



**James Marta & Company LLP**  
**Certified Public Accountants**

*Accounting, Auditing, Consulting, and Tax*

# **Valley Clean Energy Alliance June 30, 2018**

**Presented by**

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Partner**

# Audit Highlights

- Audit opinion is unmodified
- Management's Discussion & Analysis
- Internal control letter – no material weaknesses.
- Audit covers an 18 month period ending June 30, 2018



# Financial Results

- Operating revenues total \$2.8M
  - These revenues represent only one month of electricity sales
- Total expenses \$4.2M
  - Cost of electricity \$2.2M (2.7M-energy cert)
  - Contract Services \$1.3M
- Net Position decreased \$1.4M
- Total assets \$5.9M
  - Includes \$437K of Renewable Energy Certificates (Certificates)
  - Restricted assets \$1.7M
- Total liabilities \$7.4M
  - Accrued cost of electricity \$2.7M
  - Line of Credit \$1.6M
  - Loans from member agencies \$1.5M



2018

**ASSETS**

Current assets

Cash with fiscal agent	\$ 963,388
Accounts receivable, net of allowance	2,830,161
Inventory - Renewable Energy Credits	436,587
Other current assets and deposits	2,540
Total Current Assets	<u>4,232,676</u>

Noncurrent Assets

Restricted cash	1,100,000
Other noncurrent assets and deposits	600,000
Total Noncurrent Assets	<u>1,700,000</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,932,676</u>

**LIABILITIES**

Current Liabilities

Accounts payable	\$ 137,475
Accrued payroll	1,624
Interest payable	61,556
Due to member agencies	534,639
Accrued cost of electricity	2,673,938
Other accrued liabilities	837,294
User taxes and energy surcharges	10,000
Total Current Liabilities	<u>4,256,528</u>

Noncurrent Liabilities

Line of credit	1,600,000
Loans from member agencies	1,500,000
Total Noncurrent Liabilities	<u>3,100,000</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 7,356,528</u>

**NET POSITION**

Net position

Unrestricted	\$ (1,423,852)
<b>TOTAL NET POSITION</b>	<u>\$ (1,423,852)</u>

	<b>2018</b>
<b>OPERATING REVENUE</b>	
Electricity sales, net	\$ 2,820,188
<b>TOTAL OPERATING REVENUES</b>	<u>2,820,188</u>
<b>OPERATING EXPENSES</b>	
Cost of electricity	2,237,352
Contract services	
Contractors	1,313,526
Member agencies	534,639
Staff compensation	17,922
General and administrative	41,939
Other expenses	53,509
<b>TOTAL OPERATING EXPENSES</b>	<u>4,198,887</u>
<b>TOTAL OPERATING INCOME (LOSS)</b>	<u>(1,378,699)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	16,403
Interest and related expenses	(61,556)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(45,153)</u>
<b>CHANGE IN NET POSITION</b>	(1,423,852)
Net position at beginning of period	-
Net position at end of period	<u>\$ (1,423,852)</u>

# Letter

- **Communication to those Charged with Governance**
  - No disagreements with management
  - Audit conducted as planned
  - No material weaknesses identified





# Valley Clean Energy Board Meeting

October 18, 2018

Davis

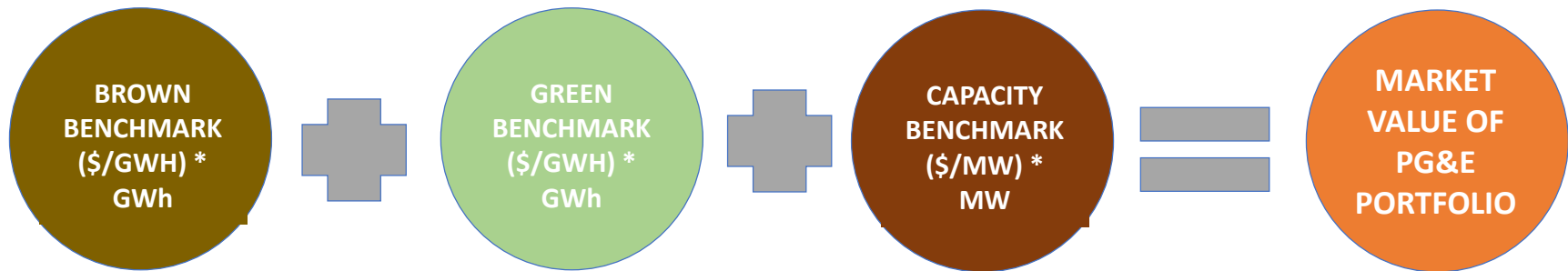
# Agenda Item 16: Power Charge Indifference Adjustment (PCIA)



# PCIA History/Comparisons

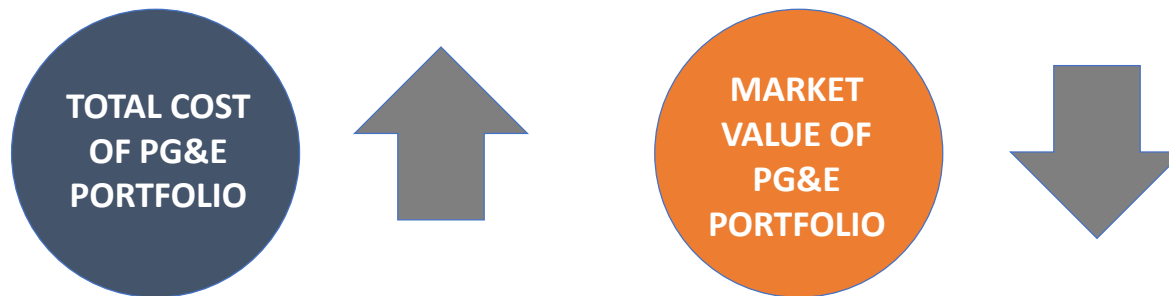
- Law requires remaining PG&E customers to be left economically “indifferent” to VCE’s customers leaving PG&E’s service.
- The PCIA is the “exit fee” that is intended to ensure such indifference.
- The PCIA can be negative (PG&E customers paying VCE customers) or positive (VCE customers paying PG&E customers)

# PCIA History/Comparisons

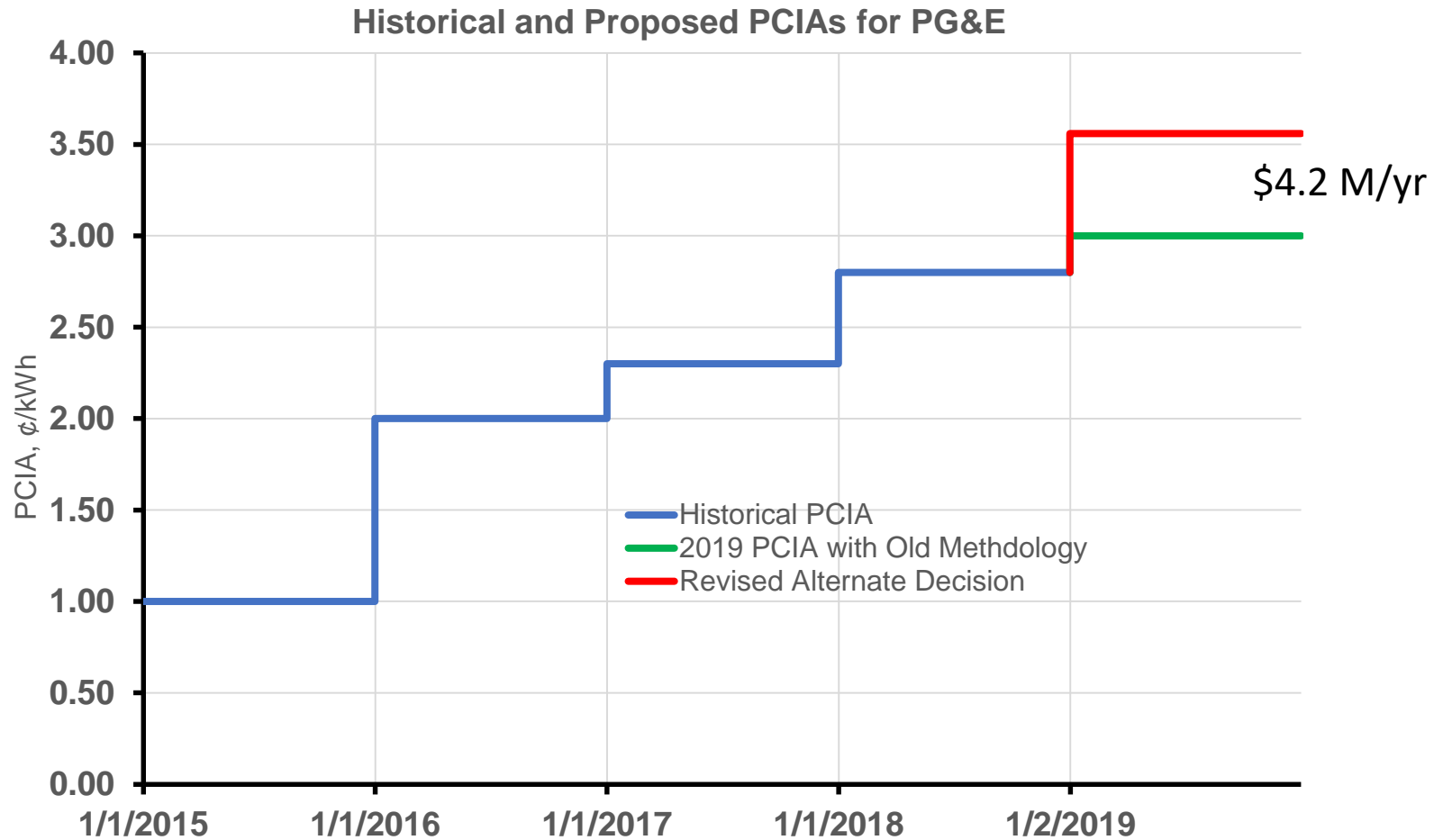


# PCIA History/Comparisons

- **The CPUC has been considering changes to the method for calculating PCIA.**
  - On Aug 1, the Judge issued a proposed decision (“PD”) on PCIA changes that was generally acceptable to CCAs
  - On Aug 14, the presiding Commissioner issued an alternate proposed decision (“APD”) that was generally favorable to PG&E
  - On Oct 5, the presiding Commissioner issued a revised alternative proposed decision (replacing the first APD) that had some small tweaks to the APD
- **On October 11, the CPUC voted 5-0 to adopt the revised APD**
  - The APD no longer keeps the 10 year limit on costs recovery for certain PG&E-owned generation (increases Total Portfolio Cost)
  - Reduces the benchmarks for green power and capacity (Reduces Portfolio Value)
  - Increases the PCIA



# PCIA History/Comparisons



# PCIA – Impact on VCE Financials

## Base Case

- VCE Financials with 2019 PCIA Calculated under Prior Methodology
- Assumes slight annual PG&E rate increases
- General outcomes are fiscally positive, meet business financial objectives and allow VCE to pursue core mission objectives

# PCIA – Impact on VCE Financials

## Base Case Adjusted for Higher PCIA (Alternate Proposed Decision)

- 2019 and 2020 are “pinch” years
  - Net Margin significantly below desirable levels
  - Would not meet contractual obligation to fund reserves
- Low Net Margin runs counter to sound financial management
- General outcomes: significant fiscal impact, does not meet business financial objectives and significantly impacts VCE’s ability to pursue core mission objectives

# PCIA – Impact on VCE Financials

## **Base Case Adjusted for Higher PCIA and flat PG&E rates (APD + best available information on PG&E rates for 2019)**

- Negative Net Income violates loan covenants
- General outcomes: further significant fiscal impact, does not meet business financial objectives and further impacts VCE's ability to pursue core mission objectives
- Requires policy action by VCE

# PCIA -Impact on VCE Financials, Policy Options

## Policy Options

- Reduce/eliminate rate discount
- NEM enrollment deferral
- Reduce renewable/clean energy content
- Trim operating costs (Approx 10% incorporated into current model - ~\$500k/yr)



# PCIA – Impact on VCE Financials

## **New 2019 PCIA, Flat PG&E Rates and No VCE Rate Discount**

- 2019 remains below business financial objectives but improves
- 2020 declines from 2019 financial position

# PCIA – Impact on VCE Financials

## **New 2019 PCIA, Flat PG&E Rates and No VCE Rate Discount, NEM Roll-in After 2020**

- 2019 Improves but is still below business financial objectives
- 2020 Remains below business financial objectives

# PCIA – Policy Levers Discussion

## **Fiscal Benefits of Eliminating Rate Discount and Deferring NEM Enrollment until 2021**

- It provides financial relief during the pinch years of 2019 and 2020 and creates minimal cushion against other possible events that could impact finances
- With the current NEM roll-in planned for January 1, 2019, VCE has opportunity to further delay that roll-in
- Avoids having to change the renewable/clean power mix
- NEM customers are still benefitting from their solar systems and are still contributing to the grid de-carbonization
- Retains price competitiveness
- Could move to a rate discount/rate rebate structure that leaves the opportunity for customer bill reductions – i.e Monterey Bay Community Energy

# Future Decisions

## Tentative Calendar

1. Late Oct/Early Nov – Special Meeting/working session on PCIA impacts and policy response
  - More refinement on the economic analysis
2. November Board Meeting (move to week of 11/12)
  - Additional PCIA information from CPUC rolled into analyses
  - Policy recommendation/action
3. December
  - Conditional Decision on 2019 rates (pending actual PG&E 2019 rates)
  - Any remaining decisions



# Valley Clean Energy Board Meeting

October 18, 2018

Davis

# Agenda Item 17: Quarterly Procurement Update

# Quarterly Procurement Update

## What We'll Cover

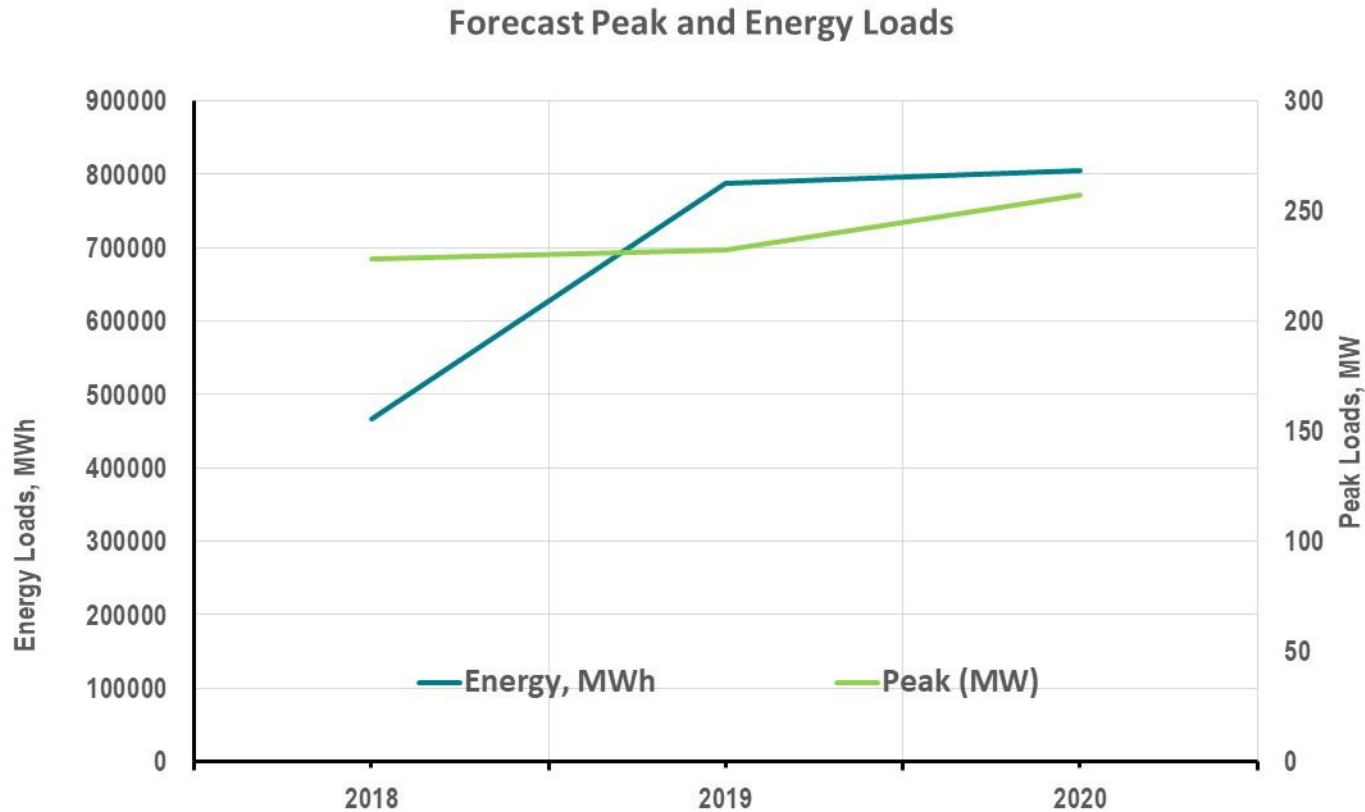
- Background
- Energy Portfolio Net Position
- Forecast Power Costs
- Procurement Progress

# Quarterly Procurement Update Background

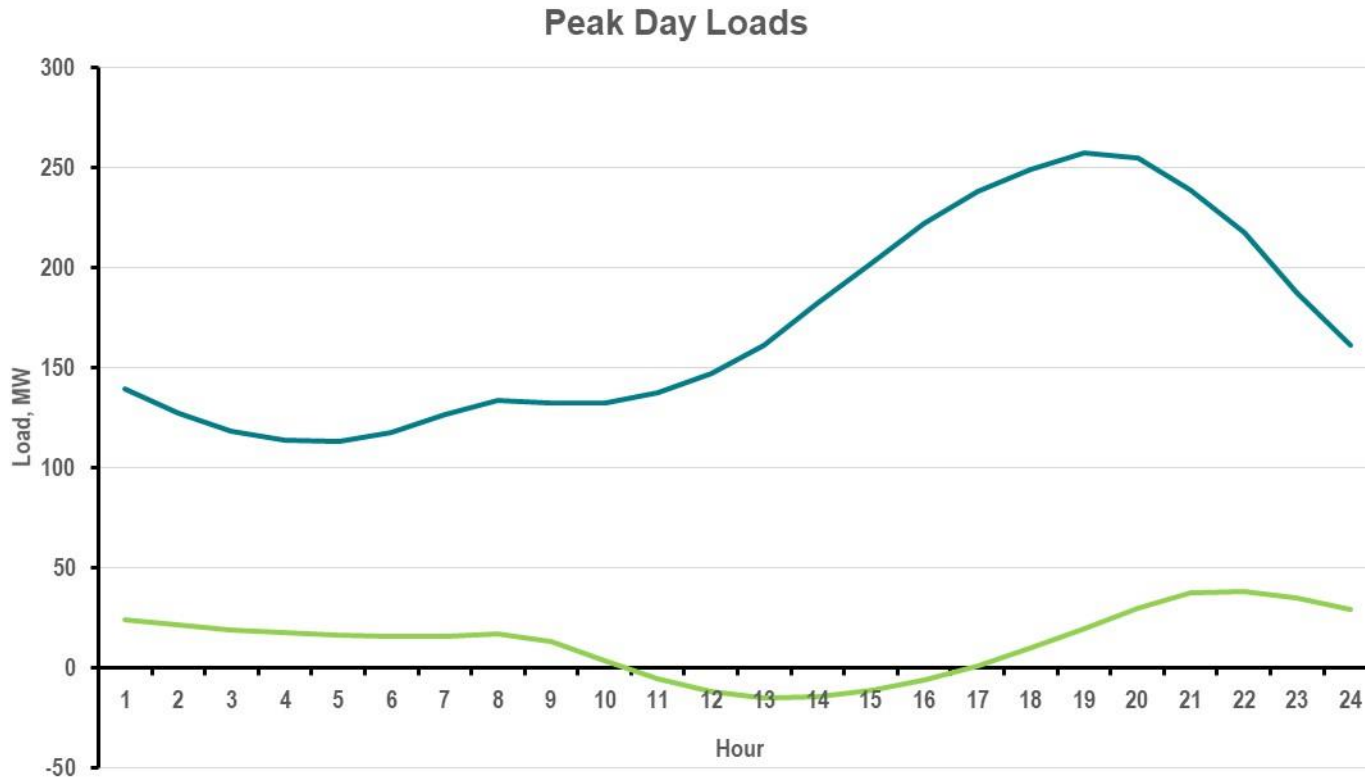
- **Wholesale Energy Risk Management Policy**
- **Procurement Guidelines**



# Quarterly Procurement Update Background



# Quarterly Procurement Update Background



# Quarterly Procurement Update Background

			2018	2019	2020
<b>Total Renewable Content</b>			<b>42.0%</b>	<b>42.0%</b>	<b>42.0%</b>
	PCC 1	Calculated	75%	75%	75%
	PCC 2	Calculated	25%	25%	25%
	PCC 3	Calculated	0%	0%	0%
<b>RPS Required Minimums</b>			<b>29.0%</b>	<b>31.0%</b>	<b>33.0%</b>
	PCC 1		75%	75%	75%
	PCC 2		25%	25%	25%
	PCC 3		0%	0%	0%
<b>Incremental Discretionary Renewables</b>			<b>13.0%</b>	<b>11.0%</b>	<b>9.0%</b>
	PCC 1		0%	0%	0%
	PCC 2		100%	100%	100%
	PCC 3		0%	0%	0%
<b>Non Renewable Carbon Free</b>			<b>33.0%</b>	<b>33.0%</b>	<b>33.0%</b>
<b>Total Carbon Free</b>			<b>75.0%</b>	<b>75.0%</b>	<b>75.0%</b>

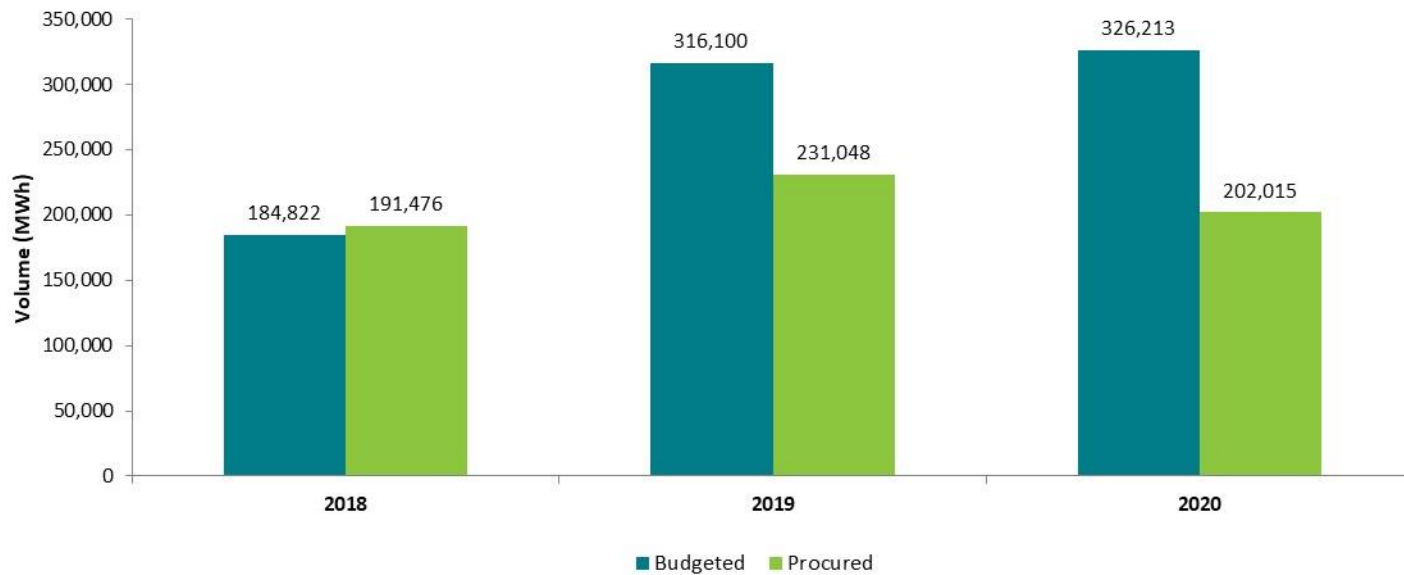
# Quarterly Procurement Update

## Net Position

Portfolio Component	2018	2019	2020
Renewable	103.6%	73.1%	61.9%
Large Hydro	101.7%	101.9%	0.0%
Resource Adequacy	101.4%	79.3%	39.8%
Fixed Priced Energy	101.5%	98.5%	0.3%
Average	102.1%	88.2%	25.5%

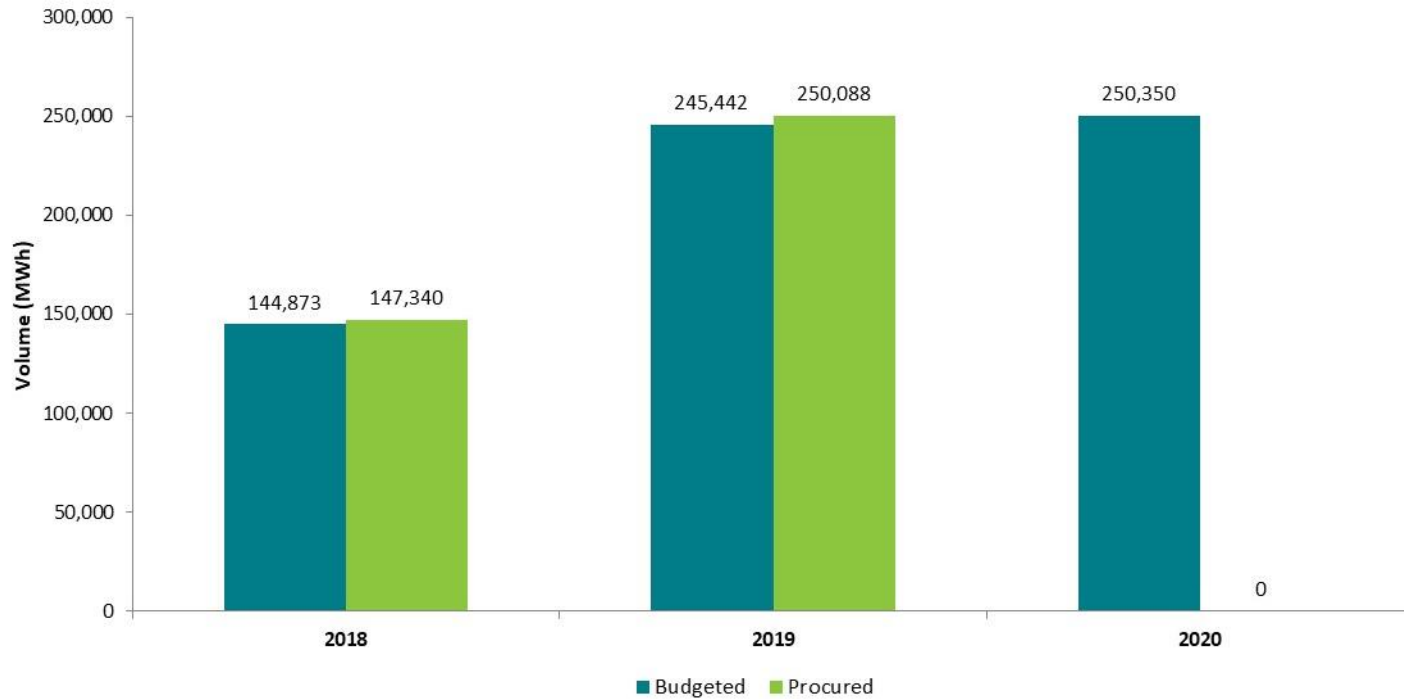
# Quarterly Procurement Update

## Renewable Net Position



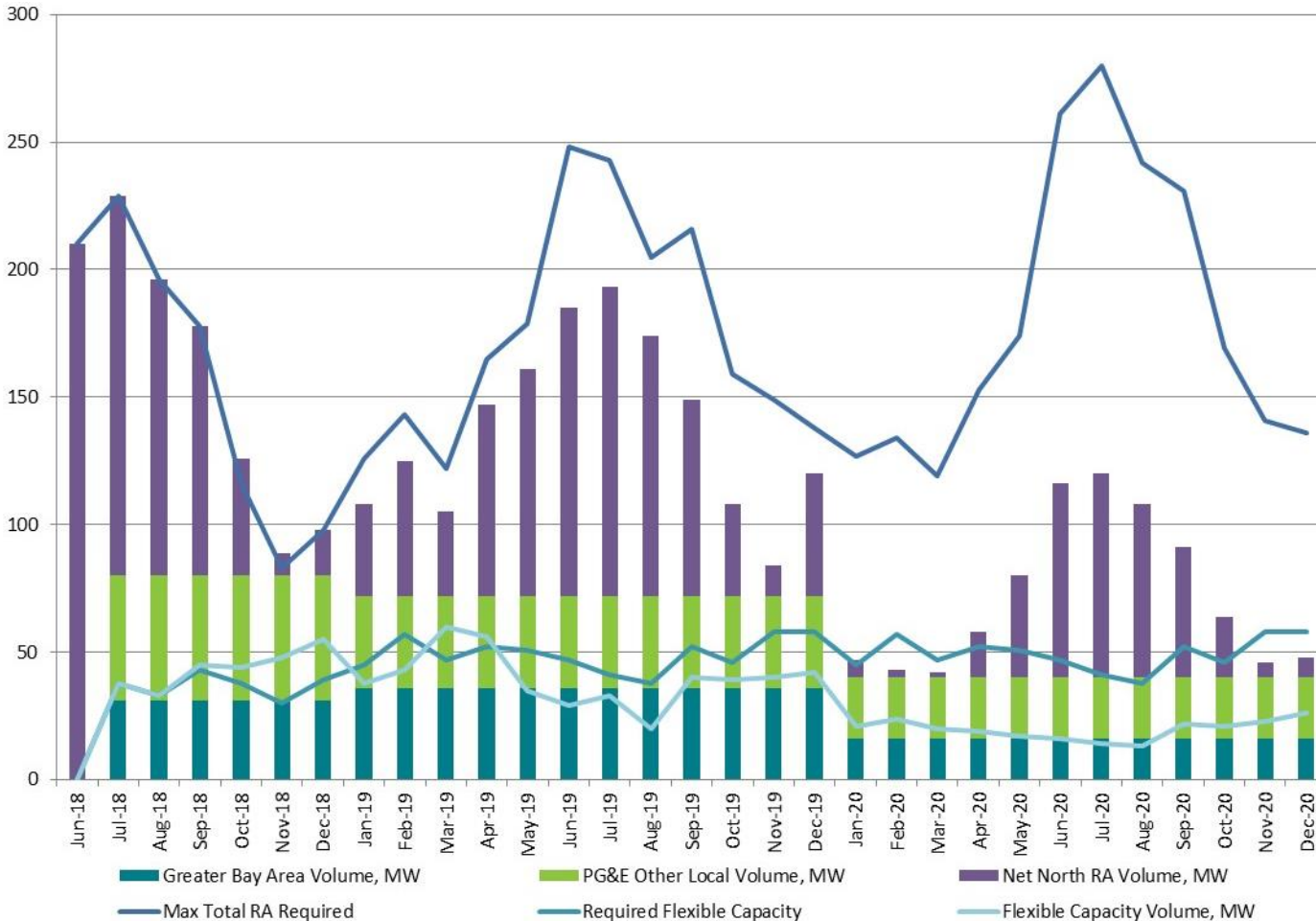
# Quarterly Procurement Update

## Large Hydro Net Position



# Quarterly Procurement Update

## Resource Adequacy Net Position



# Quarterly Procurement Update

## Resource Adequacy Net Position





# Quarterly Procurement Update

## Power Budget - 2018

2018 Power Supply Cost	Target Budget	Current Budget	Net Savings (Costs)
Market Energy	\$ 18,452,415	\$ 19,080,790	\$ (628,375)
CAISO Variable Fees	\$ 74,915	\$ 74,525	\$ 390
REC Costs	\$ 2,120,484	\$ 2,134,666	\$ (14,182)
Resource Adequacy Cost	\$ 4,902,369	\$ 4,657,090	\$ 245,279
CAISO GMC Cost	\$ 188,622	\$ 187,676	\$ 946
Market Services Charge	\$ 39,986	\$ 39,778	\$ 208
System Operations Charge	\$ 141,637	\$ 140,899	\$ 738
SCID Fee	\$ 7,000	\$ 7,000	\$ -
Carbon Free Premium	\$ 715,004	\$ 345,842	\$ 369,162
<b>2018 Total Power Cost</b>	<b>\$ 26,453,811</b>	<b>\$ 26,480,590</b>	<b>\$ (26,779)</b>

# Quarterly Procurement Update

## Power Budget - 2019

2019 Power Supply Cost	Original Forecast	Current Forecast	Net Savings (Costs)
Market Energy	\$ 29,919,046	\$ 30,492,587	\$ (573,541)
CAISO Variable Fees	\$ 133,517	\$ 132,425	\$ 1,092
REC Costs	\$ 3,918,978	\$ 3,619,312	\$ 299,666
Resource Adequacy Cost	\$ 6,262,962	\$ 6,960,485	\$ (697,524)
CAISO GMC Cost	\$ 335,696	\$ 333,049	\$ 2,648
Market Services Charge	\$ 71,265	\$ 70,682	\$ 583
System Operations Charge	\$ 252,431	\$ 250,367	\$ 2,065
SCID Fee	\$ 12,000	\$ 12,000	\$ -
Carbon Free Premium	\$ 1,274,315	\$ 1,105,514	\$ 168,800
<b>2019 Total Power Cost</b>	<b>\$ 41,844,514</b>	<b>\$ 42,643,373</b>	<b>\$ (798,859)</b>

# Quarterly Procurement Update

## Power Budget - 2020

2020 Power Supply Cost	Original Forecast	Current Forecast	Net Savings (Costs)
Market Energy	\$ 31,073,696	\$ 32,334,716	\$ (1,261,019)
CAISO Variable Fees	\$ 140,623	\$ 141,826	\$ (1,202)
REC Costs	\$ 4,050,729	\$ 3,918,653	\$ 132,076
Resource Adequacy Cost	\$ 6,250,724	\$ 7,534,976	\$ (1,284,252)
CAISO GMC Cost	\$ 352,924	\$ 355,839	\$ (2,915)
Market Services Charge	\$ 75,058	\$ 75,700	\$ (642)
System Operations Charge	\$ 265,866	\$ 268,139	\$ (2,273)
SCID Fee	\$ 12,000	\$ 12,000	\$ -
Carbon Free Premium	\$ 1,342,136	\$ 1,353,134	\$ (10,998)
<b>2020 Total Power Cost</b>	<b>\$ 43,210,833</b>	<b>\$ 45,639,144</b>	<b>\$ (2,428,311)</b>

# Questions