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VCE Community Advisory Committee Meeting – April 24, 2025

Item 8 - Strategic Plan update (2026-29)



Public Comments

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Item 8 –Strategic Plan Update (2026-29): Overview

Overview

The purpose of this agenda item is to provide the CAC with a check-in on preliminary work completed to date and an opportunity to provide high-level feedback at an early stage of Plan development.

This presentation provides:

1. Preliminary redline staff mark-up of the current VCE Strategic Plan
2. Preliminary working draft mark-up from the Task Group meeting
3. Updated Plan development timeline

As a reminder, Major Updates to the Strategic Plan are intended to:

- Identify changes in the overall CCA environment (economics, policy, technology, etc.) and describe their relevance for VCE
- Review key organizational fundamentals (Mission, Vision, and Strategic Plan Goals)
- Incorporate long-term adjustments based on strategic and customer requirements

Item 8 –Strategic Plan Update (2026-29): Administrative Updates

Administrative Updates

After the preliminary review, Staff and the Strategic Plan Task Group generally agreed VCE’s strategic plan is robust and comprehensive, addressing key priorities and providing a solid base from which to move forward. The following administrative updates have been included in the staff report preliminary draft attachments.

- Near-Term Vision (Launch) – Transition to completed during launch.
- “Affordability” – Added throughout the document to emphasize and elevate existing customer rate priority.
 - For example, **VCE MISSION** - Deliver cost-competitive affordable clean electricity, product choice, price stability, energy efficiency, and greenhouse gas emission reductions.
- Startup to Operational – In general VCE has completed key organizational startup components and transitioned to operational effectiveness and efficiency.
 - Transitioned language related to startup phase in specific sections.
 - Language transitioned from “establish” or “obtain” to “sustain” or “maintain”.

Item 8 –Strategic Plan Update (2026-29): Goals & Objectives Updates

Preliminary Draft Plan: Staff developed Substantive Edits to Goals/Objectives:

- **Goal 1:** Financial Strength: Maintain and grow a strong financial foundation and manage costs to achieve long-term organizational health.
 - 1.2 Objective: ~~Achieve an~~ Maintain investment-grade credit rating.
 - 1.6 Objective: Develop a long-term cash reserve and community investment strategy for reserve management.
- **Goal 2:** Manage power supply resources to consistently exceed California’s Renewable Portfolio Standard (RPS) while working toward a resource portfolio that is 100% renewable by 2030.
 - 2.2 Objective: Through strategic procurement acquire sufficient carbon neutral and bundled energy and renewable resources including storage and other resource adequacy products to achieve VCE’s greenhouse gas reduction targets and regulatory requirements.

Item 8 –Strategic Plan Update (2026-29): Goals & Objectives Updates

Preliminary Draft Plan: Staff developed Substantive Edits to Goals/Objectives (Cont.):

- **Goal 6:** Analyze and implement optimal long-term organizational, management, and information technology structure at VCE

6.5 Objective: Develop a performance reward system that promotes health, wellness, and a productive workplace.

6.7 Objective: Deploy a modernized Enterprise Resource Planning (ERP) approach that enables knowledge management, dashboard analytics, and collaboration through robust use of live data and information resources.

6.8 Objective: Develop a quality management system (QMS) to improve effectiveness and efficiency continuously to meet customer and regulatory requirements.

Item 8 –Strategic Plan Update (2026-29): Task Group Draft Additions

Preliminary Draft Plan: Task Group developed Draft Additions:

Strategic Plan Summary (New Paragraph Addition)-

As VCE drafts this major strategic plan update, climate scientists are pointing to likely 3-degree C global warming, with severe impacts occurring more rapidly than was anticipated just a few years ago. At the same time, electricity customers in IOU service areas are experiencing an energy affordability crisis, driven mainly by IOU escalating delivery charges. This plan therefore increases VCE’s emphasis on climate resilience (ensuring continuous electric service during heat extremes and utility grid outages) and affordability (engaging with our CCA allies to focus state policy makers on measures to reduce major cost drivers, rather than cutting needed services like low-income bill relief and energy efficiency).

Item 8 –Strategic Plan Update (2026-29): Task Group Draft Additions

Goal 2 – Procurement and Power Supply

- Identify and pursue cost-effective, local distributed energy resources, including both front-of-meter solar+storage resources for VCE’s renewable energy supply portfolio, as well as behind-the-meter solar+storage aggregations (VPPs) to help reduce RA requirements.
- Evaluate and pursue opportunities for shared investment and procurement strategies with other CCAs

Goal 4 – Decarbonization and Grid innovation

- Develop strategies and initiatives to pressure state policy makers to remove barriers to technical feasibility and economic viability of local solar+storage resources, both FOM and BTM.
- Work with member jurisdictions (e.g., city and school district planning staff) to help plan and implement local energy resilience, decarbonization and electrification initiatives powered by local supply resources.

Goal 5 – Regulatory and Legislative

- As state’s search for affordability solutions proceeds, work with statewide allies to oppose false solutions (e.g., cutting energy efficiency or low-income assistance) and promote the benefits of local energy resources, including climate resilience (reducing cost impacts of outages) and reducing transmission needs

Item 8 – Strategic Plan Update (2026-29): Draft Timeline

Strategic Plan 2026-2029

MAJOR UPDATE TIMELINE

Brief Survey Issued May 1st – Points allocation for customer priorities

MAY 22ND
ESPARTO
COMMUNITY
CENTER - RISE

JULY 24TH
CITY OF
WOODLAND
CHAMBERS

SEPTEMBER 11TH
CITY OF
WOODLAND
CHAMBERS



CAC

Goals Outreach

- 1) Financial Strength / Rates
- 2) Procurement & Power Supply



CAC

Review of Preliminary Draft Strategic Plan recommendation & Survey Plan (Possibly more in depth)



Board

Workshop Review of CAC Strategic Plan Recommendation & Survey Results



April 24

May 22

June 26

July 24

August 28

September 11

October 9

CAC

Introduction of Strategic Plan Rough Draft & Timeline



CAC

Goals Outreach

- 1) Customers and Community
- 2) Decarbonization and Grid innovation



CAC

Review of Preliminary Survey Results & Strategic Plan Recommendation



Board

Recommended Strategic Plan Adoption

APRIL 24TH
CITY OF DAVIS
CHAMBERS

JUNE 26TH
CITY OF DAVIS
CHAMBERS

AUGUST 28TH
CITY OF
WOODLAND
CHAMBERS

OCTOBER 9TH
CITY OF DAVIS
CHAMBERS

Item 8 – Strategic Plan Update (2026-29): Summary Discussion

Summary & Next Steps

- This draft Plan development progress update provides the CAC with a check-in on preliminary work completed to date and an opportunity to provide high-level feedback at an early stage of Plan development.
- Future meetings of the CAC will include Strategic Plan update workshops focused on specific goal areas (e.g. portfolio).
- The updated Plan is anticipated to be adopted by the Board by the end of 2025.

Discussion

The VCE team seeks additional feedback from individual CAC members based on latest Plan draft.



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VCE Community Advisory Committee Meeting – April 24, 2025

Item 9 - Allocation of 2024 Net Margin



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Item 9 – Allocation of 2024 Net Margin: Overview

VCE's 2024 audited financial statements resulted in a net margin of \$26.4 million. Taking into account the Dividend Program parameters, as well as available and forecast cash reserves, Staff is considering various options to be presented to the Board at the June 12, 2025 meeting.

This presentation will provide:

- Background of 2024 Net Margin
- Present 2024 Net Margin Allocation Scenarios

Item 9 – Allocation of 2024 Net Margin: Dividend Program Formula

The adopted Dividend Program formula recommends allocating the net margin as follows:

- Net margin up to 5% is to be allocated as follows:
 - At least 5% (of the 5%) goes to Local Program Reserves (LPR) for program implementation
 - The balance goes to cash reserves

- Net margin above 5% is to be allocated as follows:
 - At least 75% to cash reserves until targets have been reached.
 - Remainder allocated additional reserves, amongst dividends, and LPR

VCE Dividend Program Allocation - 2024

Description	2024 Financials (\$1,000s)	Avg. Days Cash (\$1,000s)
Electricity Sales	97,979	197
Operating Expense	71,948	
Operating Margin	26,031	
Principal Debt Payments	-	
Adjusted Net Margin less principal Debt Payments	26,031	
Adjusted Net Margin Percentage	26.57%	
Allocation Amount <=5%	4,899	
Allocation Amount > 5%	21,132	
2025 Beginning Reserves Balance	26,395	134

Allocation of Net Margin up to 5%	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash	
Operating Reserves Allocation	95%	4,654	24	158	Minimum
Local Programs Allocation	5%	245	1	0	Minimum

Allocation of Net Margin above 5%	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash	
Allocation to Operating Reserves	21%	4,332	22	180	Minimum
Allocation to Rate Stabilization Reserves	55%	11,517	58	58	Minimum



Item 9 – Allocation of 2024 Net Margin: Discretionary Allocation

Staff considered the following factors in developing the scenarios.

- Current forecasts from analysts show significant changes in PCIA (increasing) and PG&E rates (decreasing)
- Power Costs power cost increases and regulatory pressures (increased costs = decreased days cash on hand)
- VCE's current 180 day (Min) operating cash reserve target and 60 day (Min) rate stabilization reserve target
- VCE provides an additional ~2.5%/\$1.1M annually in discounts to 25% of customers (CARE and FERA)
- PG&E's additional Transmission/Distribution rate increase in March 2024 (projected +13%)

Item 9 – Allocation of 2024 Net Margin: Discretionary Allocation

Scenario 1

	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash	
Discretionary Allocation (After Cash Reserves)	25%	5,283	27	0	Maximum
Allocation to Operating Reserves	0%	-	0	180	
Allocation to Rate Stabilization Reserves	7%	370	2	60	
Local Programs (Targeted 2025/26 Spend)	25%	1,321	7		
Customer Dividends (Targeted 2025/26 Spend)	68%	3,592	18		

Scenario 2

	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash	
Discretionary Allocation (After Cash Reserves)	25%	5,283	27	0	Maximum
Operating Reserves Allocation	0%	-	0	180	
Allocation to Rate Stabilization Reserves	15%	792	4	62	
Local Programs (Targeted 2025/26 Spend)	25%	1,321	7		
Customer Dividends (Targeted 2025/26 Spend)	60%	3,170	16		

Scenario 3

	Percentage	Allocation Amount	Operating Days Cash	Total Operating Days Cash	
Discretionary Allocation (After Cash Reserves)	25%	5,283	27	0	Maximum
Operating Reserves Allocation	25%	1,321	7	187	
Allocation to Rate Stabilization Reserves	25%	1,321	7	65	
Local Programs (Targeted 2025/26 Spend)	25%	1,321	7		
Customer Dividends (Targeted 2025/26 Spend)	25%	1,321	7		

Item 9 – Allocation of 2024 Net Margin: Summary Discussion

- Staff believes that the scenarios examined each represent a disciplined and financially prudent approach to building reserves and providing some sustainable rate relief. The longer-term outlook (2025+) indicates increased stability and cost certainty due to VCE's fixed price long-term renewable power purchase contracts and VCE's recent prepay transaction savings. Uncertainty remains in Resource Adequacy markets, annual PG&E rate setting, geopolitical volatility, and annual PCIA due to its linkages with power market prices.
- Staff is presenting this information to the Community Advisory Committee (CAC) for discussion and feedback.



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VCE Community Advisory Committee Meeting – April 24, 2025

Item 10 – SB 540 (Becker) – Regional Organization



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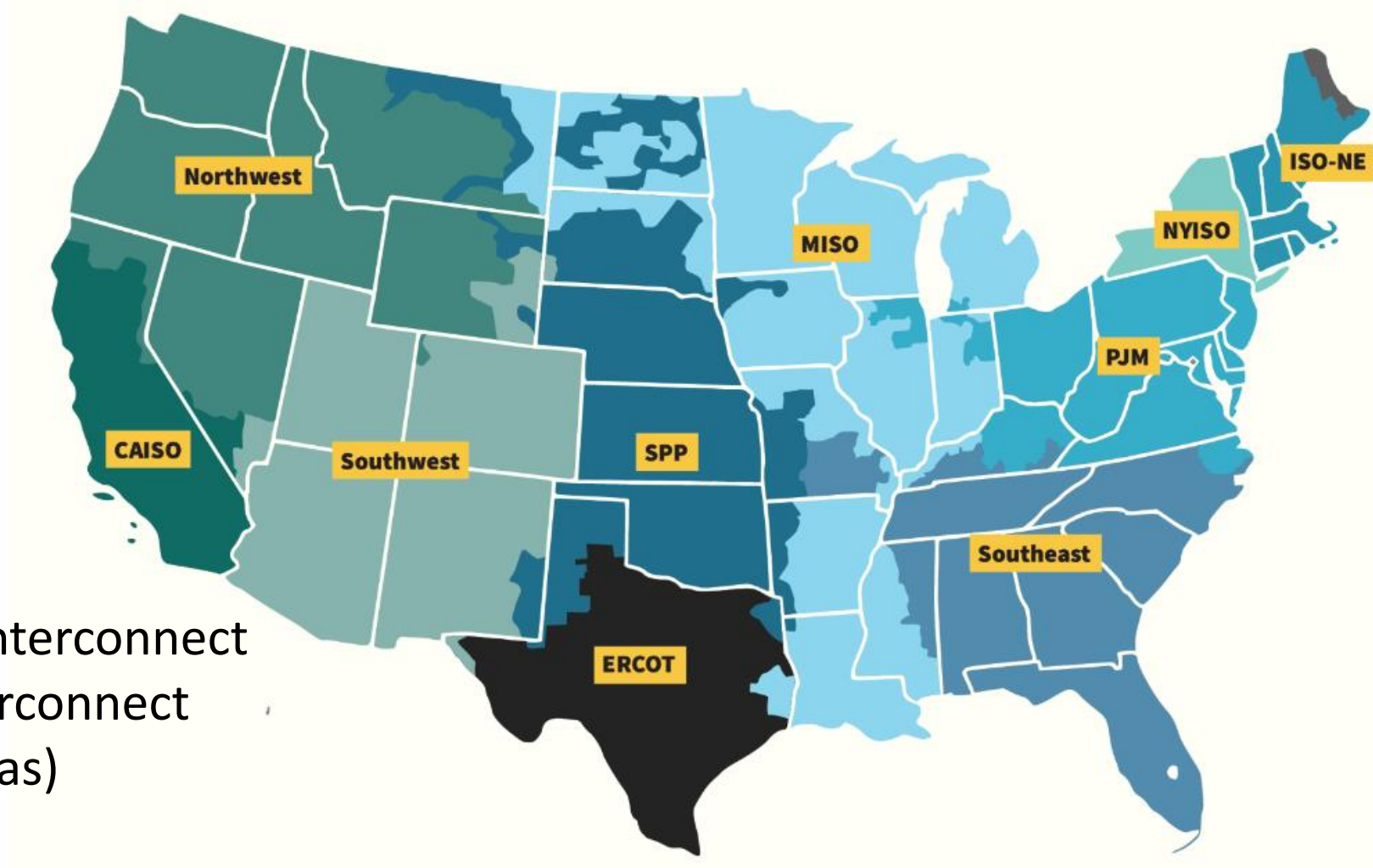
Item 10 – SB 540 (Becker). Regional Organization.

OVERVIEW

- Brief summary of Regional Markets, SB 540 and Pathways
- Review, analysis and discussion of key questions raised at last CAC meeting
- Legislative/Regulatory Task Group comments
- Public Comment
- CAC discussion
- Recommendation

Item 10 – SB 540 (Becker). Regional Organization.

US Electric Regions



Green – Western Interconnect

Blue – Eastern Interconnect

Black – ERCOT (Texas)

Item 10 – SB 540 (Becker). Regional Organization.

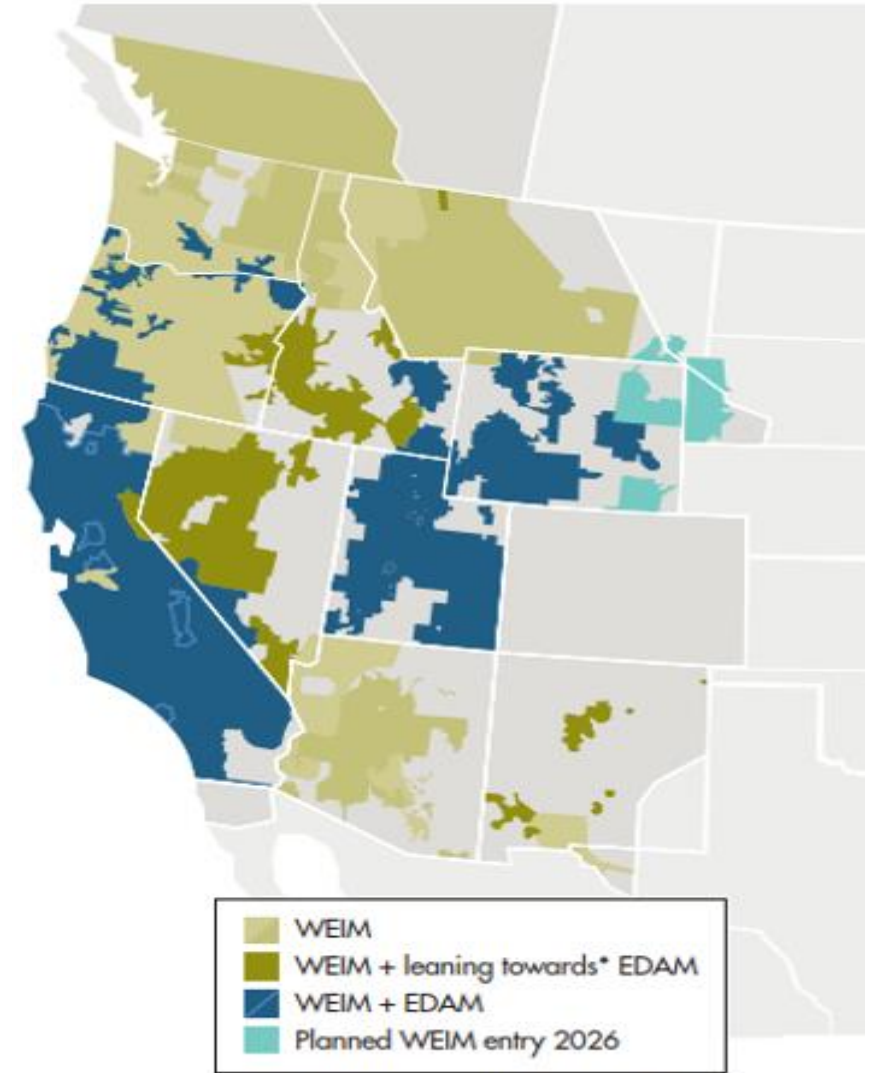
Why do we have regional markets?

- Coordinated electricity markets help customers save money, keep the lights on (avoid blackouts), and make the electric grid cleaner.
- The more connected California's grid is to other states, the easier it is for everyone involved to share energy resources across a wider geographic footprint, which increases reliability and keeps generation costs lower.
- Saves participants money by not needing to build duplicative sources of power in each state. Also reduces market "seams" - trading barriers between adjoining wholesale electricity markets resulting from the use of different rules and procedures by the neighboring markets.
- Optimizes the integration of renewable resources, like solar and wind, to the grid.
 - Example: When it's sunny in CA and cloudy in other states...CA exports excess solar to its neighbors
 - When it's hot in CA and demand spikes...CA imports excess energy from other states, reducing its reliance on expensive and polluting peaker plants.

Item 10 - SB 540 (Becker) Regional Organization.

Western Markets

- Western Energy Imbalance Market (WEIM) - CAISO currently operates a real time wholesale market for energy and ancillary services. The WEIM's advanced market system automatically finds low-cost energy to serve real-time consumer demand across the west.
- Extended Day Ahead Market (EDAM) – Planned to launch in 2026, the EDAM is a voluntary day-ahead electricity market designed to deliver significant reliability, economic, and environmental benefits to balancing areas and utilities throughout the West.



**These entities have publicly indicated a leaning towards EDAM as their preferred day-ahead market.*

Item 10 – SB 540 (Becker). Regional Organization.

SB 540 - Why Go to the Trouble?

- Although the WEIM has been running successfully for the past 10+ years and the EDAM is designed to expand on those successes, participants in other states are intent on joining a market that is not controlled by a single state (California).
- If enough of these energy suppliers opt to leave the WEIM and forgo EDAM participation to join a competing market, it could make it more difficult and expensive for California to meet energy demand and reduce the market's overall benefits.
- So, CA and other states that prefer to remain in the WEIM and participate in the EDAM are trying to form an independent RO to shift market governance away from CA, attracting/retaining more market participants, and ultimately maximizing market benefits.

Item 10 – SB 540 (Becker). Regional Organization.

PATHWAYS – The Road to SB 540

- Initiated in July 2023, the Pathways Initiative is a multi-state effort aimed at establishing a unified, independently governed wholesale electricity market that includes all states in the Western Interconnection, including California.
- The Pathways Initiative Launch Committee consists of various stakeholders, including state regulators, IOUs, public utilities, labor unions, nonutility load serving entities (CCAs), consumer advocates, environmental interests and others.
- In November 2023, Pathways adopted the Final Proposal outlining a plan to form an independent RO responsible for overseeing energy markets (an expanded WEIM and EDAM) for all western states.

Item 10 – SB 540 (Becker). Regional Organization.

What Does SB 540 Do/Not Do?

- “Does NOT establish any new functionality in western markets that is not already operational in WEIM (11 years, \$6.6 B benefits) or scheduled for EDAM in Spring 2026. These two embody the full functionality of the CAISO real-time and day-ahead markets.
- The crucial matter SB 540 addresses is to make WEIM & EDAM more attractive to western participants, to try to achieve as large a footprint as possible (i.e. current WEIM footprint) to yield the greatest benefits.
- The main attraction SB 540 offers western parties is that the future Regional Organization (RO) would have sole authority to propose market rule changes to FERC. Today that authority is shared between CAISO Board & independent WEM Governing Body. For some large western parties that could be pivotal in their decision to join or not.

Item 10 – SB 540 (Becker). Regional Organization.

What Does SB 540 Do/Not Do? [continued]

- SB 540 does NOT commit California to join the RO. It grants legislative authority and specifies a process for the CAISO Board to decide whether to join later, once a detailed RO proposal is fleshed out (by a multi-stakeholder “Pathways” working group) that meets the 12 requirements specified in SB 540.
- The RO, if it goes forward, would only assume the CAISO market functions, i.e., design and operation of the DA & RT markets, and would leave other core CAISO functions under authority of CAISO Board: (a) transmission grid operation & “balancing authority” responsibility; and (b) transmission planning & cost allocation.”

Lorenzo Kristov in email to LRTG for 4/11/25 meeting (emphasis in original email)

Item 10 – SB 540 (Becker). Regional Organization.

Key Questions Raised at the March CAC Meeting

1. Why is SB 540 needed and what will the new RO do that is not already being done by WEIM and eventually EDAM?
2. What about governance of the proposed RO?
3. How are California's interests protected in SB 540?
4. What if California wants to withdraw from the RO?
5. How were the benefits and GHG emissions of the RO calculated in the Pathways report?
6. What about FERC interference in the new RO?
7. Will a new RO result in more coal-generated electricity coming into California?
8. What about Distributed Energy Resources (DER) and a new RO?



➤ *These and more questions are discussed in detail in the staff report and in Attachment 1.*

Item 10 – SB 540 (Becker). Regional Organization.

1. Why is SB 540 needed and what will the new RO do that is not already being done by WEIM and eventually EDAM?

- Changing the function of CAISO requires legislation
- The RO would assume the energy markets role of CAISO
- The new RO would be an independent organization, not under the control of California, thus making it more attractive to other states.
- With the new RO, more states may join EDAM or not leave it for the SPP Markets+ power pool.

Item 10 – SB 540 (Becker). Regional Organization.

2. What about governance of the proposed RO?

- SB 540 lays out the basic requirements for the RO “governance documents” and “corporate obligations”
- The Pathways report includes a comprehensive discussion of the governance structure, documents and corporate obligations of the RO
- The governance structure will need to satisfy California (especially CAISO) before California will join
- Pathways examines different non-profit tax structures (i.e., 501c3), where to incorporate (i.e., Delaware) and where to have a physical location (i.e., Folsom, near CAISO offices)

Item 10 – SB 540 (Becker). Regional Organization.

3. How are California's interests protected in SB 540?

- Twelve requirements must be satisfied before CAISO can approve California joining the new RO. These include:
 - ✓ Respecting state and local authority over energy and climate policy
 - ✓ Including a “rip-cord” if California wants to withdraw
 - ✓ Specifying that nothing in the bill change any provisions of the RPS
 - ✓ Specifying that nothing in the bill changes California's targets for supplying renewable energy resources and zero-carbon resources
 - ✓ Providing direction for CAISO to once again manage energy markets if California withdraws from the RO in the future

Item 10 – SB 540 (Becker). Regional Organization.

4. What if California wants to withdraw from the RO?

- One of the 12 requirements that must be satisfied for CAISO to approve the RO includes the following language:

“The independent regional organization provides a procedure for unilateral withdrawal by any participant with reasonable prior notice and without any further approvals.”

Item 10 – SB 540 (Becker). Regional Organization.

5. How were the benefits and GHG emissions of the RO calculated in the Pathways report?

- The projected benefits and GHG emissions of the RO are based on computer models prepared by The Brattle Group using four different scenarios, including a base case, expanded EDAM footprint and smaller EDAM footprint where states leave EDAM to join the new SPP Markets+
- Based on the Brattle Group report and Benefits of the RO are the result of increased efficiencies, grid reliability, less use of natural gas, more efficient energy dispatch, less curtailment

Item 10 – SB 540 (Becker). Regional Organization.

Market Dynamics and Expected Outcomes



Larger and More Diverse Pool Transmission and Generation Resources

- Shift from less efficient to more efficient resources, leading to production cost savings for customers. **Customer Cost Savings** ↑
- Emissions potentially decline due to shift to more efficient generation. **Potential Environmental Benefit** ↔
- Better management of extreme weather events and unexpected grid challenges (e.g., outages). **Reliability Benefit** ↑
- Reduced sale of short-term transmission service, as transmission is “donated” to the market (offset by EDAM TRR Settlement). **Customer Cost Increase** ↓

Reduced Curtailment of Wind and Solar due to Increased Resource and Load Diversity

- Lower emissions due to avoided curtailed energy displacing fossil generation. **Environmental Benefit** ↑
- Lower power costs for customers due to zero variable cost energy displacing higher variable cost energy. **Customer Cost Savings** ↑
- Better investment environment for renewable projects. **Customer Cost Savings** ↑

Increased Trading between Market Members

- Reduced bilateral trading as markets trades become more profitable, lost bilateral trading margins. **Customer Cost Increase** ↓
- Increased market congestion and transfer revenues. **Customer Cost Savings** ↑

Item 10 – SB 540 (Becker). Regional Organization.

6. What about FERC interference in the new RO?

- FERC already regulates the CAISO-managed wholesale energy markets, including WEIM and EDAM, and the transmission grid.
- SB 540 shifts governance of the WEIM and EDAM energy markets to a new FERC-regulated entity: the regional organization (RO).
- There are other ways the federal government can interfere with California's energy and climate policies, regardless of whether or not a new RO is formed.

Item 10 – SB 540 (Becker). Regional Organization.

7. Will a new RO result in more coal-generated electricity coming into California?

- No. Current California law prohibits Load Serving Entities (LSEs) like IOUs and CCAs from procuring coal-generated electricity.

Item 10 – SB 540 (Becker). Regional Organization.

8. What about Distributed Energy Resources (DER) and a new RO?

- Advancing DER and creating a new RO are not mutually exclusive.
- VCE will still be free to pursue DER projects as it has done in the past.

Item 10 – SB 540 (Becker). Regional Organization.

LEGISLATIVE AND REGULATORY TASK GROUP COMMENTS

Item 10 – SB 540 (Becker). Regional Organization.

PUBLIC COMMENT

CAC QUESTIONS AND DISCUSSION

Item 10 – SB 540 (Becker). Regional Organization.

RECOMMENDATION

What position, if any, should VCE take on SB 540?

Options: No Position, Support, Oppose

Leg/Reg Task Group Recommendation

- Agreed that if no consensus reached, then no recommendation would be forwarded to the CAC. The LRTG did not reach consensus.
- Comments by individual LRTG members.

Item 10 – SB 540 (Becker). Regional Organization.

Staff Recommendation: Support SB 540

- A regional organization for energy markets that has the largest footprint will benefit California more than the status quo or a split-market.
- Based on the best available information, California and VCE are most likely to benefit from the larger RO through cost efficiencies, more opportunities to trade energy surpluses, enhanced grid reliability (especially during extreme heat events), and reduced greenhouse gas emissions.
- VCE will benefit from reductions in curtailment of electricity sold to the grid.
- SB 540 and Pathways protect California's energy and climate policies and VCE's rate setting authority.
- SB 540 includes clear language that would permit California to leave the RO.
- SB 540 does not prevent planning for or deployment of DER.