**ORANGE COUNTY POWER AUTHORITY**
**Staff Report – Item 9.3**

---

To: Orange County Power Authority Board of Directors

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

Subject: APPROVE FISCAL YEAR 2022-23 MID-YEAR OPERATING BUDGET

Date: March 15, 2023

---

## RECOMMENDED ACTION

Approve Fiscal Year 2022-23 Mid-Year Operating Budget.

## BACKGROUND

The Board approved the Annual Operating Budget for Fiscal Year 2022-23 at the June 29, 2022 meeting. Since then, several factors have caused significant changes to the operating revenues and cost of energy, impacting the FY 2022-23 budget. Specifically, on December 13, 2022, the Board approved the OCPA 2023 rate design, effective January 9, 2023. This rate design set the OCPA Basic Choice rates (with at least 38% renewable energy) at a 2% discount to Southern California Edison's (SCE) equivalent generation rates, whereas the OCPA Smart Choice rates (with at least 69% renewable energy) are set at 1.0 cent per kWh greater than Basic Choice rates and 100% Renewable Choice rates are set at 1.5 cents per kWh greater than Basic Choice rates. Additionally, OCPA has received several more months of meter data, which has enabled a more refined sales forecast to be produced. Finally, changes in power markets and the beneficial effects of OCPA's energy hedging program have had impacts on the power supply budget.

At mid-year, staff is adjusting the budget to update the revenues to reflect the above rate changes, update the energy supply expenses using the latest market price data and portfolio positions, and update non-energy operating expenses changes.

# FY 2022-23 MID-YEAR OPERATING BUDGET OVERVIEW

| ($ in thousands)<br>Period Ending Jun 30 | Approved Budget FY 2022/23 | % of Rev | Mid-Year Budget FY 2022/23 | % of Rev | Change $ | Change % |
|---|---|---|---|---|---|---|
| **REVENUE AND OTHER SOURCES** | | | | | | |
| Revenue - Electricity Base | 261,500 | | 258,486 | 90.4% | (3,014) | -1.2% |
| Revenue - Smart Choice Premium | 5,573 | | 4,145 | 1.4% | (1,428) | -25.6% |
| Revenue - 100% Renewable Premium | 38,498 | | 26,876 | 9.4% | (11,622) | -30.2% |
| Less: Uncollectible Accounts | (3,820) | (1.3%) | (3,619) | (1.3%) | 201 | -5.3% |
| Net Revenue - Electricity | 301,750 | 100.0% | 285,887 | 100.0% | (15,864) | -5.3% |
| Investment and Miscellaneous Income | 1 | 0.0% | 8 | 0.0% | 7 | 529.0% |
| **Total Net Revenue and Other Sources** | 301,752 | 100.0% | 285,895 | 100.0% | (15,857) | -5.3% |
| **EXPENDITURES AND OTHER USES** | | | | | | |
| CURRENT EXPENDITURES | | | | | | |
| Cost of Energy | 285,342 | 94.6% | 234,366 | 82.0% | (50,976) | -17.9% |
| Data Manager | 1,839 | 0.6% | 1,403 | 0.5% | (436) | -23.7% |
| Utilities Service Fees | 532 | 0.2% | 690 | 0.2% | 158 | 29.7% |
| Staffing Costs | 4,046 | 1.3% | 3,070 | 1.1% | (976) | -24.1% |
| Contract Services | 1,302 | 0.4% | 1,287 | 0.5% | (15) | -1.1% |
| Legal Services | 580 | 0.2% | 790 | 0.3% | 210 | 36.1% |
| Marketing and Customer Enrollment | 1,597 | 0.5% | 1,241 | 0.4% | (356) | -22.3% |
| Other G&A | 844 | 0.280% | 800 | 0.280% | (44) | -5.2% |
| Energy Programs | 500 | 0.2% | 500 | 0.2% | 0 | 0.0% |
| | 296,582 | 98.3% | 244,146 | 85.4% | (52,435) | -17.7% |
| OTHER USES | | | | | | |
| Capital Outlay | 110 | 0.0% | 10 | 0.0% | (100) | -90.9% |
| Total Other Uses | 110 | 0.0% | 10 | 0.0% | (100) | -90.9% |
| DEBT SERVICE | | | | | | |
| Interest costs - nonoperating | 329 | 0.1% | 753 | 0.3% | 424 | 128.8% |
| Finance costs - Principal | 0 | | 0 | | 0 | 0.0% |
| **Total Expenditures and Other Uses** | 297,021 | 98.4% | 244,909 | 85.7% | (52,112) | -17.5% |
| **Net Income (Surplus/Deficit)** | **4,731** | 1.6% | **40,986** | 14.3% | 36,255 | 766.3% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Key Statistics: | | | | | | |
| Total Load (MWh) - Retail | 3,073,713 | | 2,583,473 | | | |
| $/MWh - Net Electricity Sales | $ 98.17 | | $ 110.66 | | | |
| Total Load (MWh) - Wholesale | 3,258,136 | | 2,738,481 | | | |
| $/MWh - Cost of Energy | $ 87.58 | | $ 85.58 | | | |
| Net Margin ($) | 4,731 | | 40,986 | | | |
| Net Margin % | 1.6% | | 14.3% | | | |

## FY 2022-23 MID-YEAR OPERATING BUDGET ANALYSIS

The FY 2022-23 Mid-Year Budget is balanced and presents OCPA in stable financial condition. This proposed mid-year budget adjusts the revenues and cost of energy to be in line with the 2023 rate design approved by the Board in December 2022 and the most recent proforma power supply projections. The projected balance available for reserves of $41 million is an increase of $36.3 million from the $4.7 million presented in the original FY 2022-23 Budget.

The detailed mid-year budget adjustments and key assumptions are outlined below:

***Net Revenue - Electricity***

There are many variables that impact FY 2022-23 expected revenue, such as default product selection by the member agencies, demand forecast, and changes in SCE generation rates, and the Power Charge Indifference Adjustment (PCIA).

Budgetary electricity revenue is based on estimates of customer electricity usage and retail electricity rates. The proposed mid-year budget shows a reduction in net revenues of $15.9 million compared to the original FY 2022-23 budget. This is primarily due to the downward adjustment of the customers sales volume after using OCPA's own customer consumption dataset and participation rates for customer load projection. The original FY 2022-23 budget was developed in the April and May 2022 timeframe where SCE was unable to generate a correct 2021 dataset for OCPA to use. As a result, staff utilized their outdated 2019 historical dataset to project customer consumption (Note: 2020 SCE dataset was deemed unreliable due to the usage anomalies caused by COVID-19 global pandemic). Lower energy sales are primarily the result of greater than expected opt-outs in the residential sector and the actual enrolled customer mix being weighted more heavily within the smallest commercial GS-1 category than expected. Additionally, the actual load consumption from our industrial TOU-8 customers has been lower than the forecast derived from SCE's 2019 historical dataset. The change in customer usage patterns since the 2019 period resulted in actual revenues being lower than projected.

The Board approved rates change effective January 9, 2023 sets Basic Choice rates at a 2% discount to SCE's equivalent generation rates, plus adders of 1.0 cent per kWh for Smart Choice and 1.5 cents per kWh for 100% Renewable Choice customers respectively. Projected revenues are reduced by an assumed rate of uncollectible revenues of 1.25%. Forecasted gross revenue (prior to uncollectible accounts) for FY 2022-23 is $289.5 million.

***Cost of Energy***

Energy consumption is estimated to be 2,738 GWh, including 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 $191.8 million or 81.8% of the total cost of energy. The Resource Adequacy component is forecasted at $42.6 million or 18.2% of the total cost of energy.

As of June 30, 2023, cost of energy is projected to be $51 million lower than expected due to the downward adjustment of sales volume, fluctuating market prices, and advantageous power supply contracting. Excess procured energy was sold in the CAISO spot market for a gain throughout FY 2022-23. Additionally, 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 and reduce power costs during the summer relative to the levelized monthly prices assumed in the budget, and this had a beneficial effect on power costs during FY 2022-23.

Energy prices are fully hedged for the expected consumption through June 30, 2023. Changes in market prices, forecast accuracy, unusual weather, and regulatory risks are unlikely to cause significant 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 for FY 2022-23 for OCPA Net Energy Metering ("NEM") customers is estimated at $62k, slightly higher than the original budget by $17k.

***<u>Non-Energy Operating Expenses</u>***

OCPA's non-energy operating expenses fall into data manager and utilities service fees, staffing costs, contract services, legal services, marketing and outreach, general and administration, and energy programs categories. OCPA has actively managed these costs and proposed an overall reduction by $1.5 million (reduced from 3.7% of revenue to 3.4%). Expense assumptions are outlined as follows:

***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 the number of customer meters served by OCPA and per-meter rates charged by Calpine.

Utilities Service fees are charged by SCE for a variety of customer billing and administrative services.

***Staffing Costs***

On February 15, 2023, the Board approved 21 full-time positions across the organization including executive, finance and data analytics, power services, communications and external affairs, and administrative services for FY 2022-23. Staffing costs include salaries, payroll taxes, benefits, and accrued paid time off staff. The impact of total staffing costs is projected at $3 million or 1.1% of revenue as of June 30, 2023.

***Contract Services***

Contract Services comprise the following professional support services:

- Accounting: day-to-day accounting and annual audit assistance services and an annual external financial audit performed by an independent auditor
- Finance: rate design and related regulatory advisory, financial planning & analysis, and data analytics support
- Power Procurement: risk and portfolio management related support, scheduling coordination services, load forecasting, market monitoring and congestion revenue rights, and CAISO settlements and reporting services
- HR: human resources support services
- IT: IT helpdesk support and CPUC's required advanced metering infrastructure audit

As of June 30, 2023, contract services are forecasted to be $15k lower 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, specific regulatory proceedings (e.g., SCE's ERRA Applications, SCE General Rate Case, and other compliance obligations), non-energy contracting support, employment matters, governance and general liability management, clerk support, RA appeal services, and regulatory and legislative advocacy.

As of June 30, 2023, the proposed legal services are forecasted to be $210k higher than anticipated primarily due to unanticipated labor-related investigation costs and the high volume of regulatory and compliance filing services.

***Marketing and Outreach***
Marketing and Outreach include the following support services:

- Customer enrollment notification printing, mailers, and postage
- Marketing, communications, and branding/co-branding
- Public engagement and education
- Website design/maintenance and development of collateral materials
- Digital services, such as social media, photography, and video
- Customer care, key customer engagement, member agencies support and engagement, and outreach to underserved communities
- Memberships and sponsorships of local community-based-organizations, business associations, trade organizations, non-profits, multi-cultural organizations, and faith-based-organizations
- Coordination and collaboration with press/media outlets

As of June 30, 2023, marketing and outreach costs are lower than anticipated by $356k, primarily due to reduced customer enrollment notification costs.

***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, 2023, other general & administrative costs are slightly lower than anticipated by $44k.

***Energy Programs***
The design and implementation of energy programs that are relevant and useful to OCPA member agencies and customers is one of the many benefits of a community choice energy program. This is the reinvestment of revenue back into the communities. Anticipated in FY 2022-23 is the expenditure of $500k on local, community-based programs that were developed in concert with the OCPA Community Advisory Committee. OCPA looks forward to strategically expanding its program offerings in the future.

***Non-Operating Expenses***

***Interest and Finance Costs***

Interest and Finance Costs represent fees, borrowing and letter of credit costs associated with OCPA's loan facility.

As of June 30, 2023, interest and finance costs are higher than anticipated by $424k, predominately due to the timing of loan draws and letters of credit posted for collateral for energy supply and a higher interest rate (current at 6% vs. 2.4% reflected in the original budget).

***Capital Outlay***

The capital expenditure budget proposed a lease office tenant improvement of $10k for OCPA's long-term office lease. The tenant improvement cost will be partly offset by a tenant improvement credit provided by Calpine Energy Solutions.

Due to a change of priority, staff will postpone development of an in-house analytics platform, with a proposed budget of $100k, to next Fiscal Year.

## FISCAL IMPACT

The recommended FY 2022-23 Mid-Year Operating Budget includes $285.9 million in net revenues and $244.9 million in total operating and non-operating expenses, resulting in a contribution to reserves of $41 million.