VCE Community Advisory Committee Meeting – November 21, 2024

Item 6 – GHG-Free Allocations From Large Hydro and Nuclear Resources

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Item 6: 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)[1]

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.

Item 6: 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)[1]
  - 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

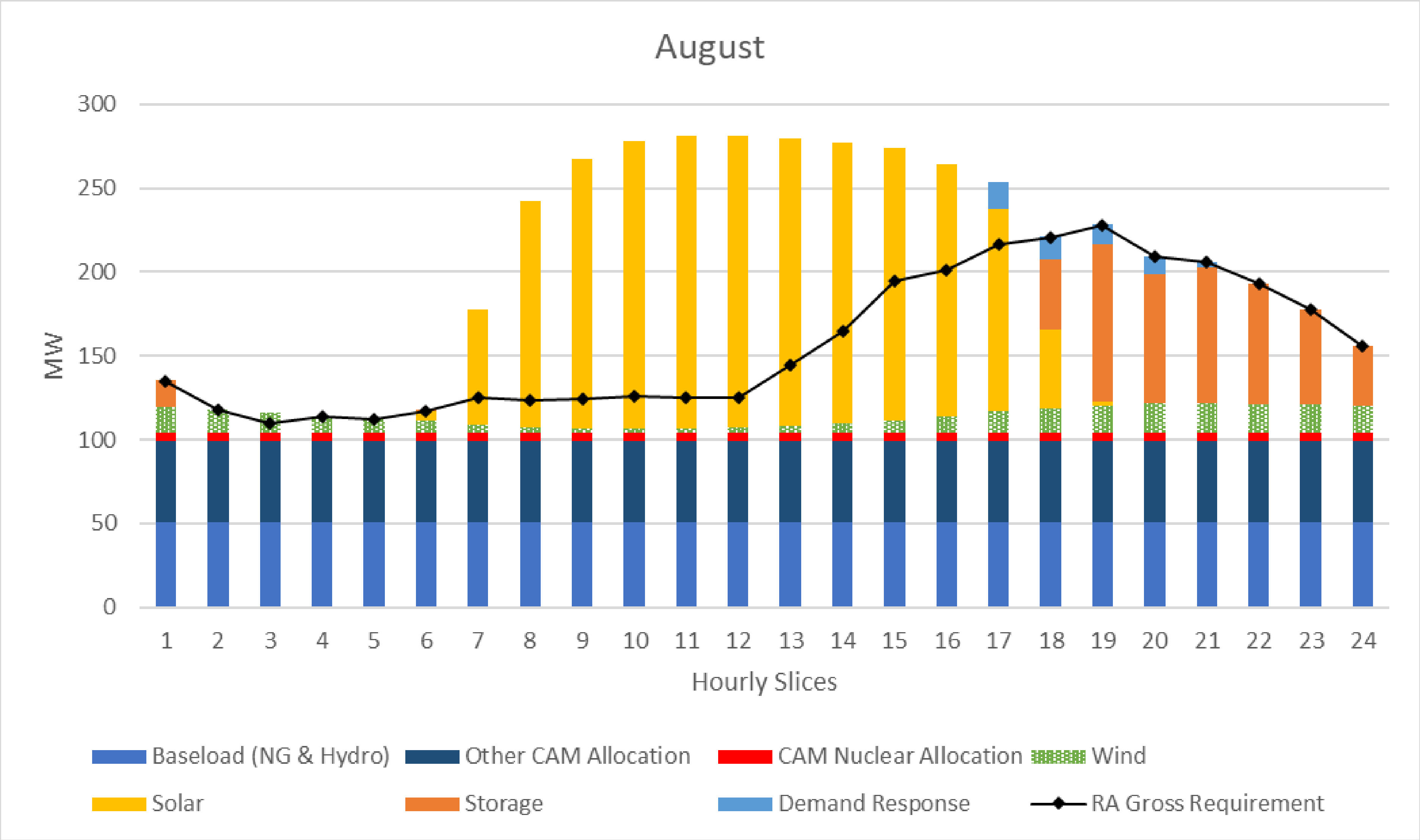
1) CPUC Decision 23-12-036 extended the operation of Diablo Canyon Nuclear Power Plant.

Item 6: DCPP 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 DCPP generation, historical IOU load data, and historical VCE load data
  - Estimation reflects DCPP Unit 1 online date of 1/1/25 and DCPP 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 DCPP 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)[1]

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 6: RA Slice of Day Resources



Item 6: Takeaways

- Free product: no additional cost to VCE (VCE customers already paying for it)
- Carbon Free nuclear allocation will <u>not</u> increase GHG Emissions Intensity reported on the PCL
  - CEC's emissions factor for DCPP is 0
- Will increase VCE's 2025 projected long carbon free position
- Nuclear allocations <u>cannot</u> 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.

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THE Energy Authority TEA

Item 6: 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.

VCE Community Advisory Committee Meeting – November 21, 2024

Item 7 – Draft 2025 Operating Budget & Customer Rates

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Item 7 – Draft 2025 Operating Budget & Customer Rates

Overview

VCE's short-term (2025) outlook indicates increased volatility in power market prices, Resource adequacy, and Renewable Energy Credits (RECs) driving increased costs with significantly favorable Power Charge Indifference Adjustment (PCIA). VCE's longer-term outlook (2026-2028) indicates healthy margins/reserves.

This presentation will provide:

- Updated overview of Key factors Influencing 2025 Budget & Customer Rates
- Recap: Draft Updates for VCE's Reserve and Dividend Policy
- 2025 Budget & Rate Scenarios
  - Scenario 1: Continuation of current rate 2% rate discounts to PG&E generation rate; ~$3.5M net revenue reduction;
  - Scenario 2: Increase to a 5% rate discount to PG&E generation rate; ~$6.5M net revenue reduction Scenario 3: Increase to a 10% rate discount to PG&E generation rate ; ~$11.5M net revenue reduction
- Discussion and Feedback

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Item 7 – Draft 2025 Operating Budget & Customer Rates

Key Factors - Preliminary draft Budget

- PG&E Bundled rates (PCIA & Generation): 2% decrease – Results in approximately $2M reduced gross revenue for 2025
- Resource Adequacy (RA). The CPUC slice-of-day RA model driving Rising RA cost increases has outpaced PPA savings for 2025.*
- 2025 Programs Expenditures – VCE has been able to make significant contributions in support of customer programs. VCE anticipates spending $1M in designated program funds in 2025 from non-reimbursable programs and $2M including reimbursable programs (i.e. grants).
- 2025 Power Charge Indifference Adjustment (PCIA) (Revenue reducing): ~~significant increase~~ due to under-collection in 2024 and lower power cost forwards for 2025.

*Current and forward RA prices have softened towards the end of the year ahead compliance filing deadlines. VCE will continue to monitor RA sales in the month ahead compliance periods for long-term impacts on 2026 power costs and PCIA.

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Item 7 – Draft 2025 Operating Budget & Customer Rates

Updated Key Factors – Draft Budget and Customer Rates

- Updated 2025 Power Charge Indifference Adjustment (PCIA) (Revenue reducing): Significant decrease to near zero due to market price benchmarks for RA and RECs. ~$23M increase in gross revenues to VCE. (Outside of VCE's direct influence)
- 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.
- VCE's Long-term Fixed Costs - VCE, along with all other California CCAs, will face increased PPA prices in the longer horizon based on current PPA market price forwards.
- VCE's Reserve and Dividend Policy Revisions - Both policies require routine updates to reach VCE's strategic goal of financial strength including reaching (and maintaining) VCE's initial investment-grade credit rating.

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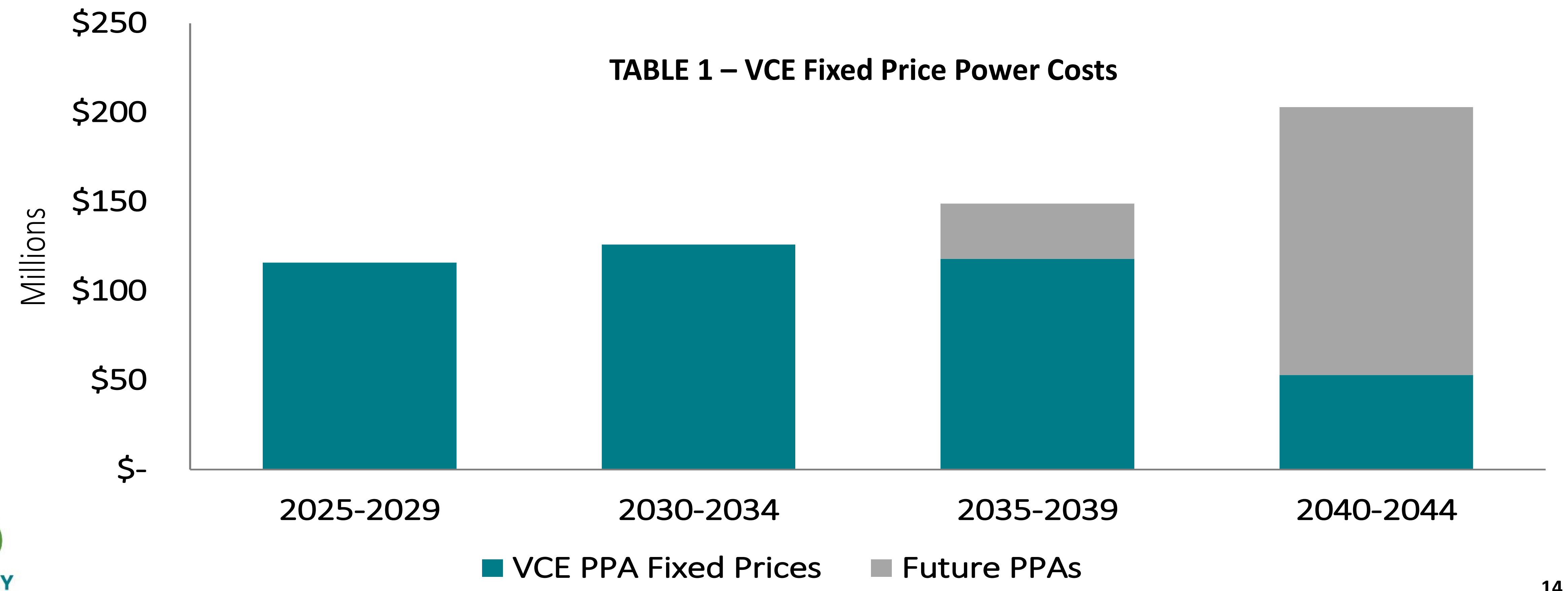
Item 7 – Draft 2025 Operating Budget & Customer Rates

VCE’s Long-term Fixed Costs

VCE’s fixed price renewable contracts have rate/cost stabilization effects while significantly increasing VCE's renewable portfolio content. VCE will face increased PPA prices in the longer horizon based on current PPA market price forwards as displayed in Table 1. These higher costs for new PPA’s are driven in large part by delays in interconnecting to the transmission and distribution grid.



Item 7 – Draft 2025 Operating Budget & Customer Rates

Recap: Draft Updates to VCE's Reserve and Dividend Policy Revisions

VCE's Reserve and Dividend Policy Revisions - Both policies require routine updates to reach VCE's strategic goal of financial strength including reaching (and maintaining) VCE's initial investment-grade credit rating. Staff will be bringing a final recommendation to the Board at the December meeting based on final analysis and budget recommendations. At the May 23, 2024 meeting, the CAC unanimously approved the following:

The proposed draft policy modifications include:

1. An increased Operational Financial Reserve minimum from 30 days to 120 days
2. An Increased Operational Financial Reserve Target of 180 from 90 days (this increase aligns with current minimums typically seen for CCA qualification for investment grade credit ratings)
3. Addition of a Rate Stabilization Reserve minimum target of 60 days
4. Increased the minimum net margin allocation of 75% from 50% towards financials reserves of net margin above > 5%
5. Administrative updates and references to VCE cost recovery rate policy and rate adjustment policy.
6. Definitions of uses for Operational Financial Reserves and Rate Stabilization Reserves.

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Item 7 – Draft 2025 Operating Budget & Customer Rates

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.

- 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 7 – Draft 2025 Operating Budget & Customer Rates

2025 Draft Budget & Rate Scenarios

- Scenario 1: Continuation of current rate 2% rate discounts to PG&E generation rate; approximately $3.5M net revenue reduction in 2025;

- Scenario 2: Increase to a 5% rate discount to PG&E generation rate; approximately $6.5M net revenue reduction in 2025;

- Scenario 3: Increase to a 10% rate discount to PG&E generation rate; approximately $11.5M net revenue reduction in 2025;

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Item 7 – Draft 2025 Operating Budget & Customer Rates

Table 5 – Budget Scenario Comparison

			Actual YTD August 31 (8 MO) + Forecast (4 MO)	Budget Scenarios	Preliminary Forecast*		
Scenario 1	2022	2023	2024	2025	2026	2027	2028
Customer Revenue	85,323	95,430	103,478	109,930	95,810	99,350	100,140
Power Cost	75,130	68,528	80,490	63,970	75,090	72,080	68,800
Other Expenses	4,469	6,030	6,250	7,200	7,200	7,920	8,712
Net Income	5,724	20,872	16,738	38,760	13,520	19,350	22,628
Scenario 2	2022	2023	2024	2025	2026	2027	2028
Revenue	85,323	95,430	103,478	104,430	91,020	94,380	95,130
Power Cost	75,130	68,528	80,490	63,970	75,090	72,080	68,800
Other Expenses	4,469	6,030	6,250	7,200	7,200	7,920	8,712
Net Income	5,724	20,872	16,738	33,260	8,730	14,380	17,618
Scenario 3	2022	2023	2024	2025	2026	2027	2028
Revenue	85,323	95,430	103,478	98,940	86,230	89,420	90,130
Power Cost	75,130	68,528	80,490	63,970	75,090	72,080	68,800
Other Expenses	4,469	6,030	6,250	7,200	7,200	7,920	8,712
Net Income	5,724	20,872	16,738	27,770	3,940	9,420	12,618

* Revenues are highly subject to VCE seasonal load variation and PG&E filings that impact generation rates and PCIA. Generation rate changes (1% change approximately $1M Net Annual Impact to VCE)

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Item 7 – Draft 2025 Operating Budget & Customer Rates

Conclusion

The draft 2025 operating budget scenarios meet VCE's current and anticipated fiscal policy updates while providing funds for rate relief and/or other customer focused investments (e.g. programs, additional clean energy procurement). Based on the Board's initial feedback and direction, staff will return with an updated Operating Budget/customer rates recommendation for 2025 in December. Similarly, Staff seeks feedback from the CAC on the different draft budget scenarios.

Discussion

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