Staff Report Item 10

TO: Ava Community Energy Authority

FROM: Nick Chaset, Chief Executive Officer

SUBJECT: **Fiscal Year Budget Surplus Allocation**

DATE: January 17, 2024

Recommendation

Adopt a resolution allocating net revenues from the current fiscal year.

Background and Discussion

The budget for the fiscal year of 2023-2024 was approved by the Board of Directors (the "Board") on June 21, 2023, with the condition to revisit the discussion of how to fully allocate the projected surplus revenues. The allocation of surplus revenues flows through hierarchical areas of assignment called the "waterfall".

The budget presented estimated net revenues to be approximately $179.5 million and the proposed waterfall was to be allocated as follows:

1. The first $50 million to be retained for working capital needs
2. The next $100 million to be contributed to reserve funds
3. The remaining balance to be split 50/50 between:
    a. Long-term renewable energy/storage investments (~$14.75 million)
    b. One-time on-bill credits to customers (~$14.75 million)

The intent of the Board at the time was to revisit the discussion on the third item—the allocation of the remaining balance and the 50/50 split.

Since the Board's approval in June, changes to PG&E filed rates and market price volatility have increased the estimated total surplus net revenue by about $81.2 million to $260.7 million. This increase has materially changed the remaining balance and the amount that would be distributed with the 50/50 split from about $29.5 million to $110.7 million. The table below outlines the changes to the surplus waterfall distribution and a discussion of the impact of this increase with proposed options follows. The Board may choose any of these options or a combination thereof.

WATER FALL DISTRIBUTION		**BUDGET**	**UPDATED**	Difference
Net Revenues		179,484,000	260,728,000	81,244,000
Working Captial		50,000,000	50,000,000	0
Reserve Contribution		100,000,000	100,000,000	0
Available for Allocations		29,484,000	110,728,000	81,244,000
Renewables	50%	14,742,000	55,364,000	40,622,000
On-Bill Credits	50%	14,742,000	55,364,000	40,622,000

Option A: Retain On-Bill Credits

The average estimated credit to residential customers was $9.94 in the June budget presentation. At the time, the discussion with the Board was the concern that this was not meaningful, and the retained aggregation of the estimated $14.7 million could be better leveraged for other Ava goals.

PG&E's most recent rate filings are expected to increase annual average generation cost for residential customers by $70.44 relative to current rates—inclusive of Ava's value proposition. The updated surplus estimates, with the 50/50 split as originally proposed, would provide a $35.65 credit per residential customer. This credit would offset over 50% of the annual increase in these generation costs.

Since Ava began operations, the average residential rate decreased only in 2021. Since then, the average annual generation cost for residential customers has increased by 47.5%, or from about $441 to $651.

Most notable conditions of the option are:

- Distribution would be a one-time bill credit in the November/December timeframe
- The bill credit serves as a means to offset the significant increases in energy costs faced by customers
- In terms of timing the distribution of benefits, this option most directly applies to current rate-payers than other options discussed

Option B: Fully Allocate Surplus to Renewables

Approximately $10.5 million has already been ear-marked for marginal renewable projects from the surplus revenues from the 2022-2023 fiscal year. The purpose of this allocation is to finance the development of new renewable resources that would otherwise not be contracted under Ava's current procurement plan due to pricing. Thus, this money would be used to offset the cost on projects that would otherwise be too expensive with nominal market prices to facilitate renewable energy.

The current proposal is to split the remaining portion of the waterfall 50/50 with on-bill credits as discussed earlier. The option proposed here would be to fully allocate the remaining portion of the waterfall entirely to marginal renewable development. If adopted, the balance available would reach about $121.2 million for these purposes.

The most notable conditions with this option are:

- Application and distribution of these funds would occur over the duration of the purchase agreement, which would likely be upwards of 30 years
- May accelerate Ava's renewable target goals and timelines

Option C: Implement Incentives for Net Billing Tariff

Recent CPUC approved changes to net energy metering (NEM) policy are reducing solar installations rates across California. PG&E's adoption of the new NEM 3.0 policy, called net billing tariff (NBT), has been delayed from December, but now may occur before the end of Ava's current fiscal year.

Ava is already developing an incentive program for solar and paired storage to encourage adoption for all Ava customers in conjunction with NBT. Ava is gathering feedback from the solar industry to develop this program and intends to bring these findings back to the Board for review in March of this year. Allocating surplus revenues could increase program deployment.

The most notable considerations with this option are:

- Delivering these incentives will occur over time as solar and storage installations occur
- Benefits to existing rate-payers diminishes over time due to the timing in distribution

Fiscal Impact

The only material change to Ava's financial position would be as it relates to on-bill credits. Any issued credit would be counted as negative revenue and could result in a decline in net position.

Committee Recommendation

The Finance, Administrative, and Procurement (FAP) subcommittee reviewed this item on January 10, 2024. The subcommittee's recommendation was to allocate the net surplus revenues after allocations to working capital and reserve funds as:

- 60% allocated to on-bill credits with some portion applied specifically to CARE/FERA customers
- 40% allocated to Option C--incentives for net billing tariffs

Attachments

A. Resolution
B. Presentation

RESOLUTION NO. R-2023-xx

A RESOLUTION OF THE BOARD OF DIRECTORS

OF AVA COMMUNITY ENERGY AUTHORITY REGARDING ALLOCATION OF BUDGET SURPLUS REVENUES FOR 2023-2024 FISCAL YEAR

WHEREAS The Ava Community Energy Authority ("Ava") was formed as a community choice aggregation agency ("CCA") 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 Albany, Berkeley, Dublin, Emeryville, Fremont, Hayward, Livermore, Piedmont, Oakland, San Leandro, and Union City to study, promote, develop, conduct, operate, and manage energy-related climate change programs in all of the member jurisdictions. The cities of Newark and Pleasanton, located in Alameda County, along with the City of Tracy, located in San Joaquin County, were added as members of Ava and parties to the JPA in March of 2020. The city of Stockton, located in San Joaquin County was added as a member of Ava and party to the JPA in September of 2022. The city of Lathrop, located in San Joaquin County, was added as a member to Ava and party to the JPA in October of 2023. On October 24, 2023, the Authority legally adopted the name Ava Community Energy Authority, where it had previously used the name East Bay Community Energy Authority since its inception.

WHEREAS the Board of Directors (the "Board") approved the current fiscal year's budget (the "Budget") on June 21, 2023, with the condition to revisit the discussion of how to allocate the remaining surplus revenues after working capital and reserves are funded.

WHEREAS rates filed by PG&E, since the June approval of the Budget, have increased estimated surplus revenues by about $81.2 million, which in turn increases the remaining surplus amount from about $29.5 million to $110.7 million.

WHEREAS options presented to the Board include: retaining the 50/50 split of surplus between renewable energy development and on-bill credit, fully allocating surplus to renewable energy development, and/or funding incentives for net billing tariff program.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF AVA COMMUNITY ENERGY AUTHORITY DOES HEREBY RESOLVE AS FOLLOWS:

With respect to the budget surplus revenues for the 2023-2024 fiscal year:

<u>Section 1.</u> retain the on-bill credit portion of the 50/50 split of the surplus revenues after funding working capital needs and reserves;

<u>Section 2.</u> and/or allocate the full portion of the surplus to renewable energy development;

<u>Section 3.</u> and/or allocate a portion of the surplus revenues to the net billing tariff program;

Section 4. and/or provide a solution that allocates the full surplus amount among a combination of the aforementioned options.

ADOPTED AND APPROVED this 17th day of January, 2024.

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Elisa Márquez, Chair

ATTEST:

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Adrian Bankhead, Clerk of the Board

Attachment Staff Report Item 10B

Ava Community Energy

Fiscal Year Budget Surplus

Finance, Administrative, & Procurement Subcommittee

January 10, 2024

Background & Discussion

- In June of 2023, the Fiscal Year 2023-2024 budget was approved by the Board of Directors on the condition to revisit the discussion of the projected surplus revenues in the Waterfall
  - Specifically, the 50/50 split between renewables and on-bill credits
- The Waterfall in the budget presentation was predicated on an estimated increase in net revenues of approximately $179.5MM
- Changes in PG&E filed rates, and market price volatility, since the June approval has increased the estimated net increase to approximately $260.7MM (an increase of about $81.2MM)
  - Final actual Net Position will be determined following the annual audit Process completed ~Oct 2024
- Options evaluated
  - Retain On-Bill Credit option
  - Fully allocate to new Renewables
  - Incentives solutions for NEM changes

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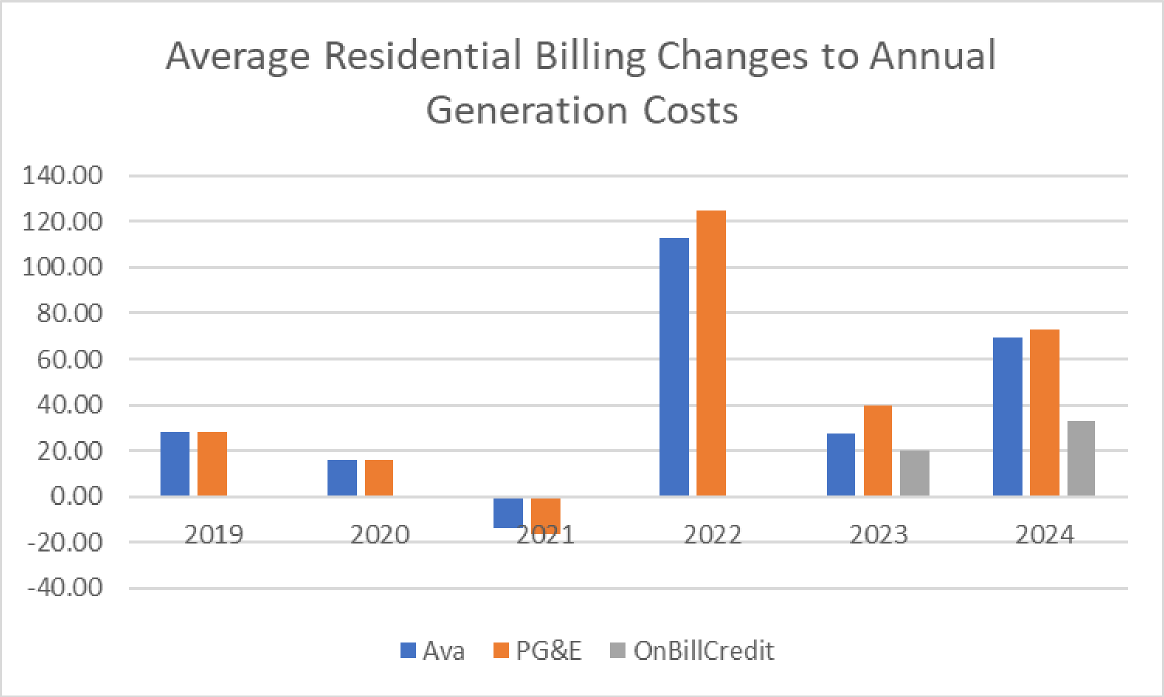
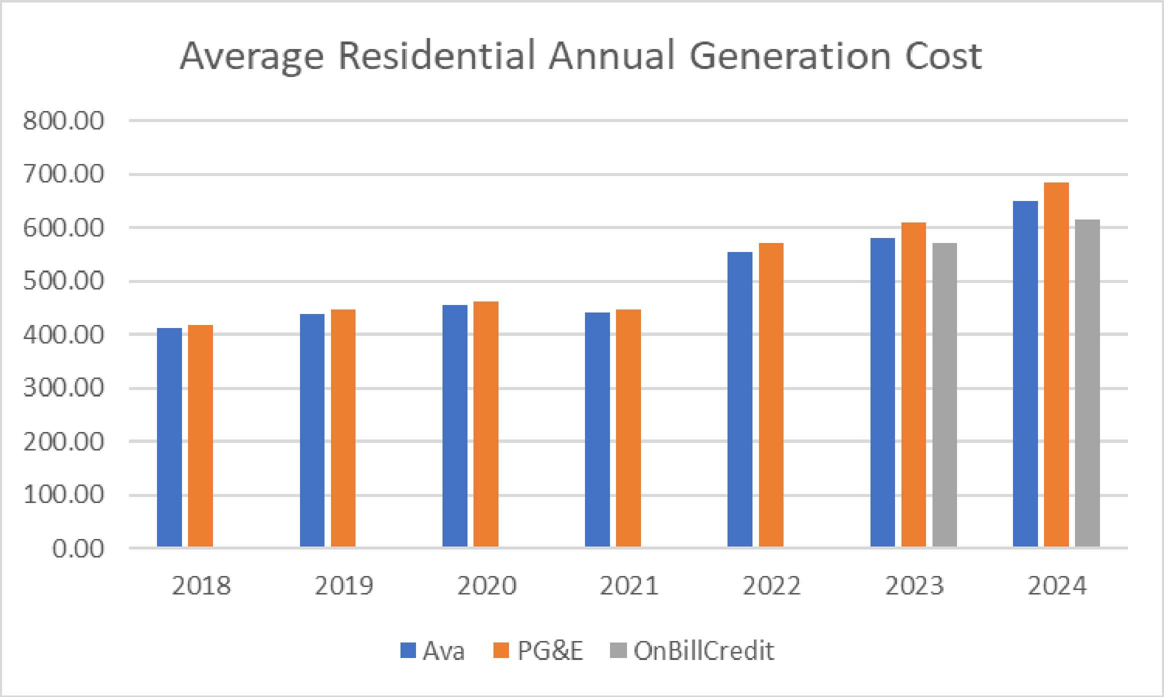
Option A: Retaining On-Bill Credits

- Increases in net revenues may make retaining on-bill credits a desirable option
- PG&E's most recent rate filings are expected to increase the average annual generation cost for residential customers by $70.44
- On-bill credits with previous revenue expectations were averaged at $9.94 per residential customers
- On-bill credits with updated revenue expectations are averaged at $36.53 per residential customer
- The updated credit could offset over 50% of the annual increase in generation cost for the average residential customer
- Most notable conditions with this option:
  - It is a one-time payout in Nov/Dec timeframe
  - It serves as a means to offset the significant increases in energy costs faced by customers
  - Application of benefit most directly applies to current rate-payers than other options

- The charts below show historical average impact from rate changes to generation costs to residential customers and the resulting total cost.





Option B: Fully Allocate to Renewables

- Increases in net revenues may make fully allocating to new renewable projects more desirable.
- From last fiscal year, approximately $10.5MM has been ear-marked for marginal renewable projects (per November Board Meeting Item 11—Budget Surplus & Reserve Allocation)
- If the On-Bill Credit option is retained, this balance would increase to ~$65.9MM
- If fully allocated to new renewables, this balance would increase to ~$121.2MM
- This would allow new incremental renewable resources to be developed that are otherwise not under Ava's current procurement plan, likely to be selected from the current or next RFO process

Option C: Incentives Solutions for Net Billing Tariff

- Recent changes to net energy metering (NEM) are reducing solar installation rates across CA
- PG&E adoption of the new NEM 3.0 Policy called net billing tariff (NBT) has been delayed from December 2023 and now may occur before the end of the fiscal year
- Ava is developing an incentive program for solar and paired storage to encourage solar + storage adoption that benefits all Ava customers in conjunction with adopting NBT
- Ava is gathering feedback from solar industry to develop this program and will bring back to the Board for review by March
- Allocating a portion of the net revenues to planned funding could increase Solar + Storage program funding and deployment
- Most notable considerations with this option:
    - Delivering these incentives will occur over time as Solar + Storage installations occur
    - Benefit existing customers diminishes over time

Recommendation from FAP Subcommittee

- The Finance, Administrative, and Procurement subcommittee reviewed this item on January 10, 2024
- The recommendation from this subcommittee for net revenues above and beyond working capital and reserves are as follows:
  - 60% to be allocated to on-bill credits with some portion specifically applied to CARE/FERA customers
  - 40% to be allocated to Option C—incentives for net billing tariff projects with an emphasis on resilience ($44.2 million)
- The tables show the possible bill credits for two scenarios for splitting with CARE/FERA

On-Bill Credit Splits	**Split 40/20**	**Split 50/10**
Allocation Amount		
General Ava Accounts	44,239,200	55,299,000
CARE/FERA Accounts	22,119,600	11,059,800
Credit Per Account		
General Ava Residential	28.52	35.65
CARE/FERA	172.34	86.17

Thank you!

Ava Community Energy

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