ORANGE COUNTY POWER AUTHORITY
Staff Report – Item 10.2

To:	Orange County Power Authority Board of Directors
From:	Tiffany Law, Chief Financial Officer
Approved By:	Joe Mosca, Interim Chief Executive Officer
Subject:	APPROVE FISCAL YEAR 2023-24 MID-YEAR BUDGET AMENDMENT
Date:	March 19, 2024

RECOMMENDED ACTION

Approve Fiscal Year 2023-24 Mid-Year Operating Budget Amendment, as proposed in Attachment 1.

BACKGROUND

The Board approved the Fiscal Year 2023-24 Annual Operating Budget at its meeting on June 21, 2023. This balanced budget, representing the first full year of operations for OCPA, projected total net revenues of $329.2 million and total expenditures of $288 million, resulting in a net surplus of $41.1 million.

Subsequent developments have prompted considerable adjustments to both operating revenues and energy supply costs, impacting the original budget for FY 2023-24. Specifically, on January 24, 2024, the Board approved the OCPA 2024 rate design, implemented on February 20, 2024. This rate design, which utilizes Southern California Edison's (SCE) generation and Power Charge Indifference Adjustment (PCIA) rates effective January 1, 2024, establishes the OCPA Basic Choice rate plan. Featuring an increased 44% renewable energy content, this plan is offered at a 3% discount compared to SCE's equivalent generation rates. Moreover, the OCPA Smart Choice rate plan, now with a 72% renewable energy content, is priced 1.0 cent per kWh above the Basic Choice plan. The 100% Renewable Choice rate plan is set at 1.5 cents per kWh higher than the Basic Choice plan. A significant increase in market prices for resource adequacy and renewable energy has led to a substantial rise in energy costs. Additional budget adjustments include increases in data manager and utility service fees, as well as reductions in staffing, contract services, marketing & outreach, and general & administrative expenses. These changes are largely attributable to the timing of staff hires, alignment with confirmed costs, and contracted services.

Midway through the year, staff is revising the budget to reflect changes in operating revenues due to the rate adjustments, update the energy supply expenses with the latest market prices and portfolio positions, and amend non-energy operating expenses following recent developments.

FY 2023-24 MID-YEAR OPERATING BUDGET OVERVIEW

The table below summarizes the approved revenue and expense budgets for FY 2023-24 in comparison to the proposed amendments for the FY 2023-24 budget.

($ in thousands) Period Ending Jun 30	Approved Budget FY 2023/24	% of Rev	Mid-Year Budget FY 2023/24	% of Rev	Change $	Change %
REVENUE AND OTHER SOURCES						
Revenue - Electricity Base	300,570		357,409			
Revenue - Smart Choice Premium	4,896		4,582			
Revenue - 100% Renewable Premium	27,875		24,097			
Less: Uncollectible Accounts	(4,167)	(1.3%)	(5,657)	(1.5%)	(1,491)	
Net Revenue - Electricity	329,175	100.0%	380,430	99.5%	51,255	15.6%
Investment and Miscellaneous Income	0	0.0%	1,760	0.5%	1,760	0.0%
Total Net Revenue and Other Sources	329,175	100.0%	382,191	100.0%	53,016	16.1%
EXPENDITURES AND OTHER USES						
CURRENT EXPENDITURES						
Cost of Energy	271,934	82.6%	296,657	77.6%	24,723	9.1%
Data Manager	2,345	0.7%	2,539	0.7%	194	8.3%
Utilities Service Fees	372	0.1%	606	0.2%	234	62.9%
Staffing Costs	6,346	1.9%	3,980	1.0%	(2,366)	(37.3%)
Contract Services	1,721	0.5%	1,716	0.4%	(6)	(0.3%)
Legal Services	675	0.2%	675	0.2%	0	0.0%
Marketing and Customer Enrollment	2,304	0.7%	2,246	0.6%	(59)	(2.5%)
Other G&A	1,086	0.3%	967	0.3%	(119)	(11.0%)
Energy Programs (Transfer to Programs Fund)	750	0.2%	750	0.2%	0	0.0%
	287,533	87.3%	310,134	81.1%	22,601	7.9%
OTHER USES						
Capital Outlay	125	0.0%	100	0.0%	(25)	(20.0%)
Total Other Uses	125	0.0%	100	0.0%	(25)	(20.0%)
DEBT SERVICE						
Interest costs - nonoperating	314	0.1%	463	0.1%	149	47.6%
Finance costs - Principal	68	0.0%	32	0.0%	(35)	(52.1%)
Total Expenditures and Other Uses	288,040	87.5%	310,730	81.3%	22,690	7.9%
Net Income (Surplus/Deficit)	**41,135**	12.5%	**71,461**	18.7%	30,326	73.7%
Key Statistics:						
Total Load (MWh) - Retail	2,584,561		2,589,417			
$/MWh - Net Electricity Sales	$ 127.36		$ 146.92			
Total Load (MWh) - Wholesale	2,739,635		2,744,782			
$/MWh - Cost of Energy	$ 99.26		$ 108.08			
Net Margin ($)	41,135		71,461			
Net Margin %	12.5%		18.7%			

FY 2023-24 MID-YEAR OPERATING BUDGET ANALYSIS

The FY 2023-24 Mid-Year Budget demonstrates financial stability for OCPA. This balanced budget aligns revenues with the 2024 rate design approved by the Board in January 2024 and incorporates the latest power supply projections for energy costs. The anticipated net surplus is now projected at $71.5 million, an increase of $30.3 million over the $41.1 million projected in the original FY 2023-24 Budget.

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

Net Revenue – Electricity (+$51.3 million)

OCPA's primary revenue source comes from the retail sale of electricity to customers, facilitated through OCPA's generation rates. The proposed mid-year budget for FY 2023-24 reflects a full fiscal year of retail sales to our 32,000 commercial and 202,000 residential customers within the SCE service territory.

The following variables impact the projected revenue for FY 2023-24:

- SCE's generation and PCIA rate update, effective January 1, 2024, resulted in OCPA generation rates being higher than expected. From January through June 2024, SCE's average generation rates are approximately 1.1 cents per kWh higher than originally anticipated, while its average PCIA rates are approximately 0.7 cent per kWh lower than originally anticipated.
- The implementation of the newly approved OCPA 2024 Rate Design, effective February 20, 2024, sets Basic Choice rates at a 3% discount to SCE's equivalent generation rates, with adders of 1.0 cent per kWh for Smart Choice and 1.5 cents per kWh for 100% Renewable Choice rates, respectively.
- A shift in the default rate plan from 100% Renewable Choice to Basic Choice by the City of Huntington Beach, starting January 1, 2024.
- An upward adjustment of the customer sales volume load projection by 4.9 GWH based on OCPA's analysis of customer consumption data.
- An increase in the bad debt provision from 1.25% to 1.75%, effective January 1, 2024, to better cover the potential risk associated with aging receivables.

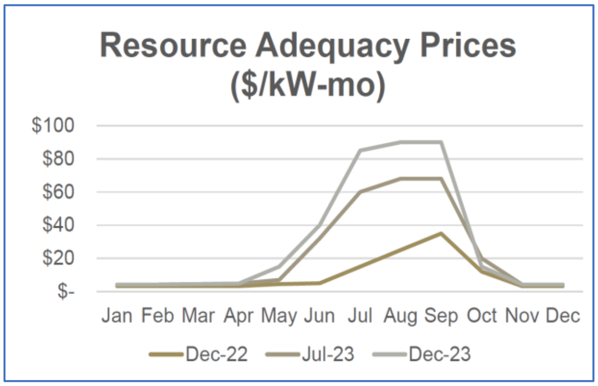
Investment and Miscellaneous Income (+$1.8 million)

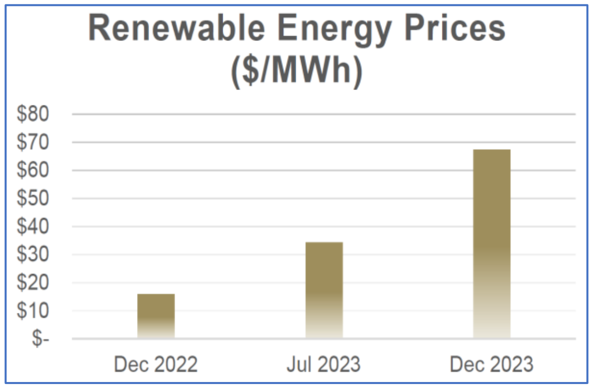
The projected investment income for FY 2023-24 is derived from interest earned on cash reserves held in the FDIC-insured IntraFi Cash Services (ICS) money market account at US Bank. This account provides daily liquidity and complies with OCPA's Investment Policy. Staff monitor the account daily to maximize the interest yield, which is approximately 4.9% APY, without incurring any investment advisor fees.

Cost of Energy (+$24.7 million)

Energy consumption is estimated at 2,745 GWh, including system and distribution system losses of 6%. The energy supply cost primarily consists of two components – Energy and Resource Adequacy (RA). The energy cost component, which includes system energy, eligible renewables, and carbon-free attributes, is estimated at $250.8 million or 84.6% of the total cost of energy. The RA component is forecasted to be $45.8 million or 15.4% of the total cost of energy.

The cost of energy for FY 2023-24 has exceeded the budget, primarily due to a significant increase in market prices for renewable energy. This increase has been partially offset by revenue from the sales of surplus RA. Prices for renewable energy (RE) have surged by 420% year-over-year, with supply remaining very tight in 2024. In a similar vein, summer RA pricing has experienced a nearly 380% increase year-over-year. OCPA purchased more RA than required for its compliance obligations. This surplus was then sold to other load-serving entities, helping them in meeting their compliance obligations and generating revenue for OCPA. The graphics below illustrate the price hikes in the RA and RE markets:





Energy prices are fully hedged against the expected consumption through June 30, 2025. 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 has set the Net Surplus Compensation (NSC) rate at 10% above SCE's NSC rate. The forecasted total payout amount for FY 2023-24 for OCPA's Net Energy Metering (NEM) customers is estimated to be $700k, which is $250k higher than the original budget.

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

OCPA's non-energy operating expenses are categorized into data manager, utility service, staffing, contract services, legal services, marketing & outreach, general & administration, and energy programs. OCPA has actively managed these costs, proposing an overall reduction of $2.1 million (decreasing from 4.7% of revenue to 3.5%). The expense assumptions are outlined as follows:

Data Manager and Utility Service Fees (+$428k)

OCPA contracts with Calpine Energy Solutions for billing data management and call center operations. The fees for billing data management are based on the number of customer meters OCPA serves and the per-meter rates charged by Calpine. The rise in Calpine's service fees is attributed to the bi-monthly enrollment of NEM accounts, which were not accounted for in the original budget for FY 2023-24.

Utility Service Fees, charged by SCE, cover a range of customer billing and administrative services. The increase in these fees results from actual unforeseen costs incurred by SCE.

Staffing Costs (-$2.4 million)
In June 2023, the Board approved 26 full-time and 2 intern positions across the organization for FY 2023-24. Staffing costs include salaries, payroll taxes, benefits, and accrued paid time off for staff, along with the Board-approved 3.8% cost-of-living increase in January 2024. The total staffing costs are projected to be $4 million, or 1% of revenue, as of June 30, 2024. This balance is below the original budget, attributable to the delayed timing of new hires.

Contract Services (-$6k)
OCPA follows industry best practices by initially engaging consultants during the early stages of operations and gradually enhancing its internal staffing capabilities to internalize certain non-industry technical tasks.

Contract Services include the following professional support services:

- Day-to-day accounting, annual financial audit, rate strategies, SCE rate case assessment, HR, executive recruitment, compensation and benefits study, IT, audit advisory services, project management, and banking services.
- Power supply portfolio and risk management, short and long-term energy procurement and contracting, load forecasting, integrated resource planning, scheduling coordination, congestion revenue rights (CRR) purchases and sales, CAISO settlements and reporting, and legislative & regulatory compliance services.

As of June 30, 2024, contract services are forecasted to align with the original budget for FY 2023-24.

Legal Services (No Budget Adjustment)
Legal Services include general counsel and special counsel representation of OCPA, support for power supply procurement transactional and negotiation, involvement in 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, 2024, the proposed legal services are forecasted to be the same as the original budget for FY 2023-24.

Marketing and Outreach (-$59k)
As a community-focused public agency, OCPA places a strong emphasis on engaging with its customers. Through various channels, staff actively seeks new opportunities to connect with and cultivate positive relationships with our customers.

Marketing and Outreach services include:

- Maintaining a comprehensive plan to raise awareness about our programs.
- Engaging residential and commercial customers to promote our 100% renewable program and other product offerings.
- Supporting website development and design requirements.

- Building brand and program awareness, minimizing customer opt-outs, maximizing opt-ups to our 100% renewable product, and establishing a framework for long-term community engagement.
- Utilizing direct mailers and covering postage costs for customer enrollment notifications, Joint Rate Comparisons (JRC), Power Content Label (PCL), and obtaining consulting support for strategic outreach and marketing initiatives.

As of June 30, 2024, marketing and outreach costs are projected to be lower than anticipated, primarily due to reduced spending on paid media and advertising. This reduction is partially offset by increased costs for customer notifications.

Other General & Administrative (-$119k)
Other General & Administrative expenses include ordinary business costs such as rent, IT equipment and software, liability insurance, bank fees, office supplies, conferences, travel, business meals, and miscellaneous operational expenses. This category also includes dues for the California Community Choice Association (CalCCA) Membership. CalCCA provides legislative and regulatory support to its members, addressing many of the challenges that face our industry.

As of June 30, 2024, other general & administrative costs are below anticipated levels due to effective cost-control measures.

Energy Programs (No Budget Adjustment)
The design and implementation of energy programs that are relevant and beneficial to OCPA member agencies and customers represent one of the many advantages of a community choice energy program. This approach reflects the reinvestment of revenue back into the communities. For FY 2023-24, there is an anticipated expenditure of $750k on local, community-based programs developed in collaboration with the OCPA Community Advisory Committee.

<u>Non-Operating Expenses</u>
Interest and Finance Costs (+$114k)
Interest and Finance Costs include the repayment of loan principal, associated interest, loan commitment, and fees for the issuance of letters of credit.

As of June 30, 2024, interest and finance costs are higher than anticipated, primarily due to the renewal of letters of credit that were posted as collateral for energy supply.

Capital Outlay (-$25k)
The capital expenditure budget includes a proposed $100k allocation for developing an in-house data analytics platform.

The originally proposed tenant improvement of $225k for OCPA’s long-term office will be deferred to the next fiscal year, with the landlord confirming that the timeline for completing tenant improvements is set for mid-August 2024. The cost of tenant improvements will be partially offset by a $200k tenant improvement credit provided by Calpine Energy Solutions.

FISCAL IMPACT

In its first full year of combined commercial and residential operations, the proposed FY 2023-24 Mid-Year Operating Budget projects net revenues of $382.2 million and total operating and non-operating expenses of $310.7 million, leading to a contribution to reserves of $71.5 million. Consequently, the Rate Stabilization Reserve Fund is expected to reach $110 million, representing 35% of total budgetary operating expenditures.

ATTACHMENT

1. Proposed Fiscal Year 2023-24 Mid-Year Operating Budget Amendment

Proposed Fiscal Year 2023-24 Mid-Year Operating Budget Amendment

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