EBCE DRAFT BUDGET MEMO

FISCAL YEAR JULY 1, 2022 – JUNE 30, 2023

FY 2022/23 DRAFT BUDGET AND PREVIOUSLY APPROVED ANNUAL BUDGETS

	FY 2022-23 DRAFT BUDGET	FY 2021-22 BUDGET	FY 2020-21 BUDGET	FY 2019-20 BUDGET
OPERATIONS				
REVENUE & OTHER SOURCES				
GASB 62 Unrecognized Revenue Balance	15,814,000	15,814,000	12,680,000	0
Operating Revenue				
Electricity Sales	808,495,000	508,636,000	401,405,000	487,014,000
Uncollectables	(10,350,000)	(8,939,000)	(9,902,000)	(2,447,000)
Other Operations Revenue	0	0	0	0
Total Operating Revenue	**798,145,000**	**499,697,000**	**391,503,000**	**484,567,000**
EXPENSES & OTHER USES				
Energy Operating Expenses				
Cost of Energy	521,668,000	442,338,000	358,078,000	386,904,000
Energy Operating Services	11,261,000	12,240,000	11,146,000	9,664,000
Total Energy Operating Expenses	**532,929,000**	**454,578,000**	**369,224,000**	**396,568,000**
Overhead Operating Expenses				
Personnel	16,712,000	10,171,000	7,429,000	6,703,000
Marketing & Communications	1,476,000	1,686,000	1,544,000	2,263,000
Legal, Policy, & Regulatory Affairs	1,752,000	1,592,000	1,297,000	1,586,000
Other Professional Services	936,000	850,000	1,345,000	1,214,000
General & Administrative	3,256,000	2,961,000	2,146,000	2,290,000
Depreciation	180,000	60,000	60,000	61,000
Total Overhead Operating Expenses	**24,312,000**	**17,320,000**	**13,821,000**	**14,117,000**
Total Operating Expenses	**557,241,000**	**471,898,000**	**383,045,000**	**410,685,000**
NON-OPERATIONS				
Total Non-Operating Revenue	**229,000**	**1,692,000**	**1,506,000**	**578,000**
NON-OPERATING EXPENSES				
Borrowing Interest	1,440,000	898,000	804,000	1,229,000
Local Development Funding	22,000,000	8,475,000	6,340,000	6,275,000
Capital Expenditures	6,000,000	5,500,000	0	0
Total Non-Operating Expenses	**29,440,000**	**14,873,000**	**7,144,000**	**7,504,000**
NET NON-OPERATING POSITION	(29,211,000)	(13,181,000)	(5,638,000)	(6,926,000)
TOTAL REVENUES	**798,374,000**	**501,389,000**	**393,009,000**	**485,145,000**
TOTAL EXPENSES	**586,681,000**	**486,771,000**	**390,189,000**	**418,189,000**
NET INCREASE(DECREASE) IN POSITION	**211,693,000**	**14,618,000**	**2,820,000**	**66,956,000**
RESERVE BALANCE				
Beginning Reserve Balance	TBD	90,218,000	90,218,000	40,514,000
FY Contribution	TBD	TBD	0	49,704,000
Reserve Balance	TBD	90,218,000	90,218,000	90,218,000
Percent of Expenses		18.5%	23.1%	21.6%
Minimum Target (25%)	146,670,000	121,693,000	97,547,000	104,547,000
Operating Target (50%)	**293,341,000**	**243,386,000**	**195,095,000**	**209,095,000**
Maximum Target (75%)	440,011,000	365,078,000	292,642,000	313,642,000

EXECUTIVE SUMMARY

The base case budget for Fiscal Year July 1, 2022 to June 30, 2023 is forecasted to reflect very strong financial performance. This is primarily driven by a rising energy cost environment. In a rising cost environment, PG&E rates generally increase and PCIA decreases, creating more operating headroom for EBCE given that we index our rates to PG&E. There is an additional effect from calendar year 2021 that also compounds this effect, because actual energy prices significantly exceeded forecasted levels. The effect is that while calendar year 2021 resulted in a net loss, there is a favorable PCIA adjustment that further reduces calendar year 2022 PCIA levels, which further strengthens calendar 2022 operating headroom. Because of our mid-year fiscal cycle our annual financials are able to offset some of this year-to-year volatility.

Calendar 2022 financials will perform very strongly to offset calendar 2021 losses based on the current rates and PCIA levels that are in place. The high energy cost environment is currently forecasted to persist in calendar year 2023. Energy cost increases are driven by a combination of drought conditions, a significant increase in natural gas prices, more extreme weather patterns driving increased loads in CAISO, supply chain disruptions, and retirements of dispatchable generation. Because 2022 and 2023 hedges were executed in a softer energy price environment, this results in very strong financial performance for FY 22-23. However, the calendar 2023 rates and PCIA are subject to significant volatility as we've seen energy prices increase over 80% on average between 2020 and 2022. One of the risks that we will need to manage is that as we put on higher priced energy hedges in the current environment, if prices soften in 2023 and onwards, we may face tight operating headroom, similar to calendar year 2021. While we strive to lower energy costs as a whole for our customers, this is a financial risk.

With this as background, the current financial outlook is very strong for FY 22-23 which will require significant discussion on what reserve levels to target, how to adjust the customer value proposition, what level of renewables to procure, and how to invest further in local programs. Staff is proposing allocating budget to all of these areas in a fiscally prudent manner, which would include:

1) An increase to the customer value proposition in the form of a customer rebate at the end of the fiscal year. This would allow for certainty on how our financial performance is realized in light of energy price volatility/uncertainty.
2) A significant contribution to the operating reserve of $100-150MM that would allow EBCE to approach the target level of 50% of operating expenses.
3) An increase in renewable energy procurement – but to primarily do so by reserving funds towards long-term procurement, which invests in incremental resources rather than just short-term procurement of existing resources. This would be done in conjunction with our current evaluation of an active renewables and storage RFO that is in process.
4) An increase in local development budget by ~$13MM for the fiscal year and to establish a separate local development capital investment fund that can provide debt, equity, or performance guarantees towards establishing long-term programs.

BASE CASE ASSUMPTIONS

Revenues

- Assumes current rates and PCIA are unchanged through 2022
- Rates and PCIA for 2023 are set to non-stressed, or forecasted energy rates as of 4/1/22
- 1.5% uncollectable rate for remainder of 2022 then 1.0% in 2023
- No recognition of GASB 62 revenue ($15,814,000)
- Non-operating revenue Assumes 0.25% interest earned in cash balances in accounts

Energy Costs

- Consists of all costs related to serving load including hedges, open position, CAISO management, capacity, carbon free procurement, renewable energy, long-term PPA's, and other additional attributes
- Significant increase in costs is due primarily to rising energy rates and premiums on attributes

Energy Service Costs

- Data Management fees are lower due to negotiation of new contract with provider

Overhead Costs

- No significant change most overhead functional areas
- Increase in Depreciation is due to expected residence in the new building in January, 2023
- Increase in personnel due to hiring of eighteen additional positions in local programs, marketing, technology, and backfilling two existing positions, as well as COLA, retention incentives, and other increases and adjustments.

Non-Operating Costs

- Borrowing interest increased due to expected upsizing of credit facility cost with commitment fee
- $6M for capital expenditures is for necessary operating improvements on the new building
- Program funding increased 42% to $12M

Reserve Funds

- In the current year, EBCE is operating with about 18.6% of projected operating expenses held in reserves
- In FY 2020-21, EBCE did not contribute to operating reserves. Staff is expecting net position will be available this year for contribution to reserves, the exact amount is TBD at this time
- To reach the Board approved operating target for next year, an additional $198M is required
- To reach the Board approved minimum target for next year, an additional $54M is required

RISKS DISCUSSION

EBCE is exposed to a variety of risks in this coming fiscal year. Below is a representative list of key risks, though it is not comprehensive in reflecting all risks.

Energy Market Risk:

- EBCE currently has approximately 30-35% of its energy portfolio with some exposure to the market. Short term energy prices can see volatility of 10-20% on a regular basis based on typical supply/demand dynamics that are heavily influenced by weather and electricity infrastructure. With volatility we estimate that energy costs could increase reasonably as much as $50-65MM, though this could also result in a similar reduction in energy costs. We are in a rising cost environment with increased volatility relative to historical periods. Energy prices in 2022 and 2023 are forecasted to be approximately 80% above the historical avg over since 2010.
- PCIA and rate impacts from energy market volatility are also necessary to consider. The PCIA actually serves as a form of risk mitigation based on the portfolio of resources under PG&E. An increase in energy market prices is partially offset by a decrease in PCIA the following calendar year. A decrease in prices would conversely result in an increase in PCIA which could materially reduce revenues in 2023 as EBCE experienced in the 2021 calendar year. Should prices revert to historical averages, net revenues are expected to be significantly reduced in 2023 resulting in net negative position in 2023, as show in the following table.

	Q1 Jul-Sep	Q2 Oct-Dec	Q3 Jan-Mar	Q4 Apr-Jun	FY 2022-23 BUDGET
OPERATIONS					
REVENUE & OTHER SOURCES					
Total Operating Revenue	246,823,000	201,010,000	103,908,000	97,632,000	649,373,000
EXPENSES & OTHER USES					
Total Energy Operating Expenses	139,082,000	119,457,000	113,416,000	95,498,000	467,453,000
Total Overhead Operating Expenses	6,048,000	6,048,000	6,108,000	6,108,000	24,312,000
Total Operating Expenses	145,130,000	125,505,000	119,524,000	101,606,000	491,765,000
NON-OPERATIONS					
Total Non-Operating Revenue	26,000	28,000	45,000	45,000	144,000
Total Non-Operating Expenses	8,860,000	8,860,000	5,860,000	5,860,000	29,440,000
NET NON-OPERATING POSITION	(8,834,000)	(8,832,000)	(5,815,000)	(5,815,000)	(29,296,000)
TOTAL REVENUES	246,849,000	201,038,000	103,953,000	97,677,000	649,517,000
TOTAL EXPENSES	153,990,000	134,365,000	125,384,000	107,466,000	521,205,000
NET INCREASE(DECREASE) IN POSITION	92,859,000	66,673,000	(21,431,000)	(9,789,000)	128,312,000

Uncollectables/Write-offs:

- EBCE increased expected exposure to uncollectable accounts from 0.5% to 2.5% of revenue for the COVID crisis in the 2020-2021 fiscal year. During the current fiscal year, staff has reduced the expected exposure to 2.0% in the first half of the 2022 calendar year. Staff is expecting this risk to reduce in the coming year. However, it will not dissipate entirely. EBCE is reducing the uncollectable estimation from 2.0% to 1.5% for the first half of the fiscal year, then to 1.0% for the second half. These estimates are at the higher end of the range compared to other CCAs based on our regional income demographics. To mitigate this risk, we are pursuing an increase in CARE/FERA enrollments, Arrearage Management Plan (AMP) enrollments, other community programs efforts, such as DAC-GT and community solar, and other forms of debt relief that are currently under analysis. Staff is monitoring true uncollectable rates closely, upon which these recommendations are based.
- As of April 1, EBCE has received about 81% of eligible CAPP money. The remaining amount is expected to be delivered before the end of the fiscal year.

Opt-out risk:

- Customer opt-outs are generally an ongoing risk to EBCE. However, we do not anticipate an increased risk of opt-outs for the fiscal year for established communities under normal conditions. There is currently no active discussion of DA expansion that would take effect in 2023, beyond what has already been in process.
- Change of product decisions may increase opt-outs, but this is difficult to estimate at this time based on the discussions among cities to opt up customers to Renewable 100.

SURPLUS OPTIONS

Given the potentially large net position in this next fiscal year, and after understanding the risks, it is important to discuss the various ways in which the surplus can be put to work. Some of the key areas of focus are:

- **Reserve Contribution:** EBCE has recently received an A-Stable credit rating from S&P. This rating is premised upon establishing strong reserves in the near term. Contributing to reserves should be considered in conjunction with other options presented.
- **Increasing Renewable Content:** Clean energy is part of EBCE's mandate. EBCE can procure more renewable energy to reach targets quicker.
- **Increasing the Value Proposition for Customers:** EBCE tightened the value proposition when the PCIA was high and reducing revenues, and COVID was expected to incur more uncollectables. EBCE can increase the Value Proposition and provide methods to lower consumer costs.
- **Increase funding to Local Development:** The current draft budget already has a historically large contribution to the Local Development Fund. Increasing funding has its trade-offs which are discussed.

RENEWABLE CONTENT DISCUSSION

Providing clean energy is part of EBCE's mandate. Currently about 21% of EBCE's customer load is on the Renewable 100 (R100) product which is comprised of 100% renewable energy content. The remaining 79% of load is on the Bright Choice (BC) product. The renewable content for total BC is planned at 45%

for the 2022 calendar year and 49% for 2023. To increase both these values by 1% costs approximately $635,000 in renewable content purchases.

VALUE PROPOSITION DISCUSSION

Providing a value proposition to customers with rates less than PG&E is another part of EBCE's mandate. EBCE tightened this value proposition to a 1% discount to PG&E from a 1.5% discount in fiscal year 2020-2021 to keep a positive net position for the year as PCIA rates were at all time highs. With the lowering of PCIA in 2022 and expected moderate increase in PCIA in 2023, it may be prudent to increase the value proposition. The large net position for the year provides the opportunity to give back to the community. Staff is currently working on a number of possible options revolving around a combination of increasing the value proposition now to recognize projections and bill credits later to recognize the results as they occur.

LOCAL DEVELOPMENT DISCUSSION

	FY 2022-23	FY 2021-22	FY 2020-21	FY 2019-2020
BEGINNING BALANCE	13,821,067	10,067,572	4,870,737	0
REVENUE & OTHER SOURCES				
Transfer from Operating Fund	22,000,000	8,475,000	6,340,000	6,275,000
Grants/Credits	-	-	395,000	-
Total Revenues & Other Sources	22,000,000	8,475,000	6,735,000	6,275,000
EXPENSES & OTHER USES				
Actual Program Expenses	-	1,221,504	1,538,165	1,404,263
Expected Remaing Expenses	35,821,067	3,500,000	-	-
Total Expenses & Other Uses	35,821,067	4,721,504	1,538,165	1,404,263
ENDING BALANCE	-	13,821,067	10,067,572	4,870,737

Local Development was established as a fund separate from the general operating fund by the Board in the 2019-2020 fiscal year. Programs are currently expected to carry a balance forward this year of approximately $13.8M. Additional funding for next fiscal year is increased from the current year by 42% to $12M. Carry-over funds from previous years are required for established programs and are ear-marked for specific purposes but have not yet had costs actualized. These costs may occur in this coming fiscal year and should not be seen as above budget spending, but as pre-approved carry-over spending. The total approved spending requested is the total beginning balance plus transfers from the operating fund.