



**Staff Report Item 4**

**TO:** East Bay Community Energy Executive Committee Members

**FROM:** Nick Chaset, Chief Executive Officer

**SUBJECT:** Discussion of EBCE Budget for Fiscal Year 2018-2019

**DATE:** April 27, 2018

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**Recommendation**

Discuss and Provide Feedback to EBCE Staff of proposed Fiscal Year 2018-2019 Budget. Which includes projections for Revenues, Expenses, Financial Reserves, Local Development and use of Surplus for additional rate credits.

**Table 1 - 2018-2019 Budget Overview**

<b>Revenues</b>	<b>\$318,091,347</b>
<b>Expenses (Energy and Billing)</b>	<b>\$241,757,292</b>
Debt Service	<b>\$17,163,733</b>
All Other Expenses	\$12,630,382
Reserve Contribution	\$42,769,938
Local Development and Programs	\$2,000,000
<b>End of Year Surplus</b>	<b>\$1,770,002</b>

## **Background**

On August 2, 2017, the East Bay Community Energy Board approved an initial budget for the purposes of the East Bay Community Energy Implementation Plan. EBCE has been operating under this initial budget since then. EBCE staff has been working to prepare a budget for fiscal 2018-2019 based on significant updates that staff have made to all major inputs including energy load forecast, EBCE rates, debt repayment, staffing, marketing and outreach, overhead, professional services, financial reserve projections, local development and customer bill credits. The attachment to the this agenda items includes a full breakdown of all elements of the budget.

### Attachments:

- A. 2018-2019 EBCE Budget



# 2018-2019 East Bay Community Energy Budget

PRESENTED BY: Nick Chaset

DATE: 4/27/18



# East Bay Community Energy: 2018-2019 Budget

## REVENUES AND OTHER SOURCES

Electricity Sales	\$318,091,347
Interest Income	
<b>Total Revenues</b>	<b>\$318,091,347</b>

## EXPENDITURES

<b>Energy Product</b>	
Cost of Energy and Scheduling	\$235,938,573
Data Management/Billing/Customer Service	\$4,855,406
Service Fees to PG&E	\$963,313
<b>Energy Product Subtotal</b>	<b>\$241,757,292</b>
<b>Debt Service</b>	
Alameda County	\$5,500,000
Barclays	\$11,663,733
<b>Personnel</b>	<b>\$5,477,840</b>
<b>Marketing, Outreach, Communications and Customer Service</b>	
	<b>\$1,959,000</b>
<b>General and Administration</b>	
	<b>\$1,685,042</b>
<b>Other Professional Services</b>	
Legal	\$976,000
Accounting	\$202,500
Technical	\$1,970,000
Legislative	\$180,000
Other Consultants	\$180,000
<b>Other Professional Services Subtotal</b>	<b>\$3,508,500</b>
<b>Total Expenditures</b>	<b>\$271,551,407</b>

## REVENUES LESS EXPENDITURES

	\$46,539,940
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## Reserve Contribution

Financial Reserve Contribution	\$39,744,375
Rate Stabilization Reserve Contribution	\$3,025,564
<b>Total Reserves</b>	<b>\$42,769,938</b>

## Local Development and Programs

Placeholder	\$2,000,000
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## EOY Surplus

	\$1,770,002
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EBCE staff is pleased to present this draft 2018-2019 Budget.

Items covered through this presentation:

**1) Overview of Revenues: Electricity Sales/Rate Assumptions**

**2) Overview of Expenditures**

Cost of Energy

Debt Service

Reserve Contribution and Reserve Policy

Personnel

Marketing Services

General and Administration

Other Professional Services

**3) Options for Residual Revenues**

Customer Rate Credit

Local Development/Programs

Additional Debt Payments

# Benchmarking EBCE Expenses to other CCAs

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Non-Energy Expense Category	EBCE Expenses Relative to 4 CCAs
Data Management/Call Center	-9%
Personnel	-33%
Marketing/Customer Service	1%
General & Administrative	19%
Professional Services	19%
Programs	-38%

To put EBCE's non-energy expenses into context, EBCE's proposed 2018-2019 budget is compared to the existing budgets of three Bay Area CCAs – MCE, SCP, and MBCP.

**The main take-aways from this comparison are :**

A) EBCE has lower expenses for data management/call center services, significantly lower salary expenses for a CCA of its size (temporarily off-set by higher professional services costs), and lower program expense due to fact that EBCE is program expenditures won't start ramping up until the second half of the fiscal year.

B) EBCE has higher expenses in general services and admin mainly due to rent and potential office build out, Cal-CCA and other dues and data/software costs. Also, higher professional services budget to augment the lower salary expense since EBCE will rely on outside help as it builds its own internal capacity.

# Overview of Revenues: Electricity Sales

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## **REVENUES AND OTHER SOURCES**

Electricity Sales	\$318,091,347
Interest Income	
Total Revenues	<b>\$318,091,347</b>

## **Electricity Sales Assumptions and Statistics**

- Opt-Out Rate: 10% (EBCE expects opt-outs to be considerably lower but we are taking a conservative approach)
- Uncollectibles: 0.08% (used Sonoma's 2018-2019 forecast as a comparable)
- 89% Bright Choice
- 10% Brilliant 100 Opt Up
- 1% 100% Renewable Opt Up
- Total Customers Served: 547,534

**Note re: Electricity Sales:** due to EBCE's phase in schedule (June for Commercial, Industrial and Municipal and November for Residential), EBCE is not recognizing a full year of revenue this fiscal year.

# Note: Rates/Revenues -- Costs and Price Volatility

	EBCE Rates (estimated 2/18)	EBCE Rates (actual 3/18)	Increase in Revenue
Res	\$0.06821	\$0.07272	6%
Small L&P	\$0.06538	\$0.06859	5%
Medium L&P	\$0.08216	\$0.08626	6%
E-19	\$0.07728	\$0.08124	5%
Streetlights	\$0.07726	\$0.08033	4%
Ag	\$0.06132	\$0.06523	6%
E-20	\$0.07247	\$0.07609	5%
Expected Revenue Increase (after PG&E Rate Change)		<b>\$15,000,000</b>	

Comparative Timeframe	Estimated Increase in Procurement Costs
2016/2017 Actual Costs	Volatility between Jan 2018 price forecast (which was based partially on actual reported costs from 2016 and 2017) and actual observed costs in March/April 2018 increased forecast procurement costs by \$20,000,000
Mar/Apr 2018 Observed Costs	

After EBCE set its rate discount of 1.5% in February, PG&E issued an unexpected modification to its rates which resulted in a 5% increase in EBCE's expected revenues. CCA reactions to this change have varied.

On the one hand, certain operating CCAs like Silicon Valley Clean Energy chose to increase their rate discount. Other CCAs, including another CCA start-up, Monterey Bay Clean Power, made no change to their rate discount. At EBCE's March 17 Board meeting, the Board approved a "no change" approach as well.

For EBCE, the primary reason staff recommended no change was concern over energy price volatility as demonstrated in this table. It illustrates how price volatility in energy costs that EBCE has observed has the potential to wipe out any net revenue benefit occurring as a result of PG&E's rate change.

# Overview of Expenditures: Cost of Energy and Related Services

Energy Product	
Cost of Energy and Scheduling	\$235,938,573
Data Management/Billing/Customer Service	\$4,855,406
Service Fees to PG&E	\$963,313
Energy Product Subtotal	<b>\$241,757,292</b>

## **Energy Costs are made up of four primary energy products**

-Block or Shaped Energy, Renewable Energy, Carbon Free Energy, Resource Adequacy

## **Scheduling, Data Management and Service Fees**

-Scheduling costs are fees paid to NCPA to manage EBCE's energy purchases and market activity

-Data Management, Billing and Customer Service/Call Center are the fees paid to SMUD at

\$1.05/customer meter/month

-PG&E Service Fees are the monthly costs paid to PG&E to use their billing and metering systems

**Note re: Electricity Costs:** EBCE's specific costs of energy are derived from a mix of EBCE's actual contracted costs of the four energy products and forecast costs for these four energy products. EBCE is currently in the process of soliciting and procuring for both its 2018 and 2019 power needs.



# Overview of Expenditures: Debt Service

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<b>Debt Service</b>	
Alameda County	<b>\$5,500,000</b>
Barclays	<b>\$11,663,733</b>
<b>Debt Total</b>	<b>\$17,163,733</b>

EBCE has two sources of outstanding debt: 1) Alameda County which advanced funds for start up activities, 2) Barclays Bank which is lending EBCE funds primarily for energy purchases.

**Alameda County's loan** to EBCE consists of \$3,000,000 in direct funding and up to \$2,500,000 in indirect costs associated with staff support of EBCE over three-plus years. EBCE is planning to fully pay-off its loan to Alameda County sometime between Q2 and Q3 of the fiscal year.

**The Barclay's loan** is for a maximum of \$50,000,000. EBCE is assuming it will draw between \$17,000,000 and \$40,000,000 in 2018, primarily to support collateral requirements for energy contracts. EBCE is paying down its loan to Barclays over a 30 month amortization period starting in September 2018 with full maturity in January 2021.

# Overview of Expenditures: Personnel

<b>Personnel</b>	
	<b>\$5,477,840</b>

Staffing Plan			
Number of staff			Salary Classification
Exec	Chief Executive Officer	Nick	CEO
Exec	Chief Operating Officer	Howard	COO
Exec	Finance Manager	Q3 2018	Manager
Exec	Office/HR Analyst	Q1 2019	Analyst
Exec	Executive Assistant/Council Clerk	Steph	Executive Assistant/Clerk of the Board
Customer	VP of Marketing and Account Services	Annie	VP
Customer	Sr Account Service Manager	Dan	Sr Manager
Customer	Marketing Communications Manager/Analyst	Q3 2018	Manager
Customer	Community Engagement Manager	Q3 2018	Manager
Customer	Outreach Fellow	Q3 2018	Outreach Fellow
Customer	Outreach Fellow	Q3 2018	Outreach Fellow
Customer	Customer Service Manager	Q3 2018	Manager
Customer	Customer Service Rep	Q2 2019	Rep
Customer	Customer Service Rep	Q4 2018	Rep
Local Development	Director/VP of Local Development & Programs	Q4 2018	Director/Deputy
Local Development	Local Program Manager	Q1 2019	Manager
Power	Director of Power Procurement	Q2 2018	VP
Power	Risk and Trading Manager	Q3 2018	Director/Deputy
Power	Settlements and Compliance Manager/Analyst	Q4 2018	Manager
Analysis	Data Analytics Manager/Analyst	Q4 2018	Manager
Analysis	Systems Analyst	Q 2 2019	Analyst
Analysis	VP of Technology & Analytics	Taj	VP
Legal	General Counsel	Leah	GC
Legal	Legal Analyst	Q4 2018	Analyst
Legal	Deputy General Counsel - procurement	Q4 2018	Director/Deputy
Reg/Leg/Community	Directory of Reg Affairs	Melissa	Director/Deputy
Reg/Leg/Community	Director of Community and Government Affairs	Deidre	Director/Deputy
Reg/Leg/Community	Reg/Leg Manager	Q4 2018	Manager

EBCE proposes to add 19 staff positions over the course of the fiscal year. These new staff will fill a diverse range of roles, from 3 customer service roles focused on the call center transition to 2 technology and data analytics roles focused on building EBCE's technology and analytics platform to support advanced local energy programs.

The following slide presents an overview of proposed salary ranges, which are benchmarked to five other CCAs.

# Overview of Expenditures: Personnel (cont.)

EBCE Salary Range		
Job Classification	Low	High
CEO	Salary Ranges for CEO, COO, GC are NA for these purposes	
COO		
GC		
VP	\$169,625	\$300,000
Director/Deputy	\$138,083	\$229,000
Sr Manager	\$121,000	\$204,000
Manager	\$102,417	\$204,000
Analyst	\$93,083	\$124,583
Executive Assistant/Clerk of the Board	\$82,500	\$150,000
Rep	\$65,250	\$102,000
Outreach Fellow	\$50,000	\$50,000

Survey - includes data from MCE, MBCP, PCE, SCP and SVCP			
Job Classification	low	median	high
VP	\$135,000	\$204,250	\$300,000
Director/Deputy	\$113,000	\$163,167	\$229,000
Sr Manager	\$98,000	\$144,000	\$204,000
Manager	\$80,000	\$124,833	\$204,000
Analyst	\$87,000	\$99,167	\$150,000
Executive Assistant/Clerk of the Board	\$60,000	\$105,000	\$150,000
Rep	\$53,000	\$77,500	\$102,000
Outreach Fellow	\$50,000	\$50,000	\$50,000

	Headcount by Quarter	Incremental Hires per Quarter	Salary Expense by quarter
Q1 18-19	18	9	\$878,850
Q2 18-19	24	6	\$1,140,183
Q3 18-19	26	2	\$1,485,522
Q4 18-19	28	2	\$1,564,602
TOTALS	28	19	\$5,069,157

# Overview of Expenditures: Marketing, Outreach, Customer Service

<b>Marketing, Outreach, Communications and Customer Service</b>	
	<b>\$1,959,000</b>

## Marketing and Customer Service

Cost	
Launch Related Marketing	\$1,379,000
On-Going Marketing	\$160,000
On-Going Noticing	\$260,000
Business and Industry Development	\$160,000
<b>Total Marketing and Customer Service</b>	<b>\$1,959,000</b>

## Examples of Marketing and Customer Service Activities

**Launch Related Marketing:** enrollment mailers, print and digital advertising

**On-Going Marketing:** 100% renewable adoption campaign, energy program outreach, on-going community events

**On-Going Noticing:** NEM notices, annual CCA power content notice

**Business and Industry Development:** sponsorships of chambers of commerce, customer appreciation events, community grants

# Overview of Expenditures: G&A

<b>General and Administration</b>	
	<b>\$1,685,042</b>

## G&A

<b>Office Space</b>		
Current Office		Assumes WeWork through August and after that an assessment of options which may include staying at WeWork
New Office Build/Contingency	\$562,000	If EBCE moves, this is a contingency for the cost of building out new office costs
Space Rental (total)		this is the cost for renting space for events like board meetings and community meetings
<b>Liability Insurance</b>		
	\$23,000	this covers the cost of EBCE general liability insurance and other insurance as needed
<b>Misc Office Equipment and Supplies</b>		
	\$69,000	this covers the varied office supplies that are needed throughout the year, including durable equipment like printers and scanners
<b>Computers, Phones, Internet, software and other</b>		
Computers		staff computers
Phones, Internet, phone plan, misc		staff devices and phone/internet plans
Software (Office, Google Cloud, Confluence, misc) + Server/Firewall	\$419,475	enterprise software
Specialty Analytic Tools (rate analytics)		specialized software to perform complex energy data analysis including cost of service
<b>Travel/Offsite Meetings</b>		
	\$141,567	staff travel, offsite meetings, meals, and other misc G&A
<b>Dues and subscriptions</b>		
WSPP		membership in power procurement group
Tax Assessor and Demo Subscription		data for analysis activities
Weather and Other Data for Forecasting	\$470,000	data for analysis activities
PG&E Data Requests		data from PGE for analysis and customer service
CalCCA Dues		Dues to CalCCA including legal, public relations, regulatory and legislative activities
Energy Market Intelligence		energy market data to support internal procurement efforts

# Overview of Expenditures: Other Professional Services

Other Professional Services		
Legal		\$976,000
Accounting		\$202,500
Technical		\$1,970,000
Legislative		\$180,000
Other Consultants		\$180,000
Other Professional Services Subtotal		<b>\$3,508,500</b>

Professional Services		
<b>Legal</b>		
Regulatory	\$240,000	support on-going engagement at CPUC, CEC, Air Resources Board and CAISO
Energy Procurement	\$432,000	support negotiation and contracting of short, medium and long term energy transactions
Finance	\$84,000	support financing activities that may arise related to credit needs and long term renewables
General	\$100,000	support general legal needs
Legal - Litigation Contingency	\$120,000	contingency for potential costs of litigation
<b>Accounting</b>		
Accounting	180,000	accounting services
Audit	225,000	EBCE annual financial audit
<b>Technical</b>		
Energy Analysis (short and long term market analysis, integrated resource planning, procurement)	\$1,170,000	support for energy market analysis for both short and long term energy transactions. Support and analysis of long-term renewable energy solicitations. On-going assessment of energy risk management policies and EBCE energy positions
General Technical Consulting (i.e. financial)	\$800,000	support for general organizational needs including, finance, credit, public relations, local program design and community engagement
<b>Legislative</b>		
Sacramento Advocacy	\$180,000	support EBCE engagement at CA Legislature
<b>HR/Admin</b>		
HR/Admin	\$144,000	support for human resources and administration of EBCE
IT	\$36,000	information technology support

# Overview of Expenditures: Reserve Contributions and Proposed Reserve Policy

Reserve Contribution	
Financial Reserve Contribution	\$39,744,375
Rate Stabilization Reserve Contribution	\$3,025,564
Total Reserves	<b>\$42,769,938</b>

For the 2018-2019 Fiscal Year, EBCE is proposing to two types of reserve contributions. The reasoning is that staff believes that EBCE must move swiftly to build necessary reserves to position it for a credit rating within the first 3-4 years of operations. Staff has been in consultation with Barclay’s Bank about necessary reserve levels to achieve an A or better rating from a credit rating agency. Barclay’s review of Moody’s “US Municipal Joint Action Agencies” rating methodology found the following:

Baa	A	AA
30-90 day operating reserve	90-150 day operating reserve	150—250 day operating reserve

Based on this feedback, Staff plans to recommend that EBCE adopt a reserve policy that establishes an operating reserve of 50% (182 days) of operating expense within three-four fiscal years - which would put EBCE on track to seek a rating during its fourth or fifth year of operations. Additionally, both Sonoma Clean Power and MCE have recently updated their reserve policies to target the 50% of operating reserve benchmark. For the purpose of this proposed budget, staff will recommend implementing this policy by allocating 17% of annual operating expense to reserves. (17% annually would allow EBCE to meet its 50% goal by the beginning of the fourth fiscal year).

# Overview of Expenditures: Local Development and Programs

## Local Development and Programs

Placeholder	\$2,000,000
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As EBCE works to finalize the Local Development Business Plan, Staff will have a clearer idea of where it will be focusing resources in fiscal year 2018-2019. The \$2,000,000 expenditure outlined here was developed in consultation with the Local Development Business Plan team and covers a range of initiatives, including local renewable energy development, customer programs like energy efficiency and demand response, support for workforce development and investment in innovative community programs.



# Year-End Surplus and Customer Dividends

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## End of Year Surplus

**\$1,770,002**

EBCE expects to end the year with a revenue surplus after making contributions to its reserves, paying off debts to Alameda County, making its scheduled Barclay's debt service payments and investing in Local Development. One idea staff would like to consider is the concept of a customer dividend that is paid to EBCE customers in the form a bill credit in either July (for Commercial, Industrial and Municipal customers) or December (for residential customers). The customer dividend is a way to increase bill savings in a manner that is linked to EBCE's financial performance and is paid for from actual revenues from the previous fiscal year. Here is an example of how an 85% EOY Surplus Dividend that provides a tiered benefit for low-income customers could work.

	Dividend	Total Cost
Residential	\$5	\$1,917,918
Residential - low income	\$10	\$958,959
Small Commercial	\$20	\$824,848
Med Commercial	\$500	\$1,549,452
Large Commercial	\$5,000	\$435,439
Total		\$5,686,616

For purposes of this budget setting process, Staff is seeking input on whether this dividend idea is worth further exploration as a mechanism to offer greater savings to customers in a manner that clearly links EBCEs performance and to community benefits.