Fiscal Year 2024-2025 Draft Budget

Finance, Administrative, & Procurement Subcommittee

May 8, 2024

Ava Community Energy

Background & Discussion

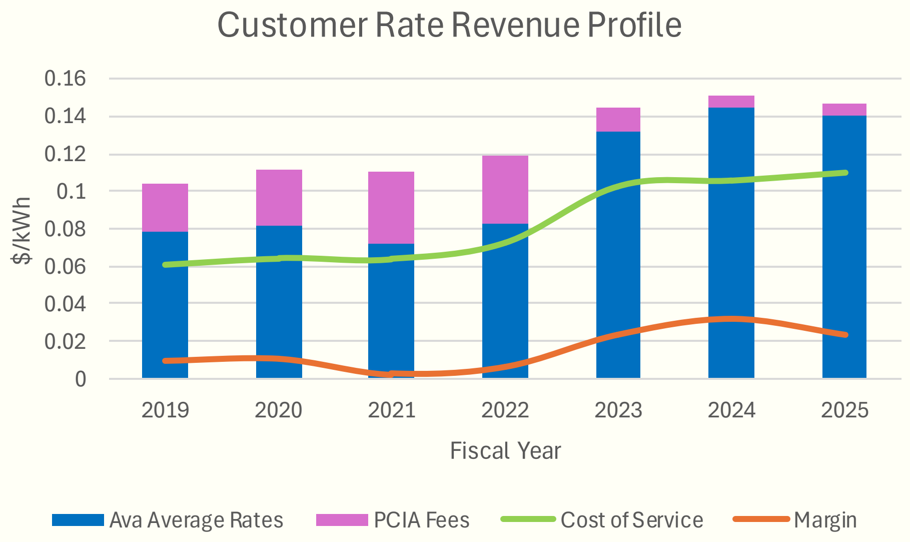
- Every year in June, Ava Board of Directors approves the following fiscal year budget
- The Budget covers the overall general categories of
  - Revenues from Operations
  - Energy Operating Expenses
  - Services to facilitate
  - Energy Operations Overhead
  - Non-Operating Revenues
  - Non-Operating Expenses
- The Budget typically goes through a few rounds of review prior to BOD approval in June, with a full review in the May meeting along with review from subcommittees—typically the Finance, Administrative, and Procurement Subcommittee and the Executive Committee
  - Staff is reviewing the draft budget with the Exec Comm (5/1), FAP (5/8), and board (5/15)
- Revenues are made from sales of energy to customers and rates are indexed to PG&E cost of service rates as approved by the CPUC
- Costs are typically 90% energy expenses with overhead and Local Development funding comprising nearly the remaining 10%

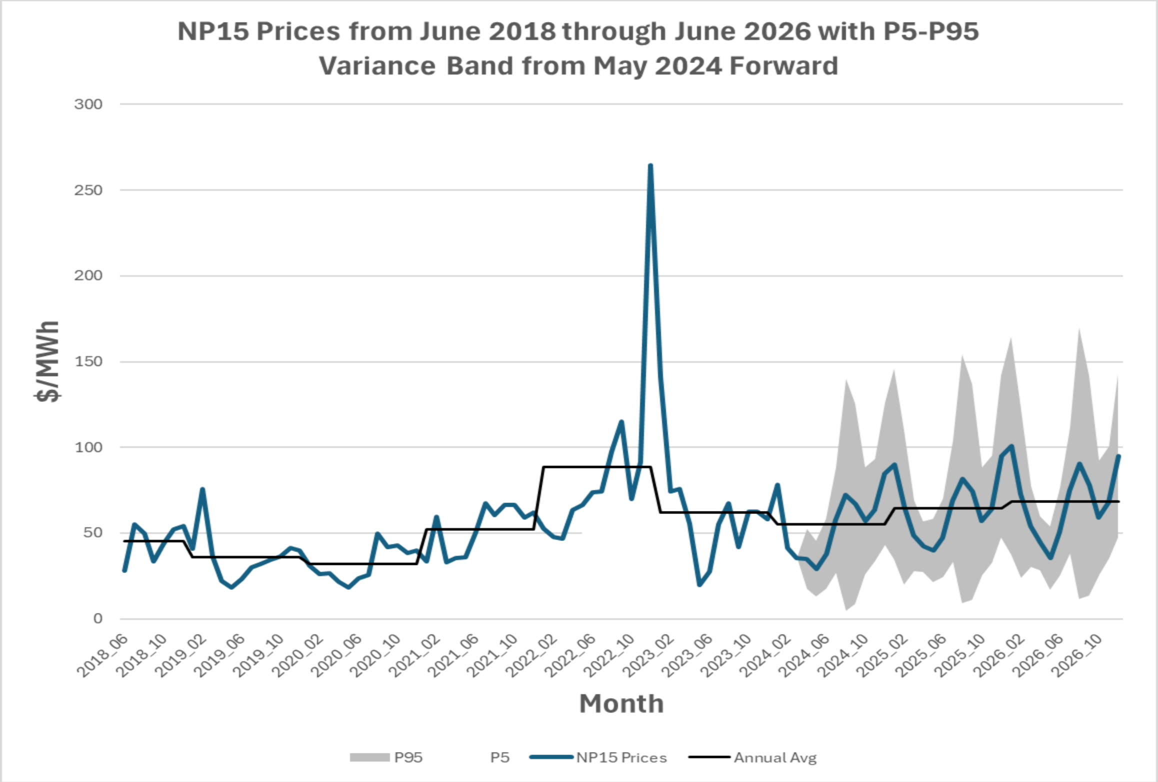
How Ava Works—Energy Delivery

- Ava sells energy directly to its customers by procuring energy through various market mechanisms and scheduling delivery into California Independent Service Operator (CAISO)
- Ava is not responsible for transmission or delivery of the commodity; this is a service retained by PG&E
- Per Ava's risk management policy, much of the expected load is procured and hedged in advance across energy, RECs, and Resource Adequacy
- Ava schedules it's forecasted load with CAISO on a day-ahead basis and real-time basis
  - This is done regardless of the amount of energy hedges that Ava has procured
  - The CAISO is California's regional market balancing authority whose primary purpose is to keep the energy being pulled off the grid balanced by energy being put on the grid to prevent grid damage or area shortages

How Ava Works—Revenues & Rates

- Ava's generation rates to customers are indexed to PG&E's
  - PG&E's rates are approved by the CPUC and are cost of service derived
- A portion of these approved rates are a pass-through charge to PG&E for the PCIA
  - The PCIA is PG&E recovery for long-term sunk costs for customers that have moved to Ava.
  - PCIA rates are based on an annual mark-to-market value of the costs, and are relative to the year of customer migration
    - Higher prices = lower PCIA





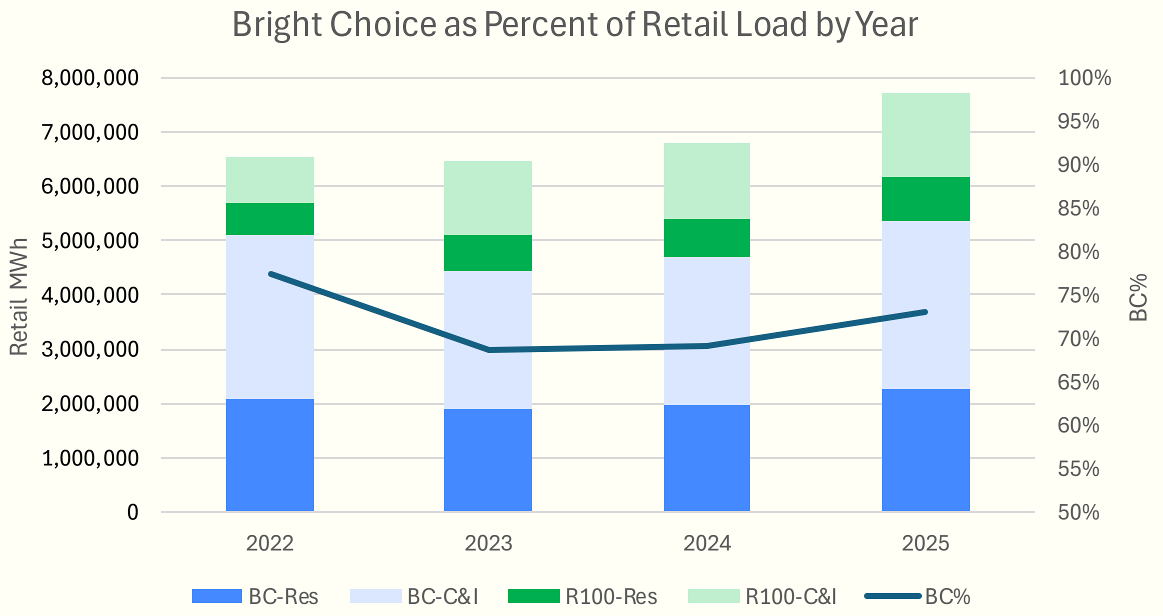
Hourly average day ahead prices

How Ava Works—Billing Cycle

- Revenues are made from sales of energy to customers based on generation rates that are indexed to PG&E cost of service rates as approved by the CPUC
- PG&E will read Ava customer meters to monitor consumption. These reads are then reported to Ava and its Billing data manager
- The consumption data is processed to generate billing amounts based on Ava's rates and then sent back to PG&E, who then issues the bills and collects payments on Ava's behalf
- PG&E's bundled customers and unbundled (Ava) customers also pay a power charge indifference adjustment (PCIA) and minor system fees. These are collected by PG&E from customer revenues and retained prior to payment distribution to Ava.
    - Additionally, all PG&E bundled and unbundled customers are charged a Transmission & Distribution cost
- A billing cycle is typically about three months, meaning it takes about three months for Ava to receive payment from a customer's consumption
    - Consumption occurs in the first month
    - A bill is issued in the second month
    - Payment is due in the third month

How Ava Works—Revenues & Rates

- Ava provides two energy products to customers and each product has a specific value proposition to Ava's customers:
  - Renewable 100: 100% of the energy is from renewable resources
    - Originally set at $0.01/kWh above PG&E and has migrated down as Ava financials improved
    - Currently priced at $0.0025/kWh above PG&E rates
  - Bright Choice: Ava's basic product and is currently 81% from carbon free resources
    - Originally set at 1.5% discount to PG&E, reduced to a 1% discount in 2021, and increased to a 3% discount in 2022
    - The latest adjustment was to a 5% discount to PG&E rates in 2023



- The current percent load of Bright Choice customers is ~70% and increases in 2025 due to expansion to Stockton and Lathrop
- 2025 distribution does not include current R100 opt-ups in discussion

Executive Budget Summary

- In the face of rising energy costs, Ava is able to continue to serve our local community and customers with cost competitive & cleaner energy while providing local jobs and equitable programs
- Rates have increased and PCIA has decreased since 2021, driven by historic increases in market energy prices starting in 2021. Calendar year 2025 is forecasted at a very modest reduction in energy market prices and rates relative to 2024.
- Renewable and carbon free energy has seen a marked increased due to higher demand and these higher prices are also expected to persist through 2030 as more and more renewable energy is demanded from carbon reduction target mandates across CCAs
- With Ava rates indexed to PG&E rates, we are forecasting significant headroom to operate and a strong financial surplus for the upcoming fiscal year
- This Draft Budget includes the following:
    - Value proposition for Bright Choice is increased from a 5% to a 7% discount to PG&E
    - Significant contribution to reserves with waterfall distribution to customers and programs
    - Increased carbon free energy procurement targets
    - Meaningful contribution to local development programs
    - Expand on staff expertise, build more depth, and scale operations further

Summary Draft Budget Fiscal Year 2024-2025

- Revenue estimates are with a 7% discount to PG&E for Bright Choice and a 0.25 cent premium for Renewable 100 customers
- Increases in Cost of Energy are driven by market price volatility with renewable attributes
- Fifteen new staff members are required for expanding operations
- Increases in Non-Operating Revenues are expected from managing treasury funds in higher rate environment
- Local Development estimates lower expenses required this year
- Net result is a 30% reduction in expected net revenues compared to last year

	FY 2025 BUDGET	FY 2024 BUDGET	*FY Delta*	*FY %D*	FY 2024 ACTUALS
OPERATING ACTIVITY					
REVENUE & OTHER SOURCES					
Electricity Sales	979,017,000	957,028,000	*21,989,000*	*2.2%*	927,102,000
Uncollectables	(9,790,000)	(12,095,000)	*2,305,000*	*-23.5%*	(11,675,000)
Other Operating Revenue	(6,487,000)	(6,642,000)	*155,000*	*-2.4%*	8,446,000
TOTAL OPERATING REVENUE	**962,740,000**	**938,291,000**	***24,449,000***	***2.5%***	**923,873,000**
EXPENSES & OTHER USES					
Cost of Energy	753,523,000	682,367,000	*71,156,000*	*9.4%*	658,262,000
Cost of Energy Services	11,608,000	11,219,000	*389,000*	*3.4%*	11,213,000
Total Energy Operating Expenses	765,131,000	693,586,000	*71,545,000*	*9.4%*	669,475,000
Total Overhead Operating Expenses	45,015,000	39,299,000	*5,716,000*	*12.7%*	29,727,000
TOTAL OPERATING EXPENSES	810,146,000	732,885,000	*77,261,000*	*9.5%*	699,202,000
NET OPERATING POSITION	**152,594,000**	**205,406,000**	*(52,812,000)*	*-34.6%*	224,671,000
NON-OPERATING ACTIVITY					
TOTAL NON-OPERATING REVENUE	11,449,000	1,728,000	*9,721,000*	*84.9%*	8,488,000
TOTAL NON-OPERATING EXPENSES	25,196,000	27,650,000	*(2,454,000)*	*-9.7%*	26,450,000
NET NON-OPERATING POSITION	**(13,747,000)**	**(25,922,000)**	*12,175,000*	*-88.6%*	**(17,962,000)**
TOTAL REVENUES	**974,189,000**	**940,019,000**	*34,170,000*	*3.5%*	**932,361,000**
TOTAL EXPENSES	**835,342,000**	**760,535,000**	*74,807,000*	*9.0%*	**725,652,000**
TOTAL NET REVENUES	**138,847,000**	**179,484,000**	*(40,637,000)*	*-29.3%*	**206,709,000**

Draft Budget Base Case Assumptions

Revenues

- Changes to Value Proposition
  - Bright Choice from 5% to 7% discount to PG&E
  - No change to Renewable 100
- $50 bill credit applied to all CARE & FERA customers in first half, totaling about $6.5MM in bill savings
- Assumes current rates and PCIA are unchanged through 2024
- Rates and PCIA for 2025 are based on non-stressed, or as mean-forecasted, energy rates
- 1.0% uncollectable rate for full fiscal year
- No recognition of GASB 62 revenue ($34.4MM)
- Non-operating revenue assumes average 4.0% interest rate earned through the fiscal year

Energy Costs

- Costs are derived from a blend of contracted and open positions for all energy and renewable attributes
  - Open prices are non-stressed, mean forecasted
- Carbon free energy (which can include either RE or CO2-free) is above recent Board approved targets by 5%
  - 2024: CF 81% (71% + 10% approved adder)
  - 2025: CF 81% (76% + 5% proposed adder)

Other Costs

- Adding incremental staff of 15 FTE for expanding operations
- Marketing includes new community required mailings and an increase in advertising
- Program funding budgeted at $23.7MM + forecasted $19,423,500 for solar/storage incentives derived from budget surplus

Value Proposition / Rate Setting Assumptions

Revenues

- Changes to Value Proposition
  - Bright Choice from 5% to 7% discount to PG&E
  - No change to Renewable 100
- At the current 2024 load distribution:
  - 1% change in the Bright Choice value proposition results in a change of $7.2MM
  - 0.25 cent change in the Renewable 100 value proposition results in a change of $5.3MM
- Ava is currently in discussion with multiple city members about R100 default opt-ups in the 2025-2027 timeframe. A material increase to renewable energy is expected to increase R100 pricing. A phasing of this opt-up transition over multiple years is in active discussion with cities
- These phasing details in addition to rate setting will be brought forth to the Board for future discussion

Carbon Free Procurement Schedule

Year	Bright Choice				CA-RPS %
	Renewable %	Carbon Free %	TCR*-Emission Factor	PSDR-Emission Factor	Renewable %
2018	41%	87%	101	*n/a*	29%
2019	60%	85%	135	*n/a*	31%
2020	40%	54%	*n/a*	580	33%
2021	41%	55%	*n/a*	577	36%
2022	45%	63%	*n/a*	566	39%
2023	49%	66%	*n/a*	521	41%
2024	52%	71%	*n/a*	455	44%
2025	56%	76%	*n/a*	387	47%
2026	60%	81%	*n/a*	315	49%
2027	64%	85%	*n/a*	241	52%
2028	67%	90%	*n/a*	163	55%
2029	71%	95%	*n/a*	83	57%
2030	75%	100%	*n/a*	-	60%

		2022		2023		2024	
Year	Path Target	Increase	Updated Target	Increase	Updated Target	Increase	Updated Target
2022	63%	5%	**68%**	--	--	--	--
2023	66%	5%	71%	5%	**76%**	--	--
2024	71%	0%	71%	10%	81%	0%	**81%**
2025	76%	0%	76%	0%	76%	5%	**81%**
2026	81%	0%	81%	0%	81%	0%	**81%**

- April 2022, the Board approved the “Path to Zero by 2030” for the Bright Choice product as shown in the table to the left
  - Carbon Free percentages reflect renewable energy and large hydro energy
- June 2022, the Board approved 5% increases to the CF targets for calendar years 2022 and 2023 to 68% and 71%, respectively
- June 2023, the Board approved an additional 5% to CF targets for calendar year 2023 and a 10% increase for calendar year 2024 to 76% and 81% respectively
- This year, staff is proposing a 5% increase to CF targets for 2025 to 81%

Reserve Amounts & Proposed Surplus Allocations

- Current Reserve Balance of $230,873,400 covers 31.5% of FY23/24 operating expenses (OpEx)
- Expected November contribution to raise balance to $330,873,400 covers 40.8% of FY24/25 OpEx
- Preliminary estimate of FY25/26 OpEx requires similar contribution in November 2025 to maintain parity, largely due to an increase in OpEx from Stockton and Lathrop expansion

Contribution Year	Contribution	Withdraws	Balance	OpEx to Cover	PctOps
2018-2019	40,513,687	-	40,513,687	410,686,000	9.9%
2019-2020	49,704,640	-	90,218,327	383,045,000	23.6%
2020-2021	-	-	90,218,327	471,897,000	19.1%
2021-2022	65,655,073	-	155,873,400	562,667,000	27.7%
2022-2023	75,000,000	-	230,873,400	732,885,000	31.5%
2023-2024	100,000,000	-	330,873,400	810,146,000	40.8%
*2024-2025**	*100,000,000*	-	430,873,400	*1,003,221,000*	*42.9%*

*Proposed contribution with projected operating expenses to cover as of 4/25/2024

- Given the anticipated increase in costs reserves are expected to cover, the recommendation is to allocate the surplus reserves as follows:
  - No working capital is expected to be retained
  - Up to the first $100MM to be allocated to reserve funds
  - Any remaining budget surplus to be allocated as 50% to one-time on-bill credits for customers and 50% to NBT incentives

WATERFALL DISTRIBUTION		
Net Revenues		138,847,000
Working Capital		0
Reserve Contribution		100,000,000
Available for Allocation		38,847,000
On-Bill Credit	*50%*	19,423,500
Solar/Storage NBT Incentives	*50%*	19,423,500

Draft Budget: Operating Revenues

	FY 2025 BUDGET	FY 2024 BUDGET	*FY Delta*	*FY %D*	FY 2024 ACTUALS
OPERATING ACTIVITY					
REVENUE & OTHER SOURCES					
Electricity Sales	979,017,000	957,028,000	*21,989,000*	*2.2%*	927,102,000
Uncollectables	(9,790,000)	(12,095,000)	*2,305,000*	*-23.5%*	(11,675,000)
Other Operating Revenue	(6,487,000)	(6,642,000)	*155,000*	*-2.4%*	8,446,000
TOTAL OPERATING REVENUE	**962,740,000**	**938,291,000**	***24,449,000***	***2.5%***	**923,873,000**

- Revenues are based on the following assumptions:
  - Bright Choice product increased from a 5% to a 7% discount to PG&E
  - Assumes current rates and PCIA are unchanged through 2024
  - Rates and PCIA for 2025 are non-stressed, or as expected, energy rates from March ERRA filing
- Uncollectables are estimated at 1.0% of sales through the fiscal year
- No planned recognition of GASB 62 existing revenue balance ($34.4MM)
- Other Operating Revenue
  - 2025 Budget shows a reduction from the distribution of the $50 CARE/FERA credits expected to be distributed in the first half of the year
  - Current fiscal year CARE/FERA credit is netted in Electricity Sales
  - 2024 Other Operating Revenue Actuals are damages received from defaults from counterparties

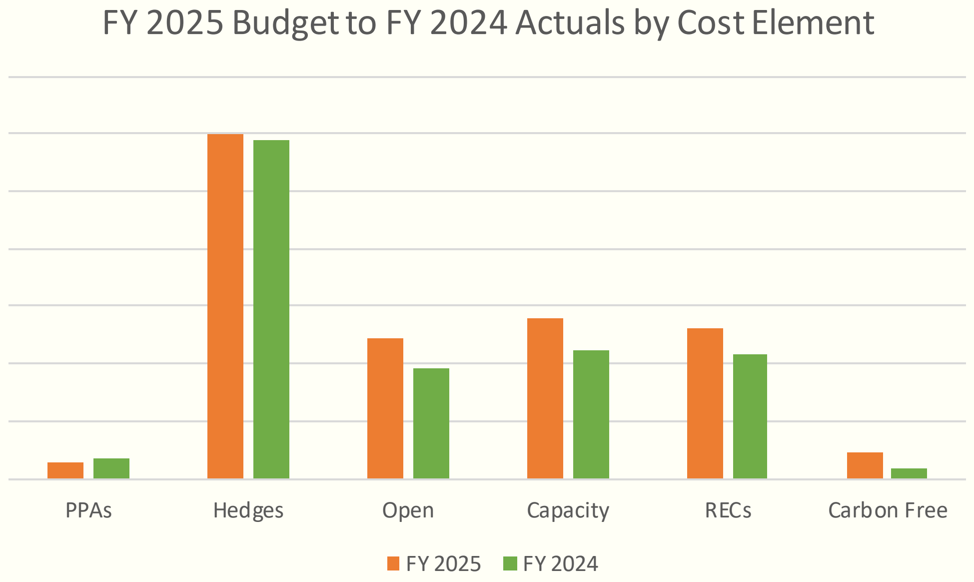
Draft Budget: Overview of Operating Expenses

	FY 2025 BUDGET	% Cost
EXPENSES & OTHER USES		
Cost of Energy	753,523,000	90.2%
Cost of Energy Services	11,608,000	1.4%
Total Energy Operating Expenses	765,131,000	91.6%
Overhead Operating Expenses		
Personnel	26,592,000	3.2%
Marketing & Communications	6,168,000	0.7%
Legal, Policy, & Regulatory Affairs	4,104,000	0.5%
Other Professional Services	2,088,000	0.2%
General & Administrative	5,664,000	0.7%
Depreciation	399,000	0.0%
Total Overhead Operating Expenses	45,015,000	5.4%
TOTAL OPERATING EXPENSES	810,146,000	
NON-OPERATING EXPENSES		
Borrowing Interest	2,796,000	0.3%
Local Development Funding	22,400,000	2.7%
TOTAL NON-OPERATING EXPENSES	25,196,000	3.0%
TOTAL EXPENSES	**835,342,000**	

- Expenses are divided into three overall cost center categories:
- **Energy Operations** which includes all energy, energy attributes, and ancillary related costs and the services required to managing energy and attributes, such as scheduling, data management, and customer billing
  - This category comprises more than 90% of Ava's total expenses
- **Overhead Operations** which includes all personnel and staffing needs as well as work function cost centers required to manage the organization at large, and is about 5% of total expenses
- **Non-Operating Expenses** which are all capital and capital transfer related costs

Draft Budget: Energy Expenses

	FY 2025 BUDGET	FY 2024 BUDGET	FY 2024 ACTUALS
EXPENSES & OTHER USES			
Cost of Energy	753,523,000	682,367,000	658,262,000
Cost of Energy Services	11,608,000	11,219,000	11,213,000
Total Energy Operating Expenses	765,131,000	693,586,000	669,475,000



Energy Costs

- Costs are derived from a blend of contracted and open positions for all energy, attributes, and RA
  - Open prices are non-stressed, or mean forecasted
  - FY 2025 overall price projections are about 10% higher than FY 2024 actuals on average
  - Material increases in RA, RECs, Carbon Free Energy, and market prices
- Carbon Free targets are above baseline targets by 10% in calendar year 2024 and 5% in 2025 to maintain 81% coverage
  - 2024: CF 71% → 81% (Board approved)
  - 2025: CF 76% → 81% (proposed)
  - Adds up to $8.5MM in costs for FY 2025
- Note: We are still in a period of historically high prices with forecasted market energy ~2x the historical 10-year average and is expected to persist into future years

Draft Budget: Overhead Expenses

	FY 2025 BUDGET	FY 2024 BUDGET	FY 2024 ACTUALS
EXPENSES & OTHER USES			
Overhead Operating Expenses			
Personnel	26,592,000	21,911,000	18,015,000
Marketing & Communications	6,168,000	5,303,000	3,046,000
Legal, Policy, & Regulatory Affairs	4,104,000	3,509,000	2,175,000
Other Professional Services	2,088,000	2,505,000	1,790,000
General & Administrative	5,664,000	5,711,000	4,488,000
Depreciation	399,000	360,000	213,000
Total Overhead Operating Expenses	45,015,000	39,299,000	29,727,000

Material Overhead Items for FY 24-25:

- Personnel costs are increasing due to adding 15 new positions to accommodate expanding operational needs
- Increase in Marketing costs are due to increases in advertising and required mailings for the inclusion of Stockton and Lathrop
  - Includes approx. $1.6MM of programs related marketing costs
- Increases in Legal costs are due to additional volume of consulting/vendor agreements and new power contracts
- Additional staffing efforts have reduced consulting services costs
- G&A has no marked change
- Depreciation increases slightly with procurement of equipment and office componentsc

Draft Budget: Personnel

	FY 2025 DRAFT BUDGET	FY 2024 BUDGET	FY 2023 BUDGET
PERSONNEL			
Salaries & Wages	19,765,000	16,587,000	11,598,000
Retirement	2,450,000	2,058,000	1,544,000
Health Care/Benefits	3,955,000	2,913,000	2,292,000
Payroll Expenses	416,000	353,000	277,000
Total	26,586,000	21,911,000	15,711,000

- FY 2023 Budget was set for 68 FTE to accommodate additional workflow in all areas.
- FY 2024 Budget was set for 15 additional FTE (83 total) to accommodate additional workflow in all areas with scaling operations
- FY 2025 Budget seeks to add an additional 15 FTE (98 total) to accommodate additional workflow in all areas. Additional headcount will expand on internal expertise, build more depth, and help scale operations further
  - FTE Count: 4 Local Development, 4 Power Resources, 2 Legal/Policy, 2 Marketing, 2 Finance, 1 HR
  - COLA: 3%
  - Promotions/Wage Adjustments: 2%
  - Merit-based Compensation: 13%
- Note: In 2023-2024, Ava adjusted compensation structure to standardize pay scales and create merit-based compensation as a way to reduce pay bias in salaries as a DEI initiative

Draft Budget: New Personnel Assignments

- Finance is looking to fill two additional positions to facilitate additional accounting controls and keep up with structuring financing needs
- Human Resources needs additional support to facilitate the higher staffing needs
- Local Development is hiring staff to assist with the development of key programs scheduled for launch and growth this next fiscal year
- Marketing needs additional support for expanding outreach and advertising
- Power Resources is hiring to keep up with contracting and portfolio management as more longer-term contracts are established
- Public Policy & Legal are looking to provide more Board and committee support and stay informed on rapidly changing relevant policies

	Title	Functional Area
1	Controller	Finance
2	Structured Finance Manager	Finance
3	HR Operations Manager	Human Resources
4	Contracts Manager	Local Development
5	DCFC Product Manager	Local Development
6	Project Manager	Local Development
7	Strategic Accounts and Product Design	Local Development/Account Services
8	Marketing Associate	Marketing
9	Outreach Coordinator	Marketing
10	Contract Manager	Power Resources
11	Contracts Analyst	Power Resources
12	RA Portfolio Analyst	Power Resources
13	Settlements Analyst	Power Resources
14	Assistant Board Clerk	Public Policy & Legal
15	Regulatory Analyst	Public Policy & Legal

Draft Budget: Non-Operating Activity

	FY 2025 BUDGET	FY 2024 BUDGET	FY 2024 ACTUALS
NON-OPERATING ACTIVITY			
NON-OPERATING REVENUE			
Interest Income	11,400,000	1,680,000	7,762,000
Grants	0	0	677,000
Other Non-Operating Revenue	49,000	48,000	49,000
TOTAL NON-OPERATING REVENUE	11,449,000	1,728,000	8,488,000
NON-OPERATING EXPENSES			
Borrowing Interest	2,796,000	1,650,000	950,000
Local Development Funding	22,400,000	25,500,000	25,500,000
TOTAL NON-OPERATING EXPENSES	25,196,000	27,650,000	26,450,000
NET NON-OPERATING POSITION	(13,747,000)	(25,922,000)	(17,962,000)

- **Non-Operational Revenue:**
  - Interest earned is based on expected returns for the managed treasury accounts for reserve funds, currently estimated at 4.0% annual returns average through the fiscal year and interest earned on the BlocPower loan (5.5% on $500k)
  - Other revenue is rent from AT&T tower on new building
- **Non-Operational Expenses:**
  - Borrowing Interest are costs associated with Ava's credit facility held with US Bank
  - Local Development Funding is a capital transfer to the Local Development Fund
  - No capital expenditures are expected for this fiscal year

Draft Budget: Local Development

	FY 2025 DRAFT BUDGET	FY 2024 BUDGET
LOCAL DEVELOPMENT		
Critical Municipal Facilities	7,000,000	-
Health-e-Communities	5,000,000	5,000,000
DCFC Network	3,000,000	3,600,000
Ava e-Bike	2,000,000	2,000,000
Building Electrification	2,000,000	3,500,000
Community Grants	1,200,000	1,400,000
Vehicle Electrification	1,000,000	6,000,000
Legal Expense	500,000	-
Solar + Storage	500,000	2,000,000
Subscription	200,000	-
Demand Response	-	2,000,000
Total	22,400,000	25,500,000
Potential to S+S*	19,423,000	22,683,000
Estimated with Surplus	41,823,000	48,183,000

**Estimated amounts from surplus net revenues waterfall allocations*

Local Development

- Resilience:
  - $7M - Resilient Critical Municipal Facility Microgrids
  - $0.5M - Performance payments for Solar & Storage incentive Program
- Building Electrification
  - $5M – Health-e Communities induction stove direct installation program
  - $2M – Electrification incentive program
- Transportation Electrification
  - $3M - Ongoing development of Public DC Fast charging network
  - $2M - Ave e-Bike incentive Program
  - $1M - EV managed charging Program
- Community Grants
  - $1.2M - Community Grants
- Legal Expenses / Subscriptions - $0.7M

Thank you!

Ava Community Energy

Online	AvaEnergy.org
Phone	+1 833.699.3223
Email	customer-support@AvaEnergy.org
Social	PoweredWithAva