



Staff Report Item 15

TO: East Bay Community Energy Board of Directors
FROM: Nick Chaset, Chief Executive Officer
SUBJECT: East Bay Community Energy 2018 - 2019 Budget (Action Item)
DATE: June 20, 2018

Recommendation

Approve the proposed Fiscal Year 2018-2019 Budget, which includes projections for Revenues, Expenses, Financial Reserves, and Local Development.

Table 1 - 2018-2019 Budget Overview

Revenues	\$318,091,347
Expenses (Energy and Billing)	\$241,977,747
Debt Service	\$17,163,733
All Other Expenses	\$12,741,830
Reserve Contribution	\$42,358,707
Local Development and Programs	\$2,000,000
End of Year Surplus	\$1,849,330

-Approve a mid-year Budget Update set for January 2019

Discussion

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.

On April 29, 2018, EBCE Staff presented a draft fiscal year 2018-2019 budget to the executive committee for review and feedback. After discussion, the Executive Committee recommended the budget be brought to the full board for review. Among the items raised by the Executive Committee were a request for more examples of where surplus revenues might be spent, specific references to other CCA reserve policies, and consideration of adjustments to the Litigation Contingency. In response to the comments, staff has included Sonoma Clean Power’s current financial policy and has included an in-depth discussion of different options for the use of surplus cash. Staff has not adjusted the litigation contingency due to budget constraints.

Subsequently, EBCE Staff made a number of minor adjustments to the budget based on some updates to expected energy costs, further internal discussions about projected staffing, and updates to the reserve policies based on further review of other CCA policies.

Table 2 - Adjustment to Cost of Energy, Head Count, Budget, and Forecast Reserves

	Cost of Energy	Head Count	Budget	Forecast Reserves
4/29/18 Exec Com	\$235,938,573	28 staff	\$5,477,840	\$42,769,938
5/16/18 BoD	\$236,159,029	30 staff	\$5,558,632	\$42,358,707
Change in Forecast	\$220,456	Addition of 2 staff*	\$80,792	-\$411,231

*Added Positions: Compliance Manager (legal), Account Manager (customer)

At the May 16, 2018 Board of Directors meeting, the 2018-2019 Budget was presented and discussed. During the discussion, it was recommended that Staff plan to present a mid-year update to the budget that actual energy costs, actual opt-out rates and actual revenues. Staff recommends preparing a mid-year budget update at the January 2019 Board of Directors meeting.

The full proposed budget, with detailed discussion of each line item, is included as an attachment to this agenda item.

Attachments

- A. Resolution Approving EBCE Fiscal Year 2018-2019 Budget
- B. EBCE Fiscal Year 2018-2019 Budget

RESOLUTION NO. ____

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE EAST BAY COMMUNITY ENERGY AUTHORITY APPROVING THE
FY 2018-2019 BUDGET**

THE BOARD OF DIRECTORS OF THE EAST BAY COMMUNITY ENERGY AUTHORITY DOES HEREBY FIND, RESOLVE AND ORDER AS FOLLOWS:

Section 1. The East Bay Community Energy Authority (“EBCE”) was formed on December 1, 2016, under the Joint Exercise of Power Act, California Government Code sections 6500 *et seq.*, among the County of Alameda, and the Cities of Oakland, Emeryville, Berkeley, San Leandro, Union City, Hayward, Fremont, Castro Valley, Dublin, Livermore and Albany to study, promote, develop, conduct, operate, and manage energy and energy-related climate change programs in all of the member jurisdictions.

Section 2. The EBCE Joint Powers Agreement requires an annual budget for the Authority.

Section 3. The EBCE fiscal year runs from July 1 through June 30 and the Board of Directors finds that it is in the best interest of the Authority to approve the annual budget to be consistent with term of the fiscal year.

Section 4. The EBCE Board hereby approves the Fiscal Year 2018-2019 annual budget attached to this Resolution as Attachment 1 to be effective on July 1, 2018.

Section 5. The EBCE Board hereby directs staff to provide periodic updates on the budget to the Board, but no less frequently than semi-annually. The first budget update shall be on or before December 31, 2018.

ADOPTED AND APPROVED this 20th day of June, 2018.

Scott Haggerty, Chair

ATTEST:

Stephanie Cabrera, Clerk of the Board



2018-2019 East Bay Community Energy Budget

PRESENTED BY: Nick Chaset
DATE: 6/20/18

Benchmarking EBCE Expenses to other CCAs

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

REVENUES AND OTHER SOURCES

Electricity Sales	\$318,091,347
Interest Income	
Total Revenues	\$318,091,347

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)		\$15,000,000	
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.

East Bay Community Energy: 2018-2019 Budget

REVENUES AND OTHER SOURCES

Electricity Sales	\$318,091,347
Interest Income	
Total Revenues	\$318,091,347

EXPENDITURES

Energy Product	
Cost of Energy and Scheduling	\$236,159,029
Data Management/Billing/Customer Service	\$4,855,406
Service Fees to PG&E	\$963,313
Energy Product Subtotal	\$241,977,747
Debt Service	
Alameda County	\$5,500,000
Barclays	\$11,663,733
Debt Total	\$17,163,733
Personnel	\$5,558,632
Marketing, Outreach, Communications and Customer Service	\$1,959,000
General and Administration	\$1,715,698
Other Professional Services	
Legal	\$976,000
Accounting	\$202,500
Technical	\$1,970,000
Legislative	\$180,000
Other Consultants	\$180,000
Other Professional Services Subtotal	\$3,508,500
Total Expenditures	\$271,883,311

REVENUES LESS EXPENDITURES	\$46,208,037
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Reserve Contribution	
Financial Reserve Contribution	\$35,145,981
Rate Stabilization Reserve Contribution	\$2,704,772
Collateral Reserve	\$4,507,954
Total Reserves	\$42,358,707

Local Development and Programs	
Placeholder	\$2,000,000

EOY Surplus	\$1,849,330
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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

Overview of Expenditures: Cost of Energy and Related Services

Energy Product	
Cost of Energy and Scheduling	\$236,159,029
Data Management/Billing/Customer Service	\$4,855,406
Service Fees to PG&E	\$963,313
Energy Product Subtotal	\$241,977,747

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

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

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

Personnel

\$5,558,632

Staffing Plan

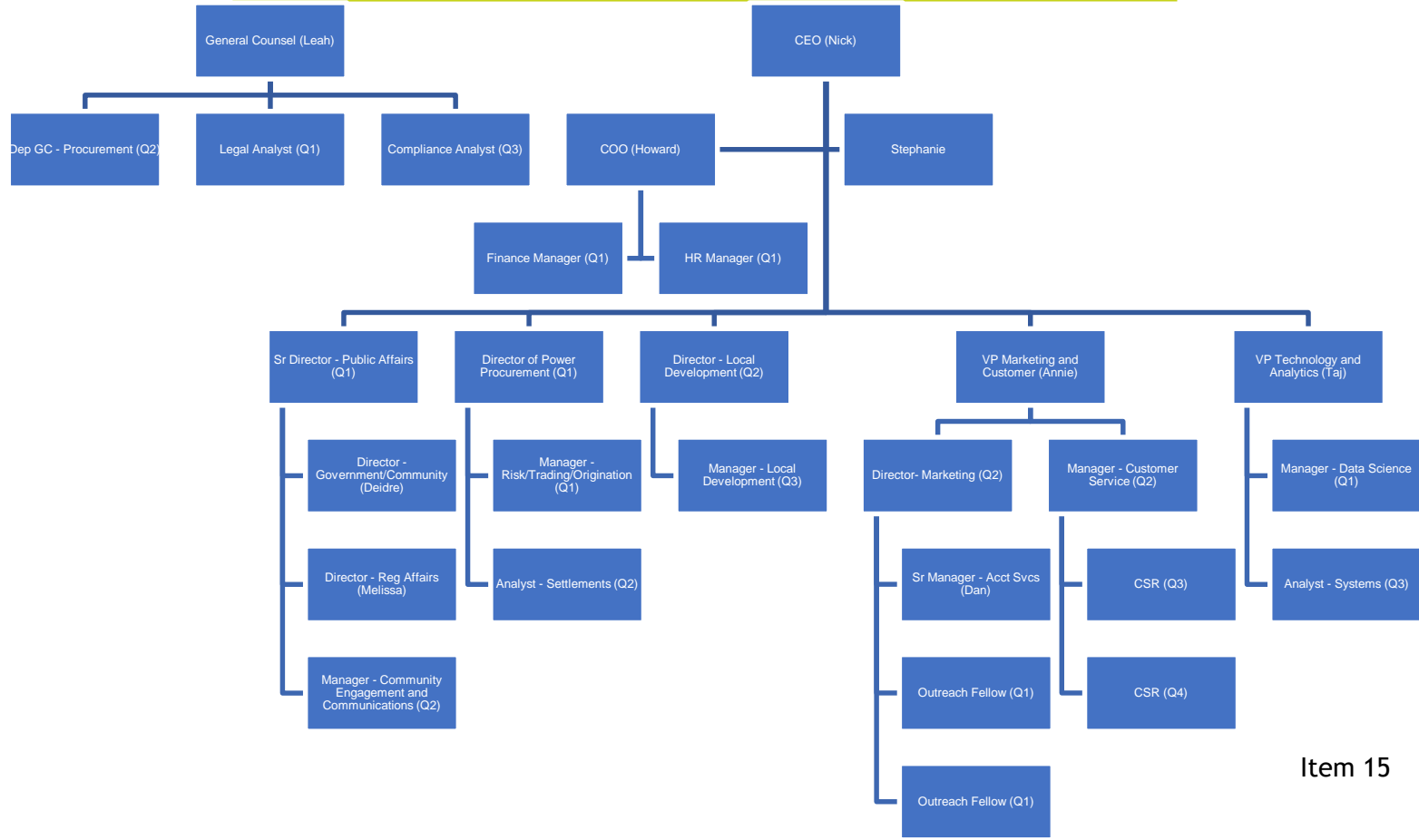
Number of staff			Salary Classification
Exec	Chief Executive Officer	Nick	CEO
Exec	Chief Operating Officer	Howard	COO
Exec	Finance Manager	Q3 2018	Manager
Exec	Office/HR Analyst	Q1 2019	Analyst
Exec	Executive Assistant/Council Clerk	Steph	Executive Assistant/Clerk of the Board
Customer	VP of Marketing and Account Services	Annie	VP
Customer	Director Marketing	Q3 2018	Director
Customer	Sr. Manager Account Services	Dan	Sr Manager
Customer	Marketing Communications Manager/Analyst	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
Customer	Director/VP of Local Development & Programs	Q4 2018	Director/Deputy
Customer	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 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
Legal	Compliance Analyst	Q1 2019	Analyst
Reg/Leg/Community	Sr. Directory of Reg Affairs	Q3 2018	Sr.Director
Reg/Leg/Community	Director of Community and Government Affairs	Deidre	Director/Deputy
Reg/Leg/Community	Community Engagement and Communications Manager	Q3 2018	Manager
Reg/Leg/Community	Director – Reg Affairs	Melissa	Manager

EBCE proposes to add 21 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.

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Overview of Expenditures: Org Chart



Overview of Expenditures: Personnel (cont.)

Job Classification	EBCE Salary Range	
	Low	High
CEO		
COO		
GC		
VP	\$169,625	\$300,000
Sr Director	\$151,500	\$229,000
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

Job Classification	Survey - includes data from MCE, MBCP, PCE, SCP and SVCP		
	low	median	high
CEO			
COO			
GC			
VP			
Sr Director	\$135,000	\$204,250	\$300,000
Director/Deputy	\$113,000	\$190,000	\$229,000
Sr Manager	\$113,000	\$163,167	\$229,000
Manager	\$98,000	\$144,000	\$204,000
Analyst	\$80,000	\$124,833	\$204,000
Executive Assistant/Clerk of the Board	\$87,000	\$99,167	\$150,000
Rep	\$60,000	\$105,000	\$150,000
Outreach Fellow	\$53,000	\$77,500	\$102,000
	\$50,000	\$50,000	\$50,000

Current Wage Scale for PG&E Service Representative		
	2017	2019
PG&E Service Rep	\$62,400	\$66,560
PG&E Senior Service Rep	\$87,360	\$93,600

	Headcount by Quarter	Incremental Hires per Quarter	Salary Expense by quarter
Q1 18-19	18	9	\$928,433
Q2 18-19	25	6	\$1,240,517
Q3 18-19	28	3	\$1,655,301
Q4 18-19	30	2	\$1,734,381
TOTALS	30	20	\$5,558,632

source: <http://ibew1245.com/wp-content/uploads/2017/04/Clerical-Exhibit-F-2017-2019-Second-Edition-April-2017.pdf>

Overview of Expenditures: Marketing, Outreach, Customer Service

Marketing, Outreach, Communications and Customer Service	
	\$1,959,000

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
Total Marketing and Customer Service	\$1,959,000

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

General and Administration	
	\$1,685,042

G&A

Office Space

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

Liability Insurance

	\$23,000	this covers the cost of EBCE general liability insurance and other insurance as needed
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Misc Office Equipment and Supplies

	\$69,000	this covers the varied office supplies that are needed throughout the year, including durable equipment like printers and scanners
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Computers, Phones, Internet, software and other

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

Travel/Offsite Meetings

	\$141,567	staff travel, offsite meetings, meals, and other misc G&A
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Dues and subscriptions

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		\$3,508,500

Professional Services		
Legal		
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
Accounting		
Accounting	180000	accounting services
Audit	22500	EBCE annual financial audit
Technical		
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
Legislative		
Sacramento Advocacy	\$180,000	support EBCE engagement at CA Legislature
HR/Admin		
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	\$35,145,981
Rate Stabilization Reserve Contribution	\$2,704,772
Collateral Reserve	\$4,507,954
Total Reserves	\$42,358,707

For the 2018-2019 Fiscal Year, EBCE is proposing to three 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 3-5 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 target reserve policy that establishes an operating reserve of 50% (182 days) of operating expense within three-five fiscal years - which would put EBCE on track to seek a rating during its fourth or fifth year of operations. In addition to the financial reserve, Staff is recommending an additional rate stabilization and a collateral reserve. 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 10% of annual revenue to the Financial Reserve, 1.5% of revenue to the Rate Stabilization Reserve, and 2.5% to the Collateral Reserve. (A 10% of revenue target would position EBCE to meet its 50% goal by the fourth fiscal year).

Overview of Expenditures: Local Development and Programs

Local Development and Programs

Placeholder

\$2,000,000

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.

After this first year of operations, Staff would like to introduce a Local Development reserve that is included in each year's budget and targets setting aside a portion of revenue to fund Local Development activities in the following year. Staff has not included a Local Development reserve this year given that the LDBP is still in process. Instead, Staff recommends focusing on prioritizing the use of surplus funds to fund Local Development in the next fiscal year.

Year-End Surplus

EOY Surplus

\$1,849,330

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.

The Board need not set policies or provide guidance on how to use surplus at this time. Staff would like to take the time to discuss a number of options that should be brought back during the next budgeting cycle.

- Low Income Bill Credit:** \$1.5m could pay for an annual credit of \$15 for all CARE customers
- Local Development Reserve:** \$1m in a Local Development reserve could support building a MW of local solar.
- Debt Repayment:** \$1m early repayment of debt could decrease interest expense by over \$100k
- Increased Renewable Energy Procurement:** \$1m investment in incremental renewable procurement would be the equivalent of over 5,000 homes being powered by 100% renewable energy for a year
- Customer Dividend:** \$2m in customer dividends could almost double the average residential discount