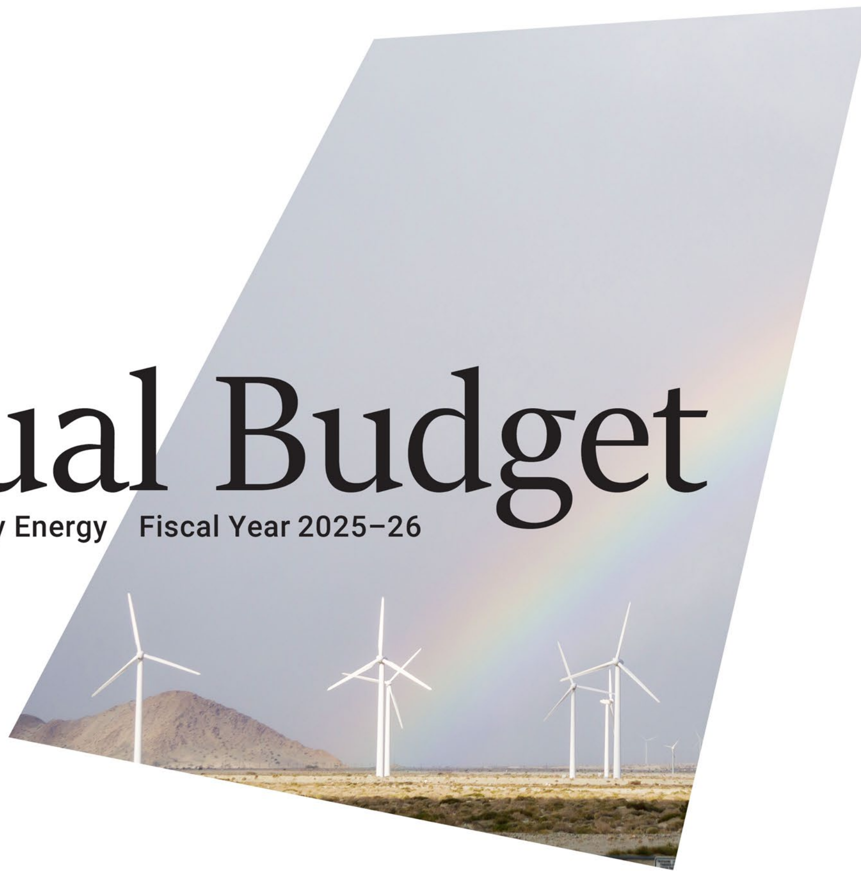
Annual Budget

Desert Community Energy   Fiscal Year 2025–26



DESERT COMMUNITY ENERGY

CITY OF PALM SPRINGS CALIFORNIA INCORPORATED 1938

PALM DESERT

Annual Budget

Desert Community Energy   Fiscal Year 2025–26

From the Executive Director

TO THE HONORABLE MEMBERS OF DESERT COMMUNITY ENERGY

The City of Palm Springs and the City of Palm Desert

JUNE 16, 2025

OVER ITS FIVE YEARS OF OPERATIONS, Desert Community Energy has worked tirelessly to achieve the goals we set when first supplying electricity to Palm Springs as a community choice aggregator (CCA) in 2020. First and foremost, we have worked to exceed the State's targets for reducing greenhouse gas (GHG) emissions. We have done so while also prioritizing consumer choice and price stability, accessing local clean energy sources, and offering an affordable alternative to Southern California Edison (SCE).

Our progress toward improving the environment and supporting the community of Palm Springs can be measured directly. Because DCE serves 84% of Palm Springs' electric customers, we have helped the City reduce its GHG emissions by an average of 78,000 metric tons per year. Enrollment in DCE's Carbon Free energy product remains the default for its customers and triggers the majority of this reduction, which is the equivalent of eliminating 430 railcars' worth of coal burned annually.

DCE also works locally to provide economic benefits and reinvest in our communities. Our electricity procurement prioritizes alternative fuel energy that is generated in Palm Springs, and in December 2024, we added a fourth long-term Power Purchase Agreement. With the new San Gorgonio Westwind–Phoenix project, DCE now purchases a total of 44.2 megawatts (MW) of carbon-free electricity generated by wind, creating 100+ clean energy jobs (including construction and permanent). We also increased DCE's pro-rata share of the Cape Generating Station 1 project with Fervo Energy from 3 MW to 4 MW of geothermal energy and are working to identify solar, wind, or battery opportunities in connection with CVAG's Addressing Climate Change, Emergencies and Sand Storms (ACCESS) project along Indian Canyon Drive.

DCE's work is gaining momentum, as seen by our progress toward financial goals. In 2024, DCE achieved a 'BBB' issuer credit rating with a stable outlook from S&P Global Ratings (S&P). This investment-grade rating provides a strong public statement about our improved financial stability and will give DCE the opportunity to expand its investments and continue to reduce the cost of providing electricity. As of March 2025, S&P rated SCE Corporate at BBB with a negative outlook, which is lower than the rating assigned to DCE. Additionally, only a few other CCAs have received investment-grade credit ratings.

We continue to have a positive impact on the community. DCE maintains the Desert Saver option for customers, which offers the lowest-cost electricity option for Palm Springs residents. We have restarted the Community Advisory Committee for the 2024–26 calendar year membership term, and its members will advise the Board on matters such as outreach, education, and programs aimed at addressing energy affordability.

I am pleased to share the fiscal year 2025–26 budget for your review and approval. The budget builds on our efforts over the past five years and provides a strong foundation for future success. It reflects the recently updated Rate Stabilization Schedule, which ensures that Carbon Free rates are based on revenue requirements, meet fixed charge coverage ratios, and respond to the changing regulatory framework. The budget also indicates DCE's sustained achievement of robust financial reserves. When adjusted for $8,000,000 committed from bank revolving credit, DCE consistently maintains a minimum of 180 days of cash on hand. This is a significant indicator of financial stability, illustrating that DCE possesses sufficient liquidity to cover at least 50 percent of one year's operating expenses at any given time. In the new budget year, DCE anticipates this liquidity to continue growing from its own cash reserves, as well as from increased credit commitments from its banking partner.

Moving forward, DCE will continue to investigate cost-effective renewable energy and battery energy storage resources to meet DCE's climate action goals and help ensure future rate stability. As opportunities arise that meet both climate action and economic goals, DCE will maintain an emphasis on carbon-free energy projects and work to augment financial reserves. We aim to research and launch residential and commercial customer programs in the near future, including ones in support of the City of Palm Springs' anticipated new building codes.

I want to close by thanking DCE's staff for all their hard work in providing clean energy to our customers and achieving our financial targets. New staff are stepping into their roles with the same enthusiasm as their predecessors for a more sustainable Coachella Valley.

As we look ahead, I am excited to work with you to provide positive outcomes for the communities we serve.

Tom Kirk
Executive Director
Desert Community Energy

About Desert Community Energy

DESERT COMMUNITY ENERGY (DCE) is a California joint powers authority (JPA) formed to offer a Community Choice Aggregation (CCA) program in the desert region of Riverside County. DCE was established in October 2017 to meet the environmental and economic goals of member agencies, including competitive electric rates, greenhouse gas reductions, local control, and local economic benefits. The original JPA was formed among the cities of Palm Springs, Cathedral City, and Palm Desert. However, the City of Cathedral City withdrew from DCE effective July 1, 2021. While DCE formed in 2017, it only began serving load on April 1, 2020, for one of its member agencies, the City of Palm Springs. The next possible launch date for the City of Palm Desert is 2028.

DCE is governed by a Board of Directors (the Board), consisting of one director appointed by each member of the JPA. Directors are elected officials or senior staff of the appointing member. Each JPA member may also appoint an alternate to serve in the absence of its director. All Board meetings are conducted in accordance with the provisions of the Ralph M. Brown Act.

The Board has established policies that promote the financial health of the agency, including an Energy Risk Management Policy and a Financial Reserve Policy. The Board follows a fiscally conservative course with a near-term emphasis on building financial reserves. DCE targets, during the initial years of operation, to fund financial reserves with the following objectives:

- Establish long-term business sustainability.
- Build collateral for power procurement activities.
- Maintain an investment-grade credit rating.
- Develop a source of funds for investment in local programs.
- Stabilize rates and dampen year-to-year variability in procurement costs.

Pursuant to an Implementation and Management Services Agreement first approved in 2017 and extended for a further five years in 2022, DCE has contracted with the Coachella Valley Association of Governments (CVAG) to provide administrative and staffing services. Staff support includes meeting coordination, support to the Board, oversight of consultants, and coordination of CCA implementation. Additionally, CVAG staff provide administrative support and accounting services, including budget preparation, oversight of the annual audit, and management of various DCE funds. Of the CVAG employees providing support for the CCA program, each only spends part of their time on the CCA program. DCE reimburses CVAG for all staff time incurred, as well as non-employee costs, such as supplies, legal services, consultant services, and equipment, that are incurred while performing the services.

In addition to staffing provided by CVAG, as discussed above, DCE is supported by a solid team of contractors with expertise in the energy industry and CCA operations. This team helps DCE navigate the volatile energy markets and increasingly complicated regulatory environment that has marked the period since DCE's 2020 launch and is expected to continue.

As noted above, DCE began serving load in April 2020 for one of its member agencies, the City of Palm Springs. Through DCE, customers within the service area can take advantage of opportunities granted by Assembly Bill 117, also known as the Community Choice Aggregation Law. DCE implements sustainable energy initiatives that reduce energy demand, increase energy efficiency, and advance the use of clean, efficient, and renewable resources available in the region.

The California Public Utilities Code provides the relevant legal authority for DCE to serve as a CCA and vests the California Public Utilities Commission (CPUC) with regulatory oversight of DCE, as provided by statute. DCE's Implementation Plan was certified by the CPUC in March 2018. DCE is also registered with Southern California Edison (SCE) and works closely with them on CCA program implementation.

DCE works to provide overall rates that are lower or competitive with those offered by SCE for similar power supplies, to supply an energy portfolio that prioritizes reducing greenhouse gas emissions and utilizing local renewable resources, and to establish local control. The benefits to consumers include the ability to reduce energy costs and stabilize rates, improve the local and regional economy, and increase local electric generation reliability.

Budget Overview

THE DCE FISCAL YEAR 2025–26 BUDGET, covering the period from July 1, 2025, through June 30, 2026, pertains to DCE's sixth full year of operations for its electricity customers in the City of Palm Springs. The annual budget serves as a guiding document for the upcoming fiscal year. Quarterly budget-to-actual reports are presented to the DCE Board of Directors to ensure ongoing oversight of public funds, track year-to-date activity, and communicate current events and changes in expected activities. Due to the nature of projections and the various inputs and assumptions used to derive these budgeted figures, they are prone to change and may be reviewed by the Board for further revision at a future date during the fiscal year. This method enables modifications that align with present business needs and revised forecasts while meeting the minimum financial criteria established by the Board.

Several important fiscal policy changes are represented in the 2025–26 budget. In the summer of 2024, DCE engaged S&P Global Ratings (S&P) to discuss DCE's business operations, financial viability, and seeking an Issuer Credit Rating. S&P ultimately issued a report providing DCE with an investment-grade credit rating opinion of 'BBB.' Overall, it indicates that DCE has an adequate capacity to meet its financial commitments; however, it is more susceptible to adverse economic conditions compared to higher-rated entities. This investment-grade credit rating was welcome news, as it reflects DCE's improved financial metrics, enhanced liquidity, and stable customer base over the last five years. Not all Community Choice Aggregators (CCAs) have attained investment-grade credit ratings, and several of them are more established entities than DCE. With its investment-grade credit rating, DCE can establish a stronger credit profile and negotiate more effectively with counterparties.

In its report, S&P also suggested improvements to some of DCE's standing practices and policies, which were presented to the DCE Board of Directors throughout 2024–25. These included greater budgetary control, an updated financial reserves policy, as well as an enhanced Rate Stabilization Schedule (RSS). The DCE Board approved an update to DCE's financial reserve policy, which introduced new special reserve categories, including customer programs, procurement, market stabilization, and a fixed charge coverage special reserve. Further discussion and a preview of targeted financial reserves can be found in the section titled "Projected Cumulative Reserves."

The updated RSS, approved by the Board at its March 2025 meeting, separated DCE's Carbon Free product rate and revenue requirements from a rate premium on SCE's bundled base product. The amended RSS provides that DCE's Carbon Free rates, together with any RSS adjustment, are to be based on DCE's Carbon Free full revenue requirements, as identified through budgetary processes, including Board-approved financial reserve accumulation, meeting fixed charge ratios, and responding to power market and regulatory changes. Setting electric rates to meet revenue requirements involves prudent utility business practices, maintaining an investment-grade credit rating, and meeting the expectations of power supply counterparties. The RSS maintains the establishment of Desert Saver rates at a discount to SCE's bundled base average bill, which affords budget-conscious customers a cost-effective rate choice.

Another key recommendation made by S&P was to provide rate-setting flexibility to ensure DCE meets its annual revenue requirements, which is measured in the form of DCE's Fixed Charge Coverage (FCC) ratio. S&P calculates DCE's FCC ratio as net revenue plus 50% of fixed power purchase agreement (PPA) expenses divided by 50% of PPA expenses. S&P expects DCE to maintain an FCC above 2.0x in the coming years. The proposed budget aims for a ratio of approximately 2.1x, calculated by adding Net Revenue of $4.1 million with 50% of PPA Expenses of $3.7 million, then dividing by 50% of PPA Expenses, again $3.7 million. Taking rounding into account, (4.1+3.7)/3.7 equals 2.1. The 2.1x target should provide ample opportunity to surpass the 2.0x expectations set by S&P while also allowing for some flexibility in case revenues do not come in as anticipated or expenses track up from the original budgeted amounts.

Setting DCE's revenue requirement to achieve this FCC in the 2025–26 budget aligns with S&P's recommendations and seeks to reduce DCE's vulnerability to adverse economic conditions while establishing a consistent record of FCC and liquidity. To achieve this revenue requirement, DCE Carbon Free generation rates are anticipated to increase slightly as of July 1, 2025. This follows two successive generation rate decreases by DCE in June and October 2024 and a rate increase in June 2025. The total bundled bill average dollar amount increase for a domestic Carbon Free customer is approximately $5.93, or 2.68 percent, and for a Carbon Free commercial account is approximately $9.75, or 3.01 percent. DCE staff will continue to monitor DCE's liquidity and FCC ratios throughout the fiscal year, as well as SCE's PCIA and market price benchmarks through regulatory filings. Although the current revenue requirement is considered adequate for budgetary purposes, adjustments may be necessary based on changes in the previously mentioned factors. Any revisions to the revenue requirement will be communicated to and/or approved by the Board via quarterly budgetary reports or the RSS.

To highlight the significance of DCE meeting its FCC coverage ratios for 2025–26, S&P noted in its report that "We could lower the rating if FCC falls significantly short of projections due to restricted rate-setting flexibility that impedes adequate cost recovery or a substantial increase in the opt-out rate that significantly reduces revenue." Conversely, S&P noted, "We could raise the rating if management establishes a healthy track record of FCC and liquidity while continuing to secure additional power contracts that reduce open positions and provide for predictable costs. In addition, a low and stable customer opt-out rate would also support an upgrade." Maintaining and/or receiving an upgraded investment-grade credit rating is of paramount importance for not only DCE's near-term financial activities but also for its ability to continue securing long-term power purchase agreements with fixed costs. These agreements play a crucial role in stabilizing the energy portfolio and shielding customers from the unpredictable fluctuations of volatile energy markets, thereby avoiding the sudden financial strain caused by rising electricity costs. By ensuring DCE meets its FCC obligations, the Board safeguards the financial stability necessary to maintain local control, provides customers with a reliable energy portfolio, and shields them from unpredictable energy market fluctuations. This approach not only supports more predictable energy bills but also ensures customers benefit from long-term agreements that stabilize costs and enhance energy reliability, making it a choice that directly serves their best interests.

The proposed budget also includes a $500 thousand match for customer programs offered by the City of Palm Springs and/or programs developed and offered by DCE itself. This could include supporting the City of Palm Springs' proposed reach code ordinances with incentives for customers who carry out qualifying energy efficiency upgrades, further helping the City of Palm Springs reduce its greenhouse gas emissions. Although the customer program match has been budgeted, the program's details are still being finalized and will be presented to the Board during the fiscal year.

The proposed budget is a planning document, and staff will monitor factors such as power supply costs, retail sales receipts, climate impacts, regulatory mandates, and other elements throughout the year. As actual revenues and expenses occur, any necessary budget adjustments will be presented to the Board accordingly.

BUDGET ASSUMPTIONS

DCE's major 2025–26 budget assumptions include:

1. Full accrual accounting practices are implemented in line with US Generally Accepted Accounting Principles (GAAP) for enterprise funds.
2. Palm Springs is the only city where DCE is actively serving CCA customers.
3. Projected loads, resources, and costs will utilize TEA's May 21, 2025 financial model, inclusive of information filed by SCE in its May 15, 2025 application to the CPUC for its 2026 Energy Resource Recovery Account (ERRA).
4. DCE will develop its budget to ensure that the net margin after expenses exceeds 2.0x Fixed Charge Coverage ratio.
5. DCE will see an opt-down rate of about 16 percent, meaning those DCE customers are choosing Desert Saver over the 100% Carbon Free default product.
6. Board-approved rate-setting objectives are met as outlined in DCE's Amended Rate Stabilization Schedule, which became effective April 1, 2025.
    a. DCE's Carbon Free rates are to be based on DCE's Carbon Free full revenue requirements, including Board-approved financial reserve accumulation, meeting fixed charge ratios, and responding to power market and regulatory changes.
    b. The residential Desert Saver customer bill, on average, is to maintain an average 0.0–1.0 percent discount versus Southern California Edison's current non-CARE residential base product average total monthly bill.
7. DCE will provide specific funding for new customer programs in its service territory. This includes a matching contribution supporting the City of Palm Springs' reach code ordinances, if adopted by the City Council. These would include incentives for homeowners who carry out qualifying energy efficiency upgrades, which would help the City of Palm Springs further reduce its greenhouse gas emissions.
8. Non-energy costs will be estimated with inflationary increases on a budget-line level to reflect budgetary conservatism.
9. Cost allocation and rate setting are based on cost recovery, fairness, and equity.
10. DCE meets regulatory, legislative, and operating requirements.
11. DCE continues ongoing collaboration with CalCCA, other CCAs, and public power groups.
12. DCE maintains necessary and adequate internal staffing and continues the contract support relationship with the Coachella Valley Association of Governments (CVAG).
13. DCE will monitor and adjust forecasted retail loads, revenues, and costs based on actual experience and revise expectations accordingly throughout the forthcoming year.
14. DCE follows adopted Board policies and objectives. Full accrual accounting practices are implemented in accordance with US GAAP for enterprise-type funds, and the net position will differ from the cash on hand.

PRIOR YEAR BUDGET TO ACTUALS AND NEW PROPOSED BUDGET

Table 1 presents a comparison between the estimated actual results for the end of fiscal year 2024–25 compared to DCE's amended 2024–25 budget. The estimates are based on at least ten months of actual revenue and expenditures through April 2025. For May and June 2025, it includes financial modeling approximations for energy procurement costs and revenue projections as provided by The Energy Authority (TEA). These estimated amounts may differ slightly from year-end actual results.

Table 1: DCE Prior Year Budget to Actuals and Fiscal Year 2025–26 Proposed Budget

	24–25 Amended Budget	24–25 Projected Actuals	24–25 Actuals as % of Budget	25–26 Budget	25–26 Budget v. 24–25 Actuals	25–26 Budget as % of 24–25 Actuals
Revenues						
Net Retail Sales	$ 66,414,515	$ 63,459,624	95.6%	$ 66,127,877	$ 2,668,253	104.2%
Other Revenues	$ 3,515,874	$ 5,027,213	143.0%	$ 986,606	$ (4,040,607)	19.6%
Total Revenues	$ 69,930,389	$ 68,486,836	97.9%	$ 67,114,483	$ (1,372,354)	98.0%
Power Supply Costs						
Wholesale Power Supply	$ 62,992,626	$ 62,413,986	99.1%	$ 59,050,459	$ (3,363,527)	94.6%
Non Power Operating Costs						
DCE Position Support	$ 732,132	$ 659,416	90.1%	$ 923,980	$ 264,564	140.1%
Contract and Other Labor	$ 333,075	$ 273,992	82.3%	$ 355,440	$ 81,448	129.7%
CVAG Related Facilities Support	$ 156,145	$ 213,645	136.8%	$ 281,773	$ 68,128	131.9%
Wholesale Support Services	$ 1,545,457	$ 1,534,023	99.3%	$ 1,596,678	$ 62,655	104.1%
Retail Business Support Activities	$ 23,894	$ 17,594	73.6%	$ 33,800	$ 16,206	192.1%
Other Customer Programs	$ 76,628	$ 10,628	13.9%	$ 510,000	$ 499,372	4798.6%
Other Operating Costs	$ 259,545	$ 142,977	55.1%	$ 181,348	$ 38,371	126.8%
Total Non Power Operating Costs	$ 3,126,877	$ 2,852,275	91.2%	$ 3,883,019	$ 1,030,744	136.1%
Non Operating Costs						
RLOC/SBLC Fees	$ 50,400	$ 50,400	100.0%	$ 53,925	$ 3,525	107.0%
Total Power/Op/NonOp Costs	$ 66,169,903	$ 65,316,661	98.7%	$ 62,987,403	$ (2,329,258)	96.4%
Retail Load (MWh, net of losses)	389,993	376,330	96.5%	383,128	6,798	101.8%

The 2024–25 projected actual Total Revenues are lower than the budgeted amounts by approximately 2.1 percent, or $1.4 million. This is primarily due to DCE's actual retail loads being lower than the budgeted forecasts, particularly for March and April 2025, which were estimated at the time of the final budget amendment. Actual load results for May and June 2025 are still pending, and depending on weather patterns, these results may be higher or lower than currently projected. Simultaneously, Other Revenues are expected to be approximately $1.5 million higher than budgeted due to factors such as increased interest income and the sale of certain energy portfolio positions during the year. Total Power, Operating, and Non-Operating Costs are anticipated to be below budget by roughly $900 thousand, which is welcome news as certain energy costs have shown downward trends in recent months, and non-power operating costs continue to come in under budget. This trend continues into the budget year 2025–26.

Budgeted Net Retail Sales in 2025–26 are expected to increase by approximately 4.2 percent compared to the estimated actuals for 2024–25. This reflects projected rate adjustments in line with revenue requirements, as well as projected increases in load, which are primarily based on the trend in customer counts over the past three years and the state's push toward electrification and electric vehicles. Total Revenue in 2025–26 is projected to decline due to a reduction in planned sales of energy portfolio positions. Additionally, investment income has been budgeted more conservatively owing to uncertainties in the interest rate environment, with strong indicators suggesting that yields on investment products in which DCE invests will experience a downward trend in the coming year.

Projected 2025–26 Total Power, Operating, and Non-Operating Costs are expected to decrease by approximately 3.6 percent versus 2024–25 estimated actuals, reflecting a more stable power market augmented by DCE's wholesale supply hedging activities.

With respect to the 2025–26 Non-Power Operating Costs, it is projected that these expenses will be approximately $1 million higher than the estimated actual costs for 2024–25. The DCE customer incentive program match with the City of Palm Springs is the largest driver for increased non-power operating costs. The increase is also partly attributed to conservative budgeting practices, as actual expenditures typically fall below their budgeted amounts.

Additionally, several factors are projected to elevate these costs in 2025–26. These include ongoing inflationary pressures on base costs, a rise in banking fees to free funds for greater return on investment, and higher consultant and staff costs required to operate new programs. Moreover, there will be increased legal costs to assist DCE in navigating statewide Resource Adequacy and Mid-Term Reliability, as well as other CPUC requirements, and ensuring fair representation of DCE customers in dealings with SCE. Additionally, membership dues are expected to increase as DCE continues to work with other CCAs on important industry representation and CPUC proceedings.

DCE is staffed by CVAG under an existing staffing agreement. Effective for 2025–26, budgeted salary increases, including those for promotions, averaged about 4 percent, along with a 2.9 percent Cost of Living Adjustment. Additionally, CVAG is implementing a new ERP system, which will enable DCE to fully integrate its contracting, accounts payable and receivable, chart of accounts, and financial reporting systems. This integration will result in streamlined processes and new efficiencies. The initial investment in the ERP system includes several one-time costs, such as consulting fees for ERP implementation and temporary support for staff overseeing the project. DCE's unique relationship with CVAG enables DCE to achieve cost savings compared to procuring such a system independently.

Since its inception, DCE has depended on several external consultants and will continue to rely on the expertise of TEA, Don Dame Consulting, Calpine, and other consultants. Furthermore, in line with the original organizational strategies, as more internal expertise is acquired, DCE staff will continue to assimilate a greater share of the direct work effort and reduce the use of consultants where possible and practical. Additional staff effort is required to address increasing operating and regulatory complexities engendered by climate change and the transition from carbon-based electricity production. Thus, DCE's regulatory, customer service, business policy, and programming needs continue to grow, and responding to those needs, at least in part with internal staff, will provide organizational benefits. Ongoing synergies are also expected to be achieved via the utilization of CVAG's expertise and capabilities.

When DCE was established, plans were in place for three active members. The original Implementation Plan, created around the formation of the JPA, demonstrated pro forma revenues, expenses, and cumulative reserves at levels that accounted for all three members; however, the City of Palm Springs remains the only population served by DCE. Therefore, these budgeted figures, compared to the pro forma in the Implementation Plan, remain below the targeted levels. This budget document presents the most relevant revenues, expenses, and related cumulative reserve accumulation for DCE.

HIGH-LEVEL BUDGET OVERVIEW

Chart 1 provides a high-level budget overview for fiscal year 2025–26:

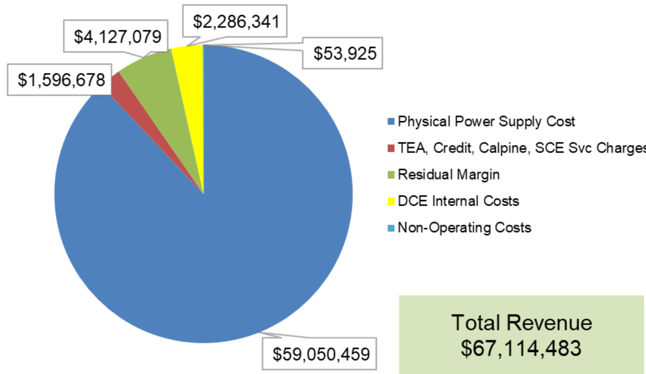


Chart 1: Fiscal Year 2025–26 Accrual Budget

The blue area represents total physical power supply costs of approximately $59 million, which comprise about 93 percent of DCE's total operating costs. The red area represents DCE's wholesale vendor services charges from TEA, Calpine, and SCE, attributable to CCA, totaling approximately $1.6 million. The yellow slice represents the budget portion of DCE's non-power operating costs attributable to CCA operations (including CVAG services and facilities utilization), totaling approximately $2.3 million. Non-operating costs are projected to be less than $100 thousand. The green slice shows projected accrual net margins of $4.1 million projected available for reserves (see Chart 2 for further discussion of reserves).

BUDGET SUMMARY DETAIL

Table 2 shows the fiscal year 2025–26 budget summary:

Line							MWh Load:	383,128
1	**Revenues**		**FY2025–26**		**Avg $/Month**		**Avg $/MWh**	
2	Retail Sales, Net of Uncollectible Accounts	$	66,127,877	$	5,510,656	$	172.60	
3	Other Revenue	$	986,606	$	82,217	$	2.58	
4	Total DCE Revenue	$	67,114,483	$	5,592,874	$	175.18	
5	**Power Costs**							
6	DCE Wholesale Power Supply	$	59,050,459	$	4,920,872	$	154.13	
7	**DCE Operating Costs**							
8	DCE Position Support	$	923,980	$	76,998	$	2.41	
9	Contract and Other Labor	$	355,440	$	29,620	$	0.93	
10	CVAG Related Facilities Support	$	281,773	$	23,481	$	0.74	
11	Wholesale Support Services (TEA, Calpine, SCE)	$	1,596,678	$	133,057	$	4.17	
12	Retail Business Support Activities	$	33,800	$	2,817	$	0.09	
13	Other Customer Programs	$	510,000	$	42,500	$	1.33	
14	Other Operating Costs	$	181,348	$	15,112	$	0.47	
15	Total Non Power Operating Costs	$	3,883,019	$	323,585	$	10.14	
16	**Non-Operating Costs**							
17	RLOC/SBLC Fees	$	53,925	$	4,494	$	0.14	
18	**Total Power/Op/NonOp Costs**	$	62,987,403	$	5,248,950	$	164.40	
19	Estimated FY Net Rev Available for Reserves	$	4,127,079					

Table 2: Fiscal Year 2025–26 Budget Summary Detail

Table 2, Line 4 shows Total DCE Revenue projected at nearly $67.1 million. DCE Wholesale Power Supply costs on line 6 are projected at about $59 million, while Total Non-Power Operating Costs on Line 15 are roughly $3.9 million. Line 18 shows 2025–26 Total Power, Operating, and Non-Operating Costs of $63 million. By taking the Total DCE Revenue of $67.1 million and subtracting the Total Power, Operating, and Non-Operating Costs of $63 million, Line 19 demonstrates an increase of approximately $4.1 million to DCE's net position in 2025–26, which is expected to be accumulated for reserves.

It is important to note that the 2025–26 budget results are accrual-based, and actual revenues and available cash reserves fluctuate accordingly and differ from cash-on-hand. Actual revenue cash receipts can lag sales by as much as two months and are estimated to be in the $10 to $12 million range at the end of 2025–26.

PROJECTED CUMULATIVE RESERVES

Chart 2 shows DCE's estimated accrued margins attained during the fiscal years 2024–25 and projected for 2025–26, 2026–27, 2028–29, and 2029–30. During DCE's early operational history, it experienced negative margins due to increasing power supply costs and revenue lag. This issue was mitigated by utilizing credit arrangements with River City Bank, guaranteed by the City of Palm Springs. The current credit agreement is expected to be renewed and increased for working capital from $8 million to $20 million, effective before June 30, 2025, although it was not finalized at the time of budget preparation. The discussion of liquidity and reserves does not consider the additional $20 million anticipated to be available to DCE, but it does help improve DCE's adjusted liquidity ratios as viewed by counterparties and credit agencies.

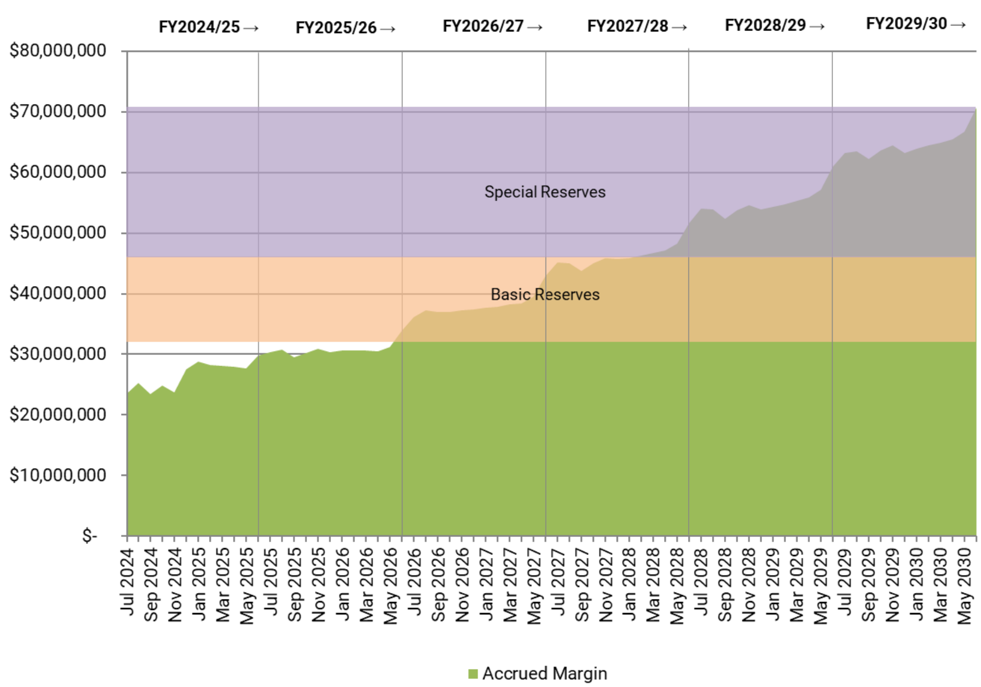


Chart 2: Residual Margin and Reserves

Analyzing DCE's current operating results and unadjusted cash position, it is evident that the situation has significantly improved over the past several fiscal years. DCE maintained a positive accrued margin beginning in 2022–23 and continued to augment that reserve throughout 2023–24, concluding the fiscal year with nearly $26 million in reserves. This positive trend continued into 2024–25, with projections indicating further accumulation and maintenance of positive cash reserves, estimated at over $28 million by June 30, 2025.

In December 2024, the Board approved and amended DCE's financial reserves policy, which created special reserve categories in addition to the accumulation of basic reserves. The special reserves include four reserves: customer programs, procurement, market stabilization, and fixed charge coverage. Special reserves are treated independently from the basic reserve and are not aggregated. Minimum basic reserves are targeted at 50 percent (180 days) of total power and operating costs, with a maximum basic reserve balance of 75 percent (270 days). The 2025–26 budget projections indicate that DCE is on track to meet the minimum financial reserve levels targeted by its amended financial reserve policy, with an estimated cash reserve balance of approximately $31.5 million by the end of the fiscal year. This accomplishment will enhance DCE's financial health and stability and signify a critical milestone in DCE's financial journey.

Given the timing of minimum basic reserve accumulation near the end of the fiscal year, DCE staff are not yet recommending the creation of any Special Reserves in 2025–26. However, during 2025–26, DCE staff intend to work with the Board of Directors to develop target reserve amounts for any Special Reserve, which shall be identified at its creation. The bands in Chart 2 are illustrative; special reserves may be created before DCE reaches its maximum basic reserve levels.

PROPOSED BUDGET

The proposed budget, along with the following tables, presents comparative data spanning multiple years. Each fiscal year starts on July 1 and ends on June 30. In addition to the 2024–25 year-end estimates, the budget presents the full 2025–26 budget year in total. Also presented are four additional years of projections covering 2026–27, 2027–28, 2028–29, and 2029–30. The projections for the subsequent fiscal years are provided solely for comparative purposes, offering an overview of potential future trends, and are based on current market and business expectations. Revenue requirements for these years are set to include coverage of additional costs to DCE above the minimum included in the FCC ratio calculations provided by S&P.

Future business uncertainties and unknown factors persist both within the current budget year and in the subsequent years. Some of these uncertainties include approval of Southern California Edison's (SCE) rates and the Power Charge Indifference Adjustment (PCIA, or exit fee), procurement costs, block hedging activity versus day-ahead market participation, load variability, power market price volatility, scarcity of resource adequacy products at commercially reasonable prices, and integration/performance of power purchase agreements.

Table 3: Fiscal Year 2024–25 Total Budget and Projected Year-End Actuals; 2025–26 Proposed Budget; and 2026–27, 2027–28, 2028–29, and 2029-30 Projections

	FY2024–25 Amended Budget	FY2024–25 Projected Actuals	FY2025–26 Budget	Projected FY2026–27	Projected FY2027–28	Projected FY2028–29	Projected FY2029–30
Load Particulars							
DCE Retail Load (MWh, net of opt-outs + losses)	389,993	376,330	383,128	382,468	383,221	383,221	383,221
Losses (MWh)	26,520	25,590	26,053	26,008	26,059	26,059	26,059
Revenue Particulars							
Gross Revenue	$ 68,434,664	$ 65,829,485	$ 68,597,382	$ 64,433,257	$ 66,836,461	$ 67,069,649	$ 67,739,364
Less Uncollectable Accounts	$ (2,020,149)	$ (2,369,861)	$ (2,469,506)	$ (2,319,597)	$ (2,406,113)	$ (2,414,507)	$ (2,438,617)
Net DCE Total Retail Revenue	$ 66,414,515	$ 63,459,624	$ 66,127,877	$ 62,113,660	$ 64,430,349	$ 64,655,142	$ 65,300,747
Average Monthly Revenue ($/MWh)	$ 170.30	$ 168.63	$ 172.60	$ 162.40	$ 168.13	$ 168.72	$ 170.40
Other Revenue	$ 3,515,874	$ 5,027,213	$ 986,606	$ 1,059,824	$ 1,206,980	$ 1,358,822	$ 1,514,779
Other Operating Revenue	$ 2,615,874	$ 4,011,374	$ 145,990	$ 150,224	$ 154,580	$ 159,063	$ 163,676
Investment Income	$ 900,000	$ 1,015,839	$ 840,616	$ 909,600	$ 1,052,400	$ 1,199,759	$ 1,351,103
Total Revenues	$ 69,930,389	$ 68,486,836	$ 67,114,483	$ 63,173,484	$ 65,637,329	$ 66,013,964	$ 66,815,526
Total DCE Power Cost (w/o DCE Direct)							
Wholesale Power Supply (Physical Components)	$ 62,992,626	$ 62,413,986	$ 59,050,459	$ 51,300,655	$ 53,960,592	$ 53,863,045	$ 54,208,584
TEA Services	$ 931,630	$ 924,069	$ 963,228	$ 991,162	$ 1,019,905	$ 1,049,483	$ 1,079,918
Calpine Data Management	$ 542,819	$ 539,856	$ 561,450	$ 577,732	$ 594,486	$ 611,726	$ 629,466
SCE Billing Services	$ 71,008	$ 70,098	$ 72,000	$ 74,088	$ 76,237	$ 78,447	$ 80,722
Total Wholesale Cost, Accrual (FiMo)	$ 64,538,083	$ 63,948,009	$ 60,647,137	$ 52,943,637	$ 55,651,221	$ 55,602,701	$ 55,998,691
Average Wholesale Cost $/MWh	$ 165.49	$ 169.93	$ 158.29	$ 138.43	$ 145.22	$ 145.09	$ 146.13
River City Bank Credit Facility							
Stand By Letter of Credit Fee	$ -	$ -	$ 53,925	$ 55,489	$ 57,098	$ 58,754	$ 60,458
RLOC Renewal Processing Fees	$ 50,400	$ 50,400	$ -	$ -	$ 57,000	$ -	$ -
Net RCB Credit Accrual	$ 50,400	$ 50,400	$ 53,925	$ 55,489	$ 114,098	$ 58,754	$ 60,458
Estimated Operating Expenses							
DCE Staff Costs from CVAG	$ 732,132	$ 659,416	$ 923,980	$ 950,775	$ 978,348	$ 1,006,720	$ 1,035,915
Total Salaries	$ 510,854	$ 454,310	$ 651,072	$ 669,953	$ 689,382	$ 709,374	$ 729,946
Total Benefits	$ 221,278	$ 205,105	$ 272,908	$ 280,822	$ 288,966	$ 297,346	$ 305,969
Contracts / Contract Labor (not incl. elsewhere)	$ 333,075	$ 273,992	$ 355,440	$ 365,748	$ 376,355	$ 387,269	$ 398,500
Legal Services	$ 92,117	$ 93,704	$ 104,200	$ 107,222	$ 110,331	$ 113,531	$ 116,823
Professional Services[1]	$ 110,438	$ 82,358	$ 48,340	$ 49,742	$ 51,184	$ 52,669	$ 54,196
Consultants[2]	$ 130,521	$ 97,930	$ 202,900	$ 208,784	$ 214,839	$ 221,069	$ 227,480
CVAG General & Adminsitrative Support	$ 156,145	$ 213,645	$ 281,773	$ 289,944	$ 298,353	$ 307,005	$ 315,908
Retail Business Support Activities	$ 23,894	$ 17,594	$ 33,800	$ 34,780	$ 35,789	$ 36,827	$ 37,895
DCE Programs	$ 76,628	$ 10,628	$ 510,000	$ 524,790	$ 540,009	$ 555,669	$ 571,784
Office Supplies and Other Expenses	$ 259,545	$ 142,977	$ 181,348	$ 186,607	$ 192,019	$ 197,587	$ 203,317
Total DCE Internal Operations Charges	$ 1,581,420	$ 1,318,252	$ 2,286,341	$ 2,352,645	$ 2,420,872	$ 2,491,077	$ 2,563,318
Total Non Power Opr Exp (DCE + All Services)	$ 3,126,877	$ 2,852,275	$ 3,883,019	$ 3,995,627	$ 4,111,500	$ 4,230,733	$ 4,353,425
Expected Accrual Results							
Revenues	$ 69,930,389	$ 68,486,836	$ 67,114,483	$ 63,173,484	$ 65,637,329	$ 66,013,964	$ 66,815,526
Power and Operations Costs	$ 66,119,503	$ 65,266,261	$ 62,933,478	$ 55,296,282	$ 58,072,092	$ 58,093,778	$ 58,562,009
Non-Operating Costs	$ 50,400	$ 50,400	$ 53,925	$ 55,489	$ 114,098	$ 58,754	$ 60,458
Net Margin Avail After Expenses - Accrual	$ 3,760,486	$ 3,170,175	$ 4,127,079	$ 7,821,713	$ 7,451,138	$ 7,861,431	$ 8,193,059
Annual Cumulative Accrual Revenues	$ 320,606,838	$ 319,163,286	$ 386,277,768	$ 449,451,252	$ 515,088,581	$ 581,102,545	$ 647,918,070
Annual Cumulative Accrual Power/Ops/NonOps Cc	$ 281,745,125	$ 280,891,866	$ 343,879,269	$ 399,231,039	$ 457,417,230	$ 515,569,762	$ 574,192,229
Cumulative Net Position - Accrual	$ 38,861,713	$ 38,271,420	$ 42,398,499	$ 50,220,213	$ 57,671,351	$ 65,532,782	$ 73,725,842

1. Does not include the professional services expenses of SCE which are listed individually in Total DCE Power Cost (w/o DCE Direct) section.
2. Does not include the consultant expenses of TEA, Calpine and CVAG which are listed individually in Total DCE Power Cost (w/o DCE Direct) section.

Table 4: 2025–26 Budget in Total and by Month.

	FY2025–26 Budget	Jul 2025	Aug 2025	Sep 2025	Oct 2025	Nov 2025	Dec 2025	Jan 2026	Feb 2026	Mar 2026	Apr 2026	May 2026	Jun 2026
Load Particulars													
DCE Retail Load (MWh, net of opt-outs + losses)	383,128	52,909	51,418	39,612	30,629	22,549	24,179	23,949	21,196	22,394	23,995	29,401	40,897
Losses (MWh)	26,053	3,598	3,496	2,694	2,083	1,533	1,644	1,629	1,441	1,523	1,632	1,999	2,781
Revenue Particulars													
Gross Revenue	$ 68,597,382	$ 10,676,831	$ 10,405,672	$ 8,044,530	$ 5,056,110	$ 3,632,440	$ 3,924,647	$ 3,791,693	$ 3,315,075	$ 3,438,174	$ 3,661,054	$ 4,591,696	$ 8,059,459
Less Uncollectable Accounts	$ (2,469,506)	$ (384,366)	$ (374,604)	$ (289,603)	$ (182,020)	$ (130,768)	$ (141,287)	$ (136,501)	$ (119,343)	$ (123,774)	$ (131,798)	$ (165,301)	$ (290,141)
Net DCE Total Retail Revenue	$ 66,127,877	$ 10,292,465	$ 10,031,067	$ 7,754,927	$ 4,874,090	$ 3,501,673	$ 3,783,360	$ 3,655,192	$ 3,195,733	$ 3,314,400	$ 3,529,256	$ 4,426,395	$ 7,769,319
Average Monthly Revenue ($/MWh)	$ 172.60	$ 194.53	$ 195.09	$ 195.77	$ 159.13	$ 155.29	$ 156.47	$ 152.63	$ 150.77	$ 148.00	$ 147.09	$ 150.55	$ 189.97
Other Revenue	$ 986,606	$ 70,051	$ 163,891	$ 70,051	$ 70,051	$ 79,201	$ 113,051	$ 70,051	$ 70,051	$ 70,051	$ 70,051	$ 70,051	$ 70,051
Investment Income	$ 840,616	$ 70,051	$ 70,051	$ 70,051	$ 70,051	$ 70,051	$ 70,051	$ 70,051	$ 70,051	$ 70,051	$ 70,051	$ 70,051	$ 70,051
Accrual Monthly Revenues	$ 67,114,483	$ 10,362,516	$ 10,194,959	$ 7,824,979	$ 4,944,142	$ 3,580,874	$ 3,896,411	$ 3,725,243	$ 3,265,784	$ 3,384,451	$ 3,599,308	$ 4,496,446	$ 7,839,370
Total DCE Power Cost (w/o DCE Direct)													
Wholesale Power Supply (Physical Components)	$ 59,050,459	$ 9,509,404	$ 9,451,369	$ 8,822,704	$ 3,851,664	$ 2,683,303	$ 3,612,158	$ 3,248,373	$ 3,006,726	$ 3,131,001	$ 3,336,364	$ 3,625,479	$ 4,771,915
TEA Services	$ 963,228	$ 80,269	$ 80,269	$ 80,269	$ 80,269	$ 80,269	$ 80,269	$ 80,269	$ 80,269	$ 80,269	$ 80,269	$ 80,269	$ 80,269
Calpine Data Management	$ 561,450	$ 46,788	$ 46,788	$ 46,788	$ 46,788	$ 46,788	$ 46,788	$ 46,788	$ 46,788	$ 46,788	$ 46,788	$ 46,788	$ 46,788
SCE Billing Services	$ 72,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000
Total Wholesale Cost, Accrual (FiMo)	$ 60,647,137	$ 9,642,460	$ 9,584,426	$ 8,955,760	$ 3,984,720	$ 2,816,359	$ 3,745,215	$ 3,381,429	$ 3,139,783	$ 3,264,057	$ 3,469,420	$ 3,758,536	$ 4,904,971
Average Wholesale Cost $/MWh	$ 158.29	$ 182.25	$ 186.40	$ 226.09	$ 130.10	$ 124.90	$ 154.89	$ 141.20	$ 148.13	$ 145.75	$ 144.59	$ 127.84	$ 119.93
River City Bank Credit Facility	**FY2025–26 Budget**	**Jul 2025**	**Aug 2025**	**Sep 2025**	**Oct 2025**	**Nov 2025**	**Dec 2025**	**Jan 2026**	**Feb 2026**	**Mar 2026**	**Apr 2026**	**May 2026**	**Jun 2026**
Net RCB Credit Accrual	$ 53,925	$ 53,925	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Estimated Operating Expenses													
DCE Staff Costs from CVAG	$ 923,980	$ 76,998	$ 76,998	$ 76,998	$ 76,998	$ 76,998	$ 76,998	$ 76,998	$ 76,998	$ 76,998	$ 76,998	$ 76,998	$ 76,998
Total Salaries	$ 651,072	$ 54,256	$ 54,256	$ 54,256	$ 54,256	$ 54,256	$ 54,256	$ 54,256	$ 54,256	$ 54,256	$ 54,256	$ 54,256	$ 54,256
Total Benefits	$ 272,908	$ 22,742	$ 22,742	$ 22,742	$ 22,742	$ 22,742	$ 22,742	$ 22,742	$ 22,742	$ 22,742	$ 22,742	$ 22,742	$ 22,742
Contracts / Contract Labor (not incl. elsewhere)	$ 355,440	$ 25,963	$ 53,550	$ 32,790	$ 29,050	$ 28,550	$ 28,613	$ 25,963	$ 25,463	$ 28,613	$ 25,963	$ 25,463	$ 25,463
Legal Services	$ 104,200	$ 8,683	$ 8,683	$ 8,683	$ 8,683	$ 8,683	$ 8,683	$ 8,683	$ 8,683	$ 8,683	$ 8,683	$ 8,683	$ 8,683
Professional Services[1]	$ 48,340	$ 38	$ 28,125	$ 7,365	$ 3,125	$ 3,125	$ 3,188	$ 38	$ 38	$ 3,188	$ 38	$ 38	$ 38
Consultants[2]	$ 202,900	$ 17,242	$ 16,742	$ 16,742	$ 17,242	$ 16,742	$ 16,742	$ 17,242	$ 16,742	$ 16,742	$ 17,242	$ 16,742	$ 16,742
CVAG General & Adminsitrative Support	$ 281,773	$ 23,481	$ 23,481	$ 23,481	$ 23,481	$ 23,481	$ 23,481	$ 23,481	$ 23,481	$ 23,481	$ 23,481	$ 23,481	$ 23,481
Retail Business Support Activities	$ 33,800	$ 2,629	$ 2,629	$ 2,629	$ 2,629	$ 2,629	$ 4,879	$ 2,629	$ 2,629	$ 2,629	$ 2,629	$ 2,629	$ 2,629
DCE Programs	$ 510,000	$ -	$ -	$ -	$ -	$ -	$ 500,000	$ -	$ -	$ -	$ -	$ -	$ 10,000
Office Supplies and Other Expenses	$ 181,348	$ 32,602	$ 4,530	$ 4,530	$ 32,477	$ 4,530	$ 4,530	$ 32,477	$ 4,530	$ 4,530	$ 32,552	$ 4,530	$ 19,530
Total DCE Internal Operations Charges	$ 2,286,341	$ 161,673	$ 161,189	$ 140,429	$ 164,636	$ 136,189	$ 638,501	$ 161,548	$ 133,101	$ 136,251	$ 161,623	$ 133,101	$ 158,101
Total Non Power Opr Exp (DCE + All Services)	$ 3,883,019	$ 294,730	$ 294,245	$ 273,485	$ 297,692	$ 269,245	$ 771,558	$ 294,605	$ 266,158	$ 269,308	$ 294,680	$ 266,158	$ 291,158
Expected Accrual Results													
Revenues	$ 67,114,483	$ 10,362,516	$ 10,194,959	$ 7,824,979	$ 4,944,142	$ 3,580,874	$ 3,896,411	$ 3,725,243	$ 3,265,784	$ 3,384,451	$ 3,599,308	$ 4,496,446	$ 7,839,370
Power and Operations Costs	$ 62,933,478	$ 9,804,133	$ 9,745,614	$ 9,096,189	$ 4,149,356	$ 2,952,548	$ 4,383,716	$ 3,542,977	$ 3,272,884	$ 3,400,308	$ 3,631,043	$ 3,891,637	$ 5,063,073
Non-Operating Costs	$ 53,925	$ 53,925	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Margin Avail After Expenses - Accrual	$ 4,127,079	$ 504,458	$ 449,345	$ (1,271,210)	$ 794,786	$ 628,326	$ (487,304)	$ 182,266	$ (7,100)	$ (15,857)	$ (31,736)	$ 604,809	$ 2,776,298
Annual Cumulative Accrual Revenues	$ 386,277,768	$ 329,525,802	$ 339,720,761	$ 347,545,739	$ 352,489,881	$ 356,070,755	$ 359,967,166	$ 363,692,409	$ 366,958,193	$ 370,342,644	$ 373,941,952	$ 378,438,398	$ 386,277,768
Annual Cumulative Accrual Power/Ops/NonOps Cos	$ 343,879,269	$ 290,749,924	$ 300,495,538	$ 309,591,727	$ 313,741,083	$ 316,693,630	$ 321,077,346	$ 324,620,324	$ 327,893,207	$ 331,293,516	$ 334,924,559	$ 338,816,196	$ 343,879,269
Cumulative Net Position - Accrual	$ 42,398,499	$ 38,775,878	$ 39,225,222	$ 37,954,012	$ 38,748,798	$ 39,377,125	$ 38,889,820	$ 39,072,086	$ 39,064,986	$ 39,049,129	$ 39,017,393	$ 39,622,202	$ 42,398,499

1. Does not include the professional services expenses of SCE which are listed individually in Total DCE Power Cost (w/o DCE Direct) section.
2. Does not include the consultant expenses of TEA, Calpine and CVAG which are listed individually in Total DCE Power Cost (w/o DCE Direct) section.

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