

Yolo County Debt Committee

Item #7 – Consider options for providing a short-term loan to the Valley Clean Energy Alliance

January 20, 2022

Requesting Department/Agency:	Valley Clean Energy Alliance
Time Duration:	Less than one year
Loan Amount Requested:	Up to \$10 million
Loan Amount Recommended:	\$5 million
Reason before Debt Committee:	1) The transaction involves an agreement with another governmental agency. 2) The Interim Chief Financial Officer determined that the issue merits review by the Debt Committee.

Purpose/Project

The Valley Clean Energy Alliance (VCE), like other Community Choice Aggregations throughout the state, has been negatively impacted over the last several years due to volatility in the energy sector resulting from COVID-19, sharp increases in power market costs, and increases in Power Charge Indifference Adjustment (PCIA) charges from PG&E.

California's investor-owned utilities (IOU), such as PG&E, use the PCIA to recover above-market costs associated with long-term power contracts that were entered into many years ago. The PCIA is charged to Community Choice Aggregations (CCA) such as VCE in order to spread the cost of these contracts to customers who were formerly served by the IOUs. In 2021-22, the PCIA charged by PG&E increased by approximately 46% over the prior year. In addition, the extreme heat events that occurred in August and September 2020 increased average forward power market prices by approximately 57% due to speculation on the potential repeat events occurring in the future.

These factors resulted in significant impacts to VCE's fiscal position over the last several years. To mitigate this impact, VCE has taken a number of actions, including drawing down reserves, scaling back near-term acquisition of renewable energy credits and power purchase agreements, and implementing an accelerated 5% increase on generation rates beginning in November 2021.

Fortunately, recent filings by PG&E to the California Public Utilities Commission (CPUC) reflect an anticipated 59% reduction in the PCIA and a 33% increase in customer rates for calendar year 2022¹. Since VCE's customer rates are currently tied to PG&E rates, the anticipated customer rate increase will allow VCE to generate additional revenue, while the decrease in PCIA will reduce VCE costs. The estimated result of these rate changes substantially improves VCE's fiscal outlook for

¹ The CPUC has requested that PG&E propose options to amortize or spread this rate increase over 18 or 24 months. Based on PG&E's filings on December 28th, 2021, these options would result in either a 29% rate increase over 18 months, or a 27% rate increase over 24 months.

calendar 2022. However, despite this improvement, VCE is still projecting short-term fiscal strain beginning in March 2022.

To bridge this short-term cash flow need, VCE has requested a loan in the amount of \$10 million from Yolo County. The loan would be used to fund operations and maintain cash reserves at the policy minimum of 30 days of operating expenditures. County staff met with VCE staff on several occasions to discuss the loan request, review financial projections, and explore alternatives. In addition to the loan request from the County, VCE has worked with SMUD to gain access to a \$2.5 million cash reserve that is held by SMUD to be used for short-term support of power purchases and operations. VCE has also been in discussions with River City Bank on extension of their credit line for 2022. River City Bank recently extended a \$7 million line of credit to the end of February 2022 and will finalize the 2022 credit line extension once PG&E rate adjustments are approved by the CPUC, currently scheduled for February 10th. VCE does not intend to use credit lines in the long-term as it moves towards establishing an investment grade credit rating.

Staff Recommendation

In light of VCE's projected cash flow needs, the availability of other financing options, and the County's lending capacity, staff recommend that the Debt Committee consider a \$5 million loan or line of credit to VCE in accordance with the proposed loan terms outlined in Attachment A. Such a loan should be adequate to cover VCE's short-term financing needs without imposing adverse impacts to the County. If approved, it is anticipated that this loan will be made out of the Demeter fund, which currently has an available balance of approximately \$5.35 million.

Alternative Options

Other options that the Debt Committee may consider are as follows:

- **Provide a loan or line of credit of up to \$10 million.** This option reflects VCE's original loan request and would likely satisfy VCE's cash flow needs without requiring financing from other sources. However, in order to fund a loan of this magnitude the County would need to utilize General Fund cash balances, which may impact the fund balances that are available for appropriation in the 2022-23 budget.
- **Do not provide a loan or line of credit to VCE.** Under this option, VCE would need to rely on alternate financing sources, such as from SMUD and River City Bank, to fund its short-term cash flow needs. If adequate financing cannot be obtained, VCE may be forced to consider short-term rate increases on its customers.

Attachment A – Proposed VCEA Loan Terms

Attachment B – VCE Funding Request Summary



County of Yolo

www.yolocounty.org

TOM HAYNES
Interim Chief Financial Officer

DEPARTMENT OF FINANCIAL SERVICES

625 Court Street, Room 102

PO BOX 1268

WOODLAND, CA 95776

PHONE: (530) 666-8190

FAX: (530) 666-8215

EMAIL: DFS@yolocounty.org

- Financial Leadership
- Budget & Financial Planning
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- Internal Audit
- Procurement

January 14, 2022

Mitch Sears
Valley Clean Energy Alliance
604 2nd Street
Davis, CA 95616

RE: VCEA Loan Request Term Sheet

This term sheet is being submitted to you in response to your request for a loan from the County of Yolo to address short-term financing needs in order to maintain the policy minimum of 30 days operating cash. While the request from VCE was for a \$10 million loan, the terms proposed herein reflect the County's capacity to extend financing and the recognition that VCE has other potential financing options.

This Term Sheet summarizes the terms at which the County would expect to extend financing to VCEA in order to assist you in your determination whether to pursue financing from the County or to support you in comparing to external sources. As noted below, formal approval through a loan agreement by the Board of Supervisors will be required to secure these terms.

Type of Financing:	Line of Credit (maximum of 1 draw per month)
Borrower:	Valley Clean Energy Alliance
Lender:	County of Yolo
Maximum Amount:	\$5,000,000
Maturity:	December 31, 2022
Collateral/Pledged Assets:	VCE electric utility customer rates
Security:	Rate covenant
Interest Rate:	Variable rate, simple interest, based on Yolo County Treasury Pool Quarterly Earnings Rate plus 1.50% (2.31% as of 09/30/2021)
Principal Payment Structure:	Due in full on December 31, 2022
Interest Payment Structure:	Due in full on December 31, 2022

- Prepayment Options:** VCE shall have the right to prepay any amounts drawn from the Line of Credit in whole or in part without prepayment penalty.
- Fees:** No fees for origination.
- Documentation:** The financing will require execution of a mutually agreeable financing agreement to be prepared by the Department of Financial Services with support from County Counsel. The form of documents would be those normal and customary for the County of Yolo.
- Loan Approval:** This Term sheet and related Financing Agreement will require formal approval by the Yolo County Board of Supervisors in a public meeting. **No guarantee or representation is provided whether the financing will receive Board approval.**

Please don't hesitate to contact me at (530) 666-8162 or tom.haynes@yolocounty.org should you have questions regarding this document. We look forward to your respond and upon receipt of your favorable response, will endeavor under good faith to complete a financing agreement reflecting the terms herein.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Haynes", followed by a horizontal line.

Tom Haynes
Interim Chief Financial Officer

CC: Chad Rinde
Edward Burnham

**VCE – Interagency Loan Request
VCE Loan Request Summary – 01/06/22**

Background Update

The CPUC and PG&E have updated actuals for their balancing accounts related to the PCIA and customer rates, resulting in a 59% decrease in PCIA and a 33% increase in customer rates for 2022. Both adjustments are related to power market price changes in 2021. The PCIA has been adjusted from -75% to -59% for 2022 based on the incorporation of power market price actuals for October and November. For 2022 customer energy rates, the CPUC has requested PG&E propose amortization options between 18 and 24 months on the 33% generation rate increase.

Based on PG&E's filings on December 28, 2021, the amortizations are 29% for 18 months and 27% for 24 months. VCE understands that to maintain general parity with the other IOUs, increases approved by the CPUC for 2022 will most likely be at 24 months for 27% increase. The CPUC is scheduled to act on its annual rate-setting proceeding, including PG&E's amortization proposals, on January 21, 2022. Under this schedule, 2022 PCIA and rates would go into effect on March 1, 2022.

These actions by the CPUC help provide near and mid-term stability to VCE by spreading the rate increase over 2022 and 2023. PG&E's smoothing of rate increases by PG&E reduces rate volatility and provides VCE with additional certainty that PG&E rates will not rebound dramatically in 2023. This, in combination with VCE's transition into its long-term fixed-price renewable energy contracts in 2022/2023, provides a more stable financial outlook in the future. However, the immediate short-term cash positions remain unfavorable through the first half of 2022, making it necessary for VCE to request bridge funding for short-term power purchases and operations. In summary, while VCE will be in a solid financial position at the close of 2022, the PCIA and rates implementation delay to March 1st makes the first half of 2022 challenging from a cash flow perspective.

VCE Request to Yolo County

Valley Clean Energy requests a loan of up to \$10M of funds from Yolo County related to anticipated revenues over the calendar year 2022. This request is to maintain VCE's reserve policy of a minimum of 30 days operating cash. These funds would be limited to fund cash reserves and operating expenses. Operational expenses, including billed and owed obligations for (i) PG&E power-related fees, if any; (ii) SMUD power purchases and related charges, including SMUD obligations to CAISO; (iii) monthly VCEA administrative overhead (based on annual budgeted amounts related to CCA activities); (iv) payment of service fees to SMUD; and (v) amounts owed to direct VCEA counterparties for energy purchases. VCE would enter into a financial agreement with the County of Yolo based on repayment of any loan funds used by the end of 2022.

If agreed, this short-term loan eliminates the need for substantial short-term rate increases by VCE to fund cash reserves our customers have over-paid in PCIA to PG&E in 2021. This short-term bridge funding will support VCE's transition to its fixed long-term PPAs (~80% of VCE's load by 2024) and move toward an investment-grade rating by 2024. Table 1 below shows the sensitivity of net generation rate increases beginning in March 2022. In addition, we have provided cash flow scenarios of 12-month outlooks in the table 2 below.

TABLE 1

Net Rate Increase	CY 2022 Budget Rate Scenarios			
	5%	27%	29%	33%
Revenue (net uncollectible)	70,821	86,794	88,246	91,151
Power Costs	66,990	66,990	66,990	66,990
Gross Margin	3,831	19,804	21,256	24,161
Operating & Admin Costs	5,055	5,055	5,055	5,055
Net Income	(1,224)	14,750	16,202	19,106
Gross Margin	5.41%	22.82%	24.09%	26.51%
Net Margin	-1.73%	16.99%	18.36%	20.96%
Ending Cash	975	15,011	16,290	18,880
Loan Requirement (30 Days Cash)	8,640	6,970	6,910	6,780
Maximum Forecasted Cash	3,380	15,011	16,290	18,880
Minimum Forecasted Cash	(3,240)	(1,570)	(1,510)	(1,380)
Average forecasted Cash	(430)	4,830	5,310	6,290

Additional Considerations:

- VCE is expected to receive ~\$820K in outstanding receivables in February. Cash flows are based on the most recent revenues (120 days) and not the total AR balance.
- VCE has received updated power costs forecasts based on final hedges. The current base expected costs are \$65M, which is ~ 2M favorable.
- VCE is currently forecasted to be ~\$2.4M better than budgeted for FY2021 (6 Months), ending in October.

TABLE 2 – Update with 27%

12 Month Amortizations												
2022												
Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Amortization Schedule		(5,000)	500	500	500	500	500	500	500	500	500	500
Projected Loan Balance	-	(5,000)	(4,500)	(4,000)	(3,500)	(3,000)	(2,500)	(2,000)	(1,500)	(1,000)	(500)	-
Projected Cash Balance	3,400	6,220	3,540	2,430	2,010	2,460	4,850	7,710	10,570	12,950	14,370	15,020
Projected Days Cash	19	35	20	14	11	14	27	43	59	72	80	83
2022												
Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Amortization Schedule		(7,500)	750	750	750	750	750	750	750	750	750	750
Projected Loan Balance	-	(7,500)	(6,750)	(6,000)	(5,250)	(4,500)	(3,750)	(3,000)	(2,250)	(1,500)	(750)	-
Projected Cash Balance	3,400	8,720	5,790	4,430	3,760	3,960	6,100	8,710	11,320	13,450	14,630	15,020
Projected Days Cash	19	48	32	25	21	22	34	48	63	75	81	83
2022												
Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Amortization Schedule		(10,000)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Projected Loan Balance	-	(10,000)	(9,000)	(8,000)	(7,000)	(6,000)	(5,000)	(4,000)	(3,000)	(2,000)	(1,000)	-
Projected Cash Balance	3,400	11,220	8,040	6,430	5,510	5,460	7,350	9,720	12,070	13,960	14,880	15,030
Projected Days Cash	19	62	45	36	31	30	41	54	67	78	83	84