and December allocations for 2024 related to the extension of the unit's operation.

# Item 20: RA Slice of Day Resources



## Item 20: Takeaways

- Free product: no additional cost to VCE (VCE customers already paying for it)
- Carbon Free nuclear allocation will not increase GHG Emissions Intensity reported on the PCL
  - CEC's emissions factor for DCPD is 0
- Will increase VCE's 2025 projected long carbon free position
- Nuclear allocations cannot be marketed (resold)
  - VCE staff considering the possibility selling a portion of the large hydro allocations
- Many CCAs – including MCE, SCP, PCE, Ava, DCE, Pioneer, RCEA, and SVCE – have elected to accept the nuclear attributes for 2025
- Prior years nuclear was not allocated to LSEs for RA purposes. Now LSEs must take the nuclear RA allocations.



## Item 20: Recommendation

1. Accept the 2025 allocation of large hydro GHG-free attributes;
2. Accept the 2025 allocation of nuclear power GHG-free attributes;
3. Recommend the Executive Officer enter into an agreement(s) with PG&E to accept the 2025 Large Hydro and Nuclear GHG-free allocations.