ORANGE COUNTY POWER AUTHORITY
Staff Report – Item 8.2

To: Orange County Power Authority Board of Directors

From: Tiffany Law, Chief Financial Officer

Approved By: Joe Mosca, Chief Executive Officer

Subject: APPROVE FISCAL YEAR 2024-25 MID-YEAR BUDGET AMENDMENT

Date: March 10, 2025

RECOMMENDED ACTION

Approve Fiscal Year 2024-25 Mid-Year Operating Budget Amendment, as proposed in Attachment 1.

BACKGROUND

On June 18, 2024, the Board approved the FY 2024-25 Operating Budget, marking the second full year of OCPA's operations. The balanced budget projected $306 million in total net revenues and $289 million in total expenditures, resulting in a net surplus of $16.6 million.

However, key developments have significantly impacted operating revenues, prompting a reassessment of the original budget. On January 22, 2025, the Board approved the OCPA 2025 rate design, which took effect on February 10, 2025. In its continued commitment to maintaining customer affordability, OCPA chose to keep the rate structure unchanged from 2024.

While these rates support affordability, rising energy costs have necessitated further budget adjustments. Higher market prices for resource adequacy and renewable energy have driven up costs, requiring strategic adjustments in energy procurement strategies.

In response, targeted reductions have been made across staffing, energy programs, marketing & outreach, legal services, data management, general & administrative costs, and capital expenditures. Additionally, the budget has been refined to align with confirmed costs for utility service fees, contract services, and interest expenses.

These proactive cost mitigation measures ensure OCPA remains financially resilient in a challenging financial landscape, while continuing to provide stable, affordable energy to its customers.

FY 2024-25 MID-YEAR OPERATING BUDGET OVERVIEW

The table below summarizes the approved revenue and expense budgets for FY 2024-25, compared to the proposed amendments for the FY 2024-25 budget.

($ in thousands) Period Ending Jun 30	Approved Budget FY 2024/25	% of Rev	Mid-Year Budget FY 2024/25	% of Rev	Change $	Change %
REVENUE AND OTHER SOURCES						
Revenue - Electricity Base	283,591		252,312			
Revenue - Smart Choice Premium	4,797		5,931			
Revenue - 100% Renewable Premium	20,364		13,411			
Less: Uncollectible Accounts	(5,403)		(4,754)		(36,448)	(12.0%)
Revenue deferral	0		45,000		45,000	0.0%
Net Revenue - Electricity	303,349	99.2%	311,900	98.6%	8,552	2.8%
Investment and Miscellaneous Income	2,400	0.8%	4,499	1.4%	2,099	87.5%
Total Net Revenue and Other Sources	305,749	100.0%	316,399	100.0%	10,651	3.5%
EXPENDITURES AND OTHER USES						
CURRENT EXPENDITURES						
Cost of Energy	272,532	89.1%	285,539	90.2%	13,007	4.8%
Data Manager	1,960	0.6%	1,850	0.6%	(110)	(5.6%)
Utilities Service Fees	563	0.2%	572	0.2%	9	1.6%
Staffing Costs	6,719	2.2%	4,738	1.5%	(1,980)	(29.5%)
Contract Services	1,614	0.5%	1,610	0.5%	(4)	(0.2%)
Legal Services	711	0.2%	596	0.2%	(115)	(16.1%)
Marketing and Outreach	2,055	0.7%	1,794	0.6%	(261)	(12.7%)
Other G&A	1,525	0.5%	1,429	0.5%	(96)	(6.3%)
Energy Programs	1,000	0.3%	592	0.2%	(408)	(40.8%)
	288,678	94.4%	298,721	94.4%	10,043	3.5%
OTHER USES						
Capital Outlay	382	0.1%	377	0.1%	(6)	(1.4%)
Total Other Uses	382	0.1%	377	0.1%	(6)	(1.4%)
DEBT SERVICE						
Interest costs - nonoperating	72	0.0%	315	0.1%	244	338.7%
Finance costs - Principal	0	0.0%	0	0.0%	0	0.0%
Total Expenditures and Other Uses	289,132	94.6%	299,413	94.6%	10,281	3.6%
Net Income (Surplus/Deficit)	**16,616**	5.4%	**16,986**	5.4%	370	2.2%

FY 2024-25 MID-YEAR OPERATING BUDGET ANALYSIS

The FY 2024-25 Mid-Year Budget reaffirms OCPA's financial stability, maintaining a balanced approach that aligns revenues with the Board-approved 2025 rate design while integrating the latest power supply projections and energy cost forecasts.

Despite a challenging financial landscape of reduced rates and rising energy costs, the anticipated net surplus has been revised to $17 million, reflecting a $370k increase from the original FY 2024-25 budget projection.

The following sections outline the detailed mid-year budget adjustments and key assumptions driving these updates.

Net Revenue – Electricity (-$36.4 million)

OCPA's primary revenue source comes from the retail sales of electricity, with generation rates set relative to Southern California Edison's (SCE) generation rates minus surcharges, including Power Charge Indifference Adjustments (PCIA). The proposed mid-year budget for FY 2024-25 reflects a full fiscal year of retail sales to 24,000 commercial and 153,000 residential customer accounts within the SCE service territory.

Net electricity revenue is projected to decline by $36.4 million, primarily due to OCPA's 2025 rate design[1], which took effect on February 10, 2025. Recognizing the potential for customer rate shock, OCPA maintained the same rate design as in 2024, ensuring stability and affordability. As a result, the average 2025 residential rate was set 3 cents lower, representing a 20% decrease from the original budget, while the average commercial rate was set 4 cents lower, a 30% decrease.

Further contributing to the revenue decline was the shift in default rate plans. In February 2025, the City of Irvine transitioned customers from 100% Renewable Choice to Basic Choice, followed by the City of Buena Park, which moved customers to Smart Choice in March 2025. These adjustments were necessary to shield customers from sudden rate increases, ensuring affordability while preserving OCPA's long-term financial stability.

To account for potential risks associated with aging receivables, the bad debt provision remains at 1.75%.

Revenue Deferral (+$45 million)

To offset the anticipated revenue shortfall resulting from maintaining 2024 rate design in 2025, OCPA strategically deferred $45 million in operating revenue from FY 2023-24 to FY 2024-25. This deferral aligns with the Board-approved Rate Stabilization Policy, serving as a key financial tool to ensure stability and affordability for customers.

By proactively reallocating these funds, OCPA strengthens its ability to mitigate financial risks while maintaining the same rate design in 2025, even as SCE's 2025 generation rates declined significantly and costs for renewable energy (PCC1) and Resource Adequacy (RA) rose. This approach ensures continued rate stability and protects customers from volatility.

---

[1] **Basic Choice** offers a 3% discount compared to SCE's equivalent generation rates and includes 47% renewable energy content. **Smart Choice** is priced at 1.0 cent per kWh above Basic Choice rates and provides 55% renewable energy along with 40% carbon-free energy content. For customers seeking a fully renewable option, **100% Renewable Choice** is available at 1.5 cents per kWh above Basic Choice rates.

As a result, the projected net revenue of $311.9 million for FY 2024-25 remains sufficient to cover energy costs, support operating and non-operating expenses, and contribute to a reasonable operating reserve.

Investment and Miscellaneous Income (+$2.1 million)

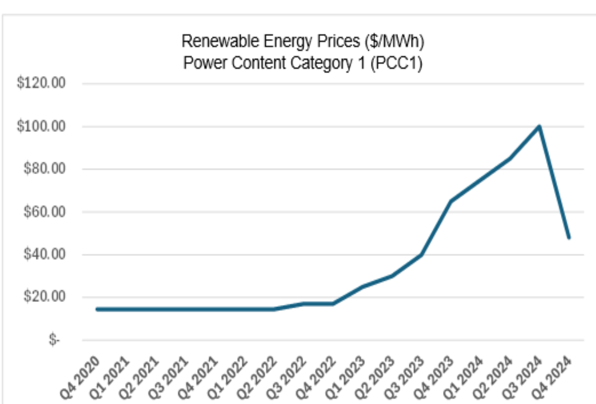
The projected investment income for FY 2024-25 is derived from a diversified portfolio of interest-earning assets, including FDIC-insured IntraFi Cash Services (ICS) money market accounts, negotiable CDs, and U.S. Treasury bills at US Bank. This multi-faceted investment approach ensures both liquidity and compliance with OCPA's Investment Policy, while optimizing risk-adjusted returns.

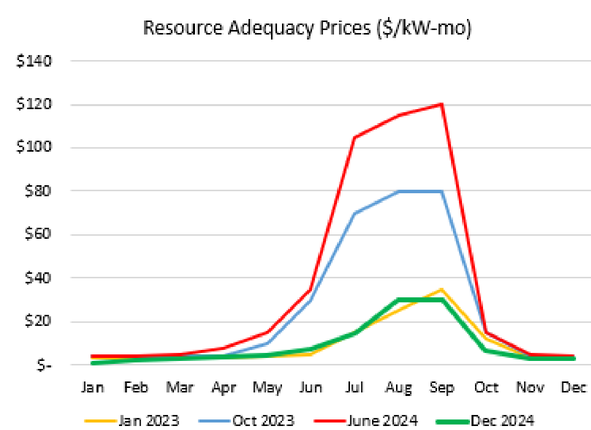
To maximize investment income, staff actively monitors account balances daily, strategically positioning funds across these instruments to capture competitive interest rates ranging from 4.4% to 4.9% APY. By managing investments in-house, OCPA is able to enhance returns without incurring investment advisor fees, ensuring cost-effective and prudent financial management.

Cost of Energy (+$13 million)

Energy consumption for FY 2024-25 is estimated at 2,312 GWh, including 6% distribution system losses. The total energy supply cost consists of two primary components: Energy and RA. The energy cost component, which includes system energy, eligible renewables, and carbon-free attributes, is projected at $252 million, making up 88% of the total cost of energy. The RA component is forecasted at $33.6 million, accounting for 12% of the total cost of energy.

Energy costs for FY 2024-25 have exceeded budget expectations due to unprecedented volatility in renewable energy (RE) and RA prices, along with regulatory adjustments. The renewable energy market, particularly PCC1, has experienced extreme fluctuations, with prices surging over 400% from trough to peak over three years, only to decline by 83% within six months. Market imbalances between supply and demand intensified in late 2024, increasing demand and driving prices higher. Meanwhile, RA markets have also been highly volatile, with 2025 summer RA forward price curves rising nearly 50% between October 2023 and June 2024, only to drop 75% by December 2024. The graphics below illustrate the price fluctuations in the RE and RA markets:





A significant contributor to rising energy costs is the increase in market prices for renewable energy invoices from SCE under the Voluntary Allocation Market Offer (VAMO) Agreement and RA invoices from SCE under the Modified Cost Allocation Mechanism (MCAM) Agreement. These invoices are calculated based on California Public Utilities Commission (CPUC)-determined Market Price Benchmarks (MPB), which experienced substantial increases during FY 2024-25. The MPB for VAMO invoices rose from $54.56/MWh in 2024 to $71.24/MWh in 2025, far exceeding OCPA's original budget assumption of $50/MWh. Likewise, the MPB for MCAM invoices increased from $26.26/MW in 2024 to $40.31/MW in 2025, compared to OCPA's original budget of $15.23/MW. These cost escalations are not isolated incidents but are driven by unexpected market conditions, including RA market shifts, inefficiencies, lack of liquidity, and delays in renewable energy product deliveries.

While rising procurement costs have presented challenges, they have been partially offset by revenue from the sale of surplus RA, carbon-free resources, and PCC1.

To counteract rising costs and stabilize long-term financial planning, OCPA has implemented a temporary adjustment in its energy procurement strategy. These targeted modifications are designed to enhance cost efficiency while continuing to provide reliable service to customers. As part of these adjustments, Irvine's 100% Renewable Choice customers will be transitioned to Basic Choice, effective February 2025, while Buena Park's 100% Renewable Choice customers will be transitioned to Smart Choice, effective March 2025. These strategic changes help mitigate exposure to high renewable energy costs while ensuring customers continue to receive competitively priced, sustainable energy options.

Despite these challenges, OCPA remains financially resilient. Its energy positions are fully hedged against expected consumption through June 30, 2025. By actively managing procurement strategies, optimizing cost controls, and leveraging surplus sales, OCPA continues to strengthen its financial position while providing affordable, reliable energy to the communities it serves.

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

OCPA's non-energy operating expenses support essential business functions, including data management, utility services, staffing, contract services, legal services, marketing & outreach, general & administrative costs, and energy programs. To maintain financial stability and mitigate rate impacts, OCPA has proactively identified efficiency opportunities and cost-saving measures while ensuring continued operational effectiveness.

The mid-year budget reflects an overall reduction of $3 million or 18.4%, reinforcing OCPA's commitment to fiscal responsibility while sustaining core functions and services. Below is a breakdown of key expense areas and adjustments.

Data Manager and Utility Service Fees (-$101k)

OCPA contracts with Calpine Energy Solutions for billing data management and call center operations, with fees based on the number of customer meters served. Additionally, SCE charges for meter reading, data processing, and bill coordination, as mandated and regulated by the CPUC.

Savings of $101k stem from scheduled fee waivers and operational credits from Calpine, reducing service costs without affecting functionality.

Staffing Costs (-$2 million)
As part of OCPA's ongoing cost mitigation efforts, staffing adjustments have been implemented to ensure financial stability while maintaining operational efficiency.

In June 2024, the Board approved a staffing plan for 29 full-time positions and 2 intern positions for FY 2024-25. Staffing costs include salaries, payroll taxes, benefits, cost-of-living adjustments (COLA), and stipends for the Board and Community Advisory Committee (CAC) members.

To offset rising costs and minimize financial strain, OCPA has strategically adjusted the hiring of 10 full-time positions, generating $2 million in savings. These adjustments enable cost control while ensuring essential functions remain supported.

Total staffing costs are projected at $4.7 million by June 30, 2025, representing 1.5% of total revenue. Adjusted hiring timelines include:

1. COO: Delayed from 11/2024 to 6/2025
2. Trading Manager: Delayed from 10/2024 to 5/2025
3. Risk Management Analyst: Delayed from 10/2024 to 5/2025
4. Energy Contract & Compliance Analyst: Delayed from 10/2024 to next fiscal year
5. Finance & Risk Manager: Delayed from 7/2024 to 11/2024 (Hired)
6. Billing Operations Manager: Delayed from 7/2024 to 4/2025
7. Data & Systems Manager: Delayed from 10/2024 to next fiscal year
8. Data & Systems Analyst: Delayed from 12/2024 to next fiscal year
9. Policy Advisor: Delayed from 10/2024 to next fiscal year
10. Data Analyst: Delayed from 10/2024 to 4/2025

Contract Services (-$4k)
Following industry best practices, OCPA has strategically engaged consultants to support early-stage operations while gradually expanding internal staffing capabilities to transition non-industry technical tasks in-house. This measured approach balances external expertise with cost control as the agency matures.

Key areas supported by contract services include:

- Accounting, financial and Information Technology (IT) audits, rate strategy analysis, SCE General Rate Case (GRC) and Energy Resource Recovery Account (ERRA) regulatory assessments, IT and cybersecurity, Human Resources (HR), compensation studies, credit rating strategies, and project management.
- Power supply portfolio and risk management, short-term and long-term energy procurement, load forecasting, integrated resource planning, back-office support, feasibility studies for new members, implementation plan, scheduling coordination, Congestion Revenue Rights (CRR) purchases and sales, and California Independent System Operator (CAISO) settlements and reporting.

Through disciplined planning and cost controls, OCPA has maintained contract service expenditures in line with the original FY 2024-25 budget.

Legal Services (-$115k)
Legal services support general counsel, power supply procurement, regulatory compliance, employment matters, governance, and legislative advocacy. To strengthen its engagement in state-level policy, OCPA plans to hire a Sacramento-based lobbyist in Q2 2025.

OCPA expects to save $115k by June 30, 2025, primarily from reductions in labor counsel, clerk support, and advocacy costs.

Marketing and Outreach (-$261k)
As a community-focused public agency, OCPA prioritizes customer engagement and outreach, continuously seeking new opportunities to connect with and build positive relationships with its customers. Through strategic cost management and internal efficiencies, OCPA projects $261k in savings in its Marketing and Outreach budget by June 30, 2025, while maintaining a strong commitment to community engagement.

One of the most significant areas of savings came from transitioning previously outsourced tasks—such as OCPA's Open House planning and editorial work—to internal staff. Similarly, marketing and communication services realized substantial savings in digital marketing, as OCPA reduced reliance on external vendors by shifting website updates, content additions, and modifications to in-house staff.

In addition, OCPA adopted a more strategic approach to sponsorships and memberships, ensuring that every sponsorship demonstrates a measurable return on investment. As a result, OCPA has maintained lower-level sponsorships while increasing participation in low-cost or no-cost community events through tabling or attendance.

Additional cost reductions were achieved in promotional items and branding, with OCPA utilizing existing branded materials and placing smaller, controlled orders to efficiently manage inventory. Fiscal prudence also led to savings in minor expenses, such as office supplies and on-site event food, ensuring that resources were allocated efficiently.

Conversely, direct mail and printing costs increased due to additional mailer campaigns sent to 100% Renewable Choice customers in Irvine and Buena Park. These mailers were essential to ensuring customers were fully informed about changes to their energy plans following each city's default renewable energy adjustment.

General & Administrative (-$96k)
General & Administrative expenses cover essential business costs, including office rental, IT equipment and software, business insurance, bank fees, office supplies, and industry membership dues for the California Community Choice Association (CalCCA). These expenses also include discretionary spending on conferences, professional development, travel, and business meals, which have been closely managed to control costs.

As of June 30, 2025, OCPA has achieved $96k in savings through targeted cost mitigation efforts, primarily by reducing discretionary expenses while preserving critical business functions.

Key savings were realized by lowering spending on travel, professional development, and office-related costs. Professional development activities were streamlined to focus on essential learning opportunities, while major events—such as the OCPA Open House and Annual Strategic Planning meeting—were hosted in-house, significantly cutting venue expenses. Additionally, the 2025 CalCCA Annual Conference, held locally in Irvine, minimized travel and accommodation costs for OCPA staff.

Further cost reductions were achieved through strategic decisions, such as opting for cost-effective business meal alternatives, securing rental payment abatements for office space, and carefully reviewing industry memberships and subscriptions to eliminate non-essential costs. In IT, OCPA developed the first phase of its data analytics platform in-house, postponed non-critical software purchases, and avoided copier lease costs, ensuring resources were allocated efficiently. Some of these savings were partially offset by necessary investments in replacement laptops and equipment for new hires and existing staff.

While discretionary expenses were carefully controlled, certain unavoidable costs contributed to higher expenditures in key areas. Lease amortization costs increased due to accounting regulations, requiring the lease to be capitalized and amortized over its term. Higher bank service fees resulted from the full utilization of cash collateral instead of letters of credit, and building maintenance costs rose slightly due to the need for janitorial services in the new office.

OCPA Energy Programs Development Progress

OCPA is committed to developing energy programs that drive community reinvestment, helping households and businesses transition to cleaner energy solutions. These initiatives primarily target the transportation and building sectors, which are major contributors to greenhouse gas (GHG) emissions in Orange County.

With the expansion of internal staff in late 2024, OCPA has gained additional capacity to develop and implement community programs for the remainder of the fiscal year. As part of these efforts, OCPA is actively developing the Community Power Plan (CPP) to guide future program launches, while also implementing interim programs that provide immediate benefits to customers. As of June 30, 2025, total projected spending for energy programs is $592k.

<u>Energy Programs Consulting and Administrative Costs ($364k)</u>

OCPA is making targeted investments in the CPP to shape the future of its energy programs. This includes consulting support for a Community Needs Assessment and three additional assessments focused on existing programs, operational alignment, and funding opportunities. Translation services ensure CPP materials are accessible to diverse communities.

To expand equitable access to energy-saving resources, OCPA operates an online Marketplace, offering discounts on energy-efficient and electric equipment for all customers. In the latter half of the year, OCPA will increase its investment by providing free and low-cost Emergency

Preparedness and Energy Efficiency kits, primarily for CARE/FERA[2] customers. Direct mail promotions support outreach efforts, including a Google Nest thermostat rebate, encouraging customers to balance energy demand and improve efficiency.

Incentive Programs and Grant Initiatives ($228k)
OCPA maintains an Incentive Finder platform, helping customers access local, state, and federal rebates and identify energy efficiency incentives tailored to their needs.

To support sustainable transportation, OCPA is developing an EV charging program for member cities, with completion targeted for December 2025. Additionally, OCPA plans to partner with Orange County Transportation Authority (OCTA) to offer e-bike safety training, promoting safe and eco-friendly transportation alternatives.

Through the annual Bright Futures Grant, OCPA provides funding for community organizations focused on clean energy and sustainability initiatives.

OCPA will also support its first statewide, California Energy Commission-funded program in the latter half of the year. The Equitable Building Decarbonization Direct Install (EBD-DI) Program offers free energy-efficient upgrades to low- and middle-income households in communities of concern. OCPA has been awarded $771k to implement this initiative. As of June 30, 2025, OCPA will receive $12k in grant income to reimburse labor and fringe benefit expenses associated with program setup and promotion.

Other Uses and Non-Operating Expenses
Capital Outlay (-$6k)
OCPA's capital expenditure budget is allocated to new office renovations, ensuring a secure, well-equipped, and functional workspace that enhances operational efficiency and supports long-term organizational needs.

Interest and Finance Costs (+$244k)
Interest expenses include $261k in accrued interest on the $7.5 million loan from the City of Irvine and an imputed interest expense of $54k related to OCPA's office rental lease. The lease interest is calculated in accordance with Governmental Accounting Standards Board (GASB) 87 Leases accounting rules, which require the net present value to be capitalized and amortized over its term.

The primary driver of the $244k increase in interest expense is the timing of interest accruals on the City of Irvine loan.

[2] CARE (California Alternate Rates for Energy) and FERA (Family Electric Rate Assistance) are SCE discount programs for income-qualified customers. CARE provides a 30-35% discount for low-income households, while FERA offers an 18% discount for households with three or more people who meet slightly higher income limits. Both programs help reduce energy costs for low- to moderate-income families in SCE's service territory. **OCPA customers remain eligible for enrollment in the CARE/FERA programs and can continue receiving these discounts.**

FISCAL IMPACT

In its second full year of operations, the proposed FY 2024-25 Mid-Year Operating Budget Amendment highlights OCPA's commitment to shielding customers from rate shocks while navigating rising energy costs. This budget reflects a strategic balance between financial prudence and affordability, ensuring continued stability despite industry-wide challenges.

The budget projects net revenues of $316.4 million and total operating and non-operating expenses of $299.4 million, resulting in a $17 million contribution to reserves. With this contribution, OCPA's operating reserve is expected to reach $62 million, equivalent to 21% of total budgetary operating expenditures—a critical safeguard for financial resilience.

The amended budget aligns revenues with the 2025 rate design approved by the Board on January 22, 2025, which takes effect on February 10, 2025. At the same time, staff has prioritized strategic cost reductions to ease financial pressures. By streamlining discretionary spending, OCPA has identified $3 million or 18.4% in savings on non-energy operating expenses, reinforcing its commitment to responsible fiscal management while minimizing the burden on customers.

Despite these challenges, OCPA remains financially resilient, carefully balancing affordability with long-term sustainability. Through prudent financial oversight and strategic planning, OCPA continues to provide reliable, cost-effective energy to the communities it serves, reinforcing its role as a trusted energy provider.

ATTACHMENT

1. Proposed Fiscal Year 2024-25 Mid-Year Operating Budget Amendment

Proposed FY 2024/25 Mid-Year Operating Budget Amendment

($ in thousands) Period Ending Jun 30	Approved Budget FY 2024/25	% of Rev	Mid-Year Budget FY 2024/25	% of Rev	Change $	Change %
REVENUE AND OTHER SOURCES						
Revenue - Electricity Base	283,591		252,312			
Revenue - Smart Choice Premium	4,797		5,931			
Revenue - 100% Renewable Premium	20,364		13,411			
Less: Uncollectible Accounts	(5,403)		(4,754)		(36,448)	(12.0%)
Revenue deferral	0		45,000		45,000	0.0%
Net Revenue - Electricity	303,349	99.2%	311,900	98.6%	8,552	2.8%
Investment and Miscellaneous Income	2,400	0.8%	4,499	1.4%	2,099	87.5%
Total Net Revenue and Other Sources	305,749	100.0%	316,399	100.0%	10,651	3.5%
EXPENDITURES AND OTHER USES						
CURRENT EXPENDITURES						
Cost of Energy	272,532	89.1%	285,539	90.2%	13,007	4.8%
Data Manager	1,960	0.6%	1,850	0.6%	(110)	(5.6%)
Utilities Service Fees	563	0.2%	572	0.2%	9	1.6%
Staffing Costs	6,719	2.2%	4,738	1.5%	(1,980)	(29.5%)
Contract Services	1,614	0.5%	1,610	0.5%	(4)	(0.2%)
Legal Services	711	0.2%	596	0.2%	(115)	(16.1%)
Marketing and Outreach	2,055	0.7%	1,794	0.6%	(261)	(12.7%)
Other G&A	1,525	0.5%	1,429	0.5%	(96)	(6.3%)
Energy Programs	1,000	0.3%	592	0.2%	(408)	(40.8%)
	288,678	94.4%	298,721	94.4%	10,043	3.5%
OTHER USES						
Capital Outlay	382	0.1%	377	0.1%	(6)	(1.4%)
Total Other Uses	382	0.1%	377	0.1%	(6)	(1.4%)
DEBT SERVICE						
Interest costs - nonoperating	72	0.0%	315	0.1%	244	338.7%
Finance costs - Principal	0	0.0%	0	0.0%	0	0.0%
Total Expenditures and Other Uses	289,132	94.6%	299,413	94.6%	10,281	3.6%
Net Income (Surplus/Deficit)	**16,616**	5.4%	**16,986**	5.4%	370	2.2%
Key Statistics:						
Total Load (MWh) - Retail	2,112,432		2,181,527			
$/MWh - Net Electricity Sales	$ 143.60		$ 122.35			
Total Load (MWh) - Wholesale	2,239,178		2,312,419			
$/MWh - Cost of Energy	$ 121.71		$ 123.48			
Net Margin ($)	16,616		16,986			
Net Margin %	5.4%		5.4%			