

ORANGE COUNTY POWER AUTHORITY
Staff Report – Item 5.2

To: Orange County Power Authority Board of Directors

From: Brian Probolsky, Chief Executive Officer
Tiffany Law, Chief Financial Officer

Subject: Approve Fiscal Year 2021-2022 Mid-year Operating Budget

Date: March 1, 2022

RECOMMENDED ACTION

Approve Fiscal Year (“FY”) 2021-2022 Mid-Year Operating Budget.

BACKGROUND

OCPA is currently in a startup phase as we plan and prepare for the Phase 1 Commercial Services launch in April 2022, the final fiscal quarter of the FY 2021-2022 budget year. The Board approved the FY 2021-2022 budget at the June 22, 2021 meeting.

FY 2021-2022 MID-YEAR OPERATING BUDGET OVERVIEW

(\$ in thousands)	Approved Budget FY2021/22	% of Rev	Mid-Year Budget FY 2021/22	% of Rev	Change \$	Change %
Period Ending Jun 30						
REVENUE AND OTHER SOURCES						
Revenue - Electricity Base	35,475		38,511	86.8%	3,036	8.6%
Revenue - Smart Choice Premium			722	1.6%	722	0.0%
Revenue - 100% Renewable Premium			5,696	12.8%	5,696	0.0%
Less: Uncollectible Accounts		0.0%	(562)	(1.3%)	(562)	0.0%
Net Revenue - Electricity	35,475	100.0%	44,367	100.0%	8,892	25.1%
Total Net Revenue and Other Sources	35,475	100.0%	44,367	100.0%	8,892	25.1%
EXPENDITURES AND OTHER USES						
CURRENT EXPENDITURES						
Cost of Energy	26,632	75.1%	40,816	92.0%	14,184	53.3%
Data Manager	96	0.3%	0	0.0%	(96)	(100.0%)
Utilities Service Fees	10	0.0%	14	0.0%	4	38.4%
Staffing Costs	1,262	3.6%	1,522	3.4%	260	20.6%
Contract Services	903	2.5%	1,137	2.6%	234	25.9%
Legal Services	354		800	1.8%	446	126.0%
Marketing and Customer Enrollment	458	1.3%	433	1.0%	(25)	(5.5%)
Other G&A	402	1.1%	201	0.5%	(201)	(50.0%)
	30,117	84.9%	44,922	101.3%	14,805	49.2%
DEBT SERVICE						
Interest and finance costs - nonoperating	858	2.4%	149	0.3%	(709)	(82.6%)
Total Expenditures and Other Uses	30,975	87.3%	45,072	101.6%	14,097	45.5%
Net Income (Surplus/Deficit)	4,500	12.7%	(704)	(1.6%)	(5,204)	(115.7%)

Key Statistics:

Total Load (MWh) - Retail	468,334
\$/MWh - Net Electricity Sales	\$ 94.73
Total Load (MWh) - Wholesale	496,434
\$/MWh - Cost of Energy	\$ 82.22
Net Margin	(704)
Net Margin %	(1.6%)

FY 2021-2022 MID-YEAR OPERATING BUDGET ANALYSIS

The detailed mid-year budget adjustments since the approval of the FY 2021-2022 budget are as follows:

Net Revenue - Electricity

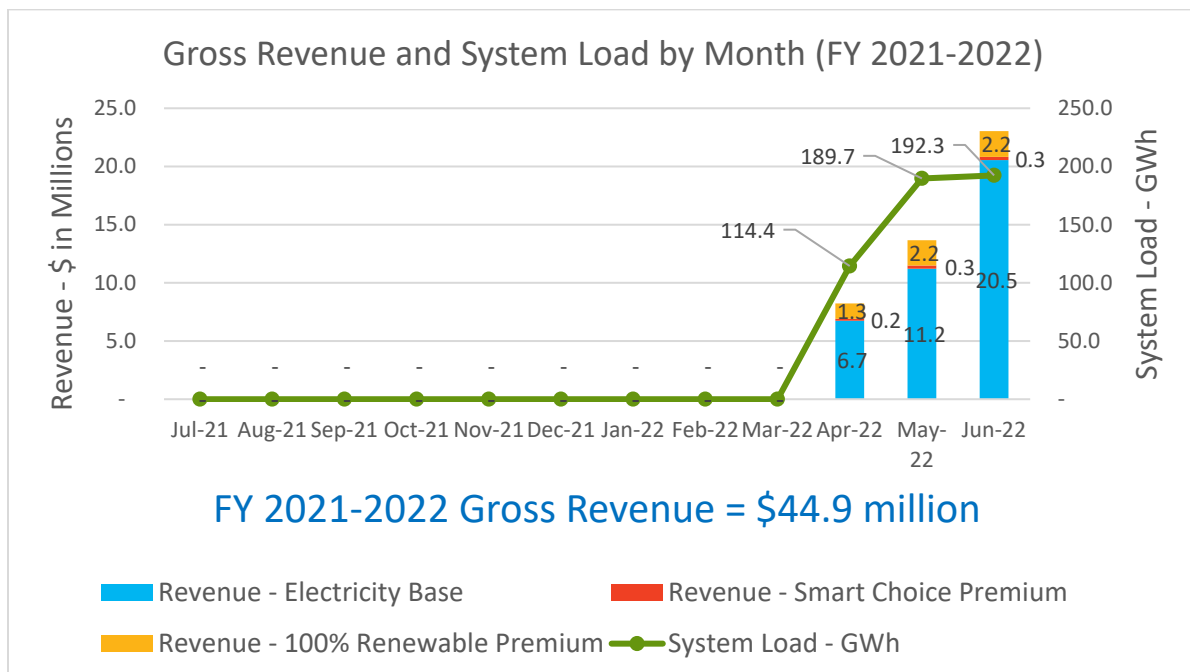
There are many variables that can impact FY 2021-2022 expected revenue such as default product selection by the member agencies, demand forecast, and changes in Southern California Edison's ("SCE") generation rates and Power Charge Indifference Adjustment ("PCIA").

As of June 30, 2022, revenue is forecasted to be \$8.9 million higher than expected due in large part to the unexpected adoption of 100% Renewable Choice and Smart Choice products as the default by the following member agencies:

1. Buena Park: 100% Renewable Choice across the board
2. Fullerton: Residential and Commercial Accounts will default to Smart Choice. Municipal accounts will default to Basic Choice
3. Huntington Beach: 100% Renewable Choice across the board
4. Irvine: 100% Renewable Choice across the board

In mid-February 2022, SCE announced an increase in generation rates and a reduction in PCIA rates effective March 1, 2022. Both actions will lead to an increase of OCPA revenue. The average SCE generation rates in 2022 are projected to be about 17.9% or 1.2 cents per kWh higher than 2021 (which was used as the projected SCE generation rates for the approved FY 2021-22 budget), whereas the PCIA is projected to be about 48% or 0.9 cents per kWh lower than 2021 (which was used as the projected SCE PCIA for the approved FY 2021-2022 budget).

The projected launch rates in 2022 assume Basic Choice set at parity with SCE rates, plus adders of 1 cent per kWh for Smart Choice and 1.5 cents per kWh for 100% Renewable Choice customers respectively, reduced by an assumed rate of uncollectible revenues of 1.25%. Forecasted gross revenue (prior to uncollectible accounts) for FY 2021-2022 is \$44.9 million and begins in April 2022 as shown in the graph below. Base revenue consists of Basic Choice, Smart Choice and 100% Renewable customers except for the rate premiums for Smart Choice and 100% Renewable.

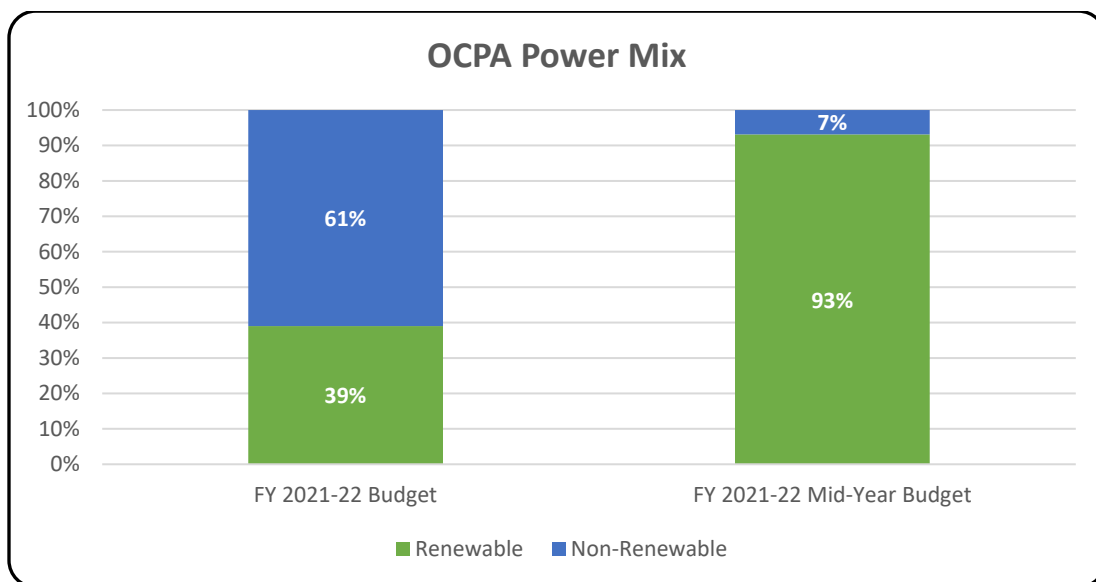


Cost of Energy

Energy consumption is estimated to be 496 GWh, reduced by system and distribution system losses of 6%. Energy cost consists of two components – Energy and Resource Adequacy. The Energy cost component includes system energy, eligible renewables, and carbon free attributes, which are estimated at \$35.1 million or 86% of the total cost of energy. The Resource Adequacy component is forecasted at \$5.7 million or 14% of the total cost of energy.

As of June 30, 2022, cost of energy is projected to be \$14.2 million higher than expected due to higher projected market prices and the need to purchase higher renewable energy content products to serve additional 100% Renewable Choice and Smart Choice customers. Additionally, certain OCPA energy contracts have a levelized price (a single, fixed \$/MWh) for the entirety of each calendar year. These levelized prices increase power costs during the spring relative to the monthly prices assumed in the budget and reduce power costs during the summer. Consequently, costs for the April to June 2022 period of the fiscal year are higher than projected, and the benefit of the levelized price for calendar year 2022 will be recognized in FY 2022-2023.

As shown in the graph below, the anticipated renewable energy content has increased from 39% to 93% during FY 2021-2022:



As of February 2022, energy prices are hedged for about 75% of expected consumption. Therefore, changes in market price, forecast accuracy, unusual weather, and regulatory risks are likely to cause further deviations from the current forecast.

For solar customers, OCPA’s Net Surplus Compensation (“NSC”) rate is set at 10% above SCE’s NSC rate. The forecasted total payout amount from April to June 2022 for OCPA Net Energy Metering (“NEM”) customers is estimated at \$225k.

Data Manager and Utilities Service Fees

OCPA contracts with Calpine Energy Solutions for data management, billing, and call center operations services. The data management fees are based on a monthly fixed fee plus a fixed price per meter per month. Such fees will be waived from April to June 2022 due to the \$1.75 million waiver of service fees clause in the contract. Service fees paid to SCE are based on charges per account per month for meter data posting and customer billing processing charges.

Staffing Costs

The FY 2021-2022 proposes 14 full-time positions across the organization including executive, finance and data analytics, power services, communications, outreach and energy programs, and administrative services. The impact of total staffing costs is projected at \$1.5 million or 3.4% of revenue as of June 30, 2022.

Contract Services

Contract Services include the following professional support services:

- Accounting: day-to-day accounting services and an annual external financial audit performed by an independent auditor
- Administration: board clerk and human resources support services
- Finance: credit facility and lockbox agreement financial advisory, rate design, and data analytics consulting support
- Power Procurement: power procurement and risk management support, integrated resource and implementation plan services, scheduling coordination and dispatch services, load forecasting, market monitoring and congestion revenue rights, and CAISO settlements and reporting services

As of June 30, 2022, contract services are forecasted to be \$234k higher than anticipated due to the actual and projected workload.

Legal Services

Legal Services include general counsel and special counsel representation of OCPA, power supply procurement transactional and negotiation support, support for regulatory and legislative advocacy, credit facility and lockbox agreements review and negotiation services, and Public Records Act (“PRA”) support.

As of June 30, 2022, legal services are forecasted to be \$446k higher than anticipated primarily due to a number of PRA requests, non-legal services such as Board Clerk support during the first six months of the fiscal year, and legal support regarding other unanticipated matters. There will be an expected increase in legal expenses to support the voluntary allocation and market offer (“VAMO”) process with Southern California Edison (“SCE”) and San Diego Gas & Electric (“SDG&E”) and long-term renewables portfolio standard (“RPS”) negotiations from February to June 2022.

It is not unusual for legal and other professional support services to be higher than the original estimate during the year in which a CCA is commencing operations due to a heavier reliance on professional support as the management team is brought on board and key policies are adopted and put in place. The policies that are adopted, such as the power mix, may also result in additional work. There also tends to be higher than usual public and media interest in management and policy decisions as the future operation of the CCA takes shape. In the case of OCPA, community interest has been significant, resulting in substantial time and effort responding to public inquiries and PRA requests. Negotiation with financing parties and energy providers, both with respect to legal and business terms, takes longer as master agreements, enabling terms and relationships are put in place that will become self-executing over time under the supervision of management.

Marketing and Customer Enrollment

Marketing and Customer Enrollment include the following support services:

- Customer enrollment notification mailers and postage
- Strategic outreach and marketing efforts such as OCPA website and collateral development
- Social media and video development to promote brand name

- Customer engagement, member agencies support, needs of residents and businesses, and reaching underserved communities
- Sponsorships, advertisements, working with press/media outlets to share OCPA value to the community

As of June 30, 2022, marketing and customer enrollment costs are slightly lower than anticipated by \$25k due to reduced customer enrollment notification cost.

Other General & Administrative

Other General & Administrative include ordinary business expenses such as rent, information technology equipment and software, liability insurance, membership dues, bank fees, office supplies, conferences, travel, business meals, and miscellaneous operational expenses.

As of June 30, 2022, other general & administrative costs are lower primarily due to lower rent and miscellaneous operational expenses.

Interest and Finance Costs - Nonoperating

Interest and Finance Costs are lower due to lower utilization of the line of credit facility.

FISCAL IMPACT

The recommended FY 2021-2022 Mid-Year Operating Budget anticipates a decrease in net operating position of \$5.2 million compared to the initial approved FY 2021-2022 budget.

The current financial plan and rate strategy that are associated with this Mid-Year Budget result in OCPA meeting its financial requirements including debt service coverage ratio of 1.25 by June 30, 2023.