Fiscal Year 2024-2025 Draft Budget

Executive Committee

June 5, 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
  - Services to facilitate
  - Non-Operating Revenues
  - Energy Operating Expenses
  - Energy Operations Overhead
  - Non-Operating Expenses

- The Budget typically goes through several 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 has reviewed the draft budget with the Exec Comm (5/1), FAP (5/8), and BOD (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%

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

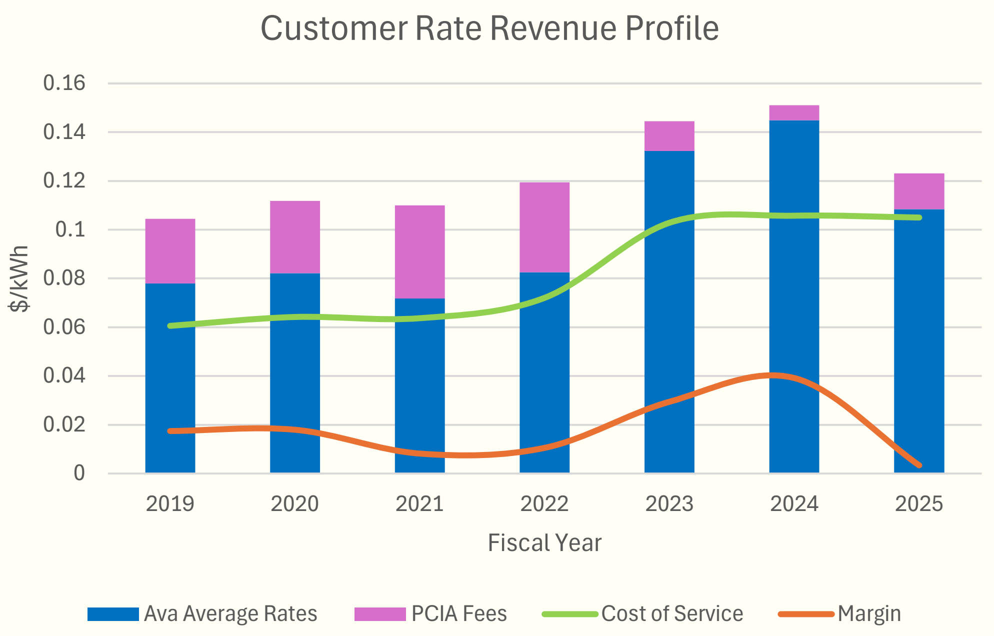
- Rates have increased and PCIA has decreased from 2021 to 2024, driven by historic increases in market energy prices starting in 2021. Comparatively, actual energy market prices have softened in the first half of 2024. This is lowering forecasted energy costs going into 2025 and the overcollection in 2024 will create a true-up to 2025 rates. These changes are driving forecasted decreases in rates and increases in PCIA in 2025.

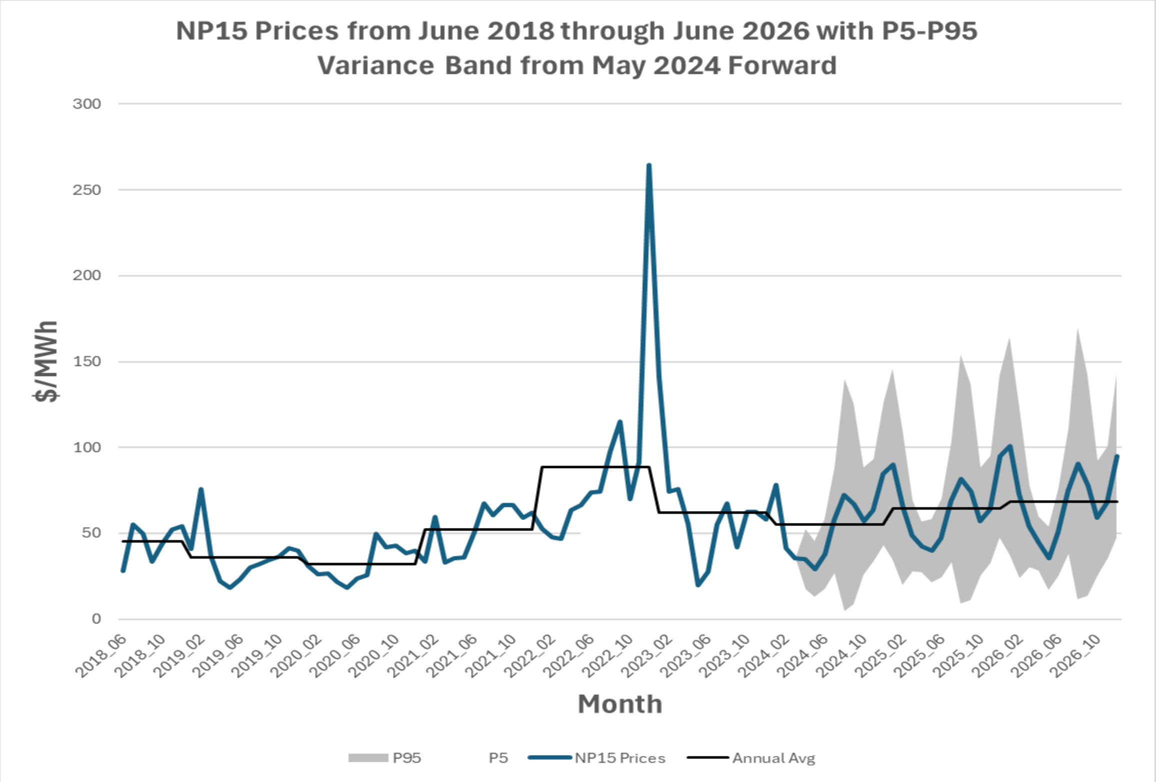
- Renewable and carbon free energy has seen a marked increased due to higher demand and these higher prices are also expected to persist through 2030 as more and more renewable energy is demanded from carbon reduction target mandates across CCAs

- With Ava rates indexed to PG&E rates, this Draft Budget is materially different from May's presentation due to fundamental changes in PG&E's rates for 2025. The next slide gives more details into these changes.

Historical Rates & Energy Costs

- 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

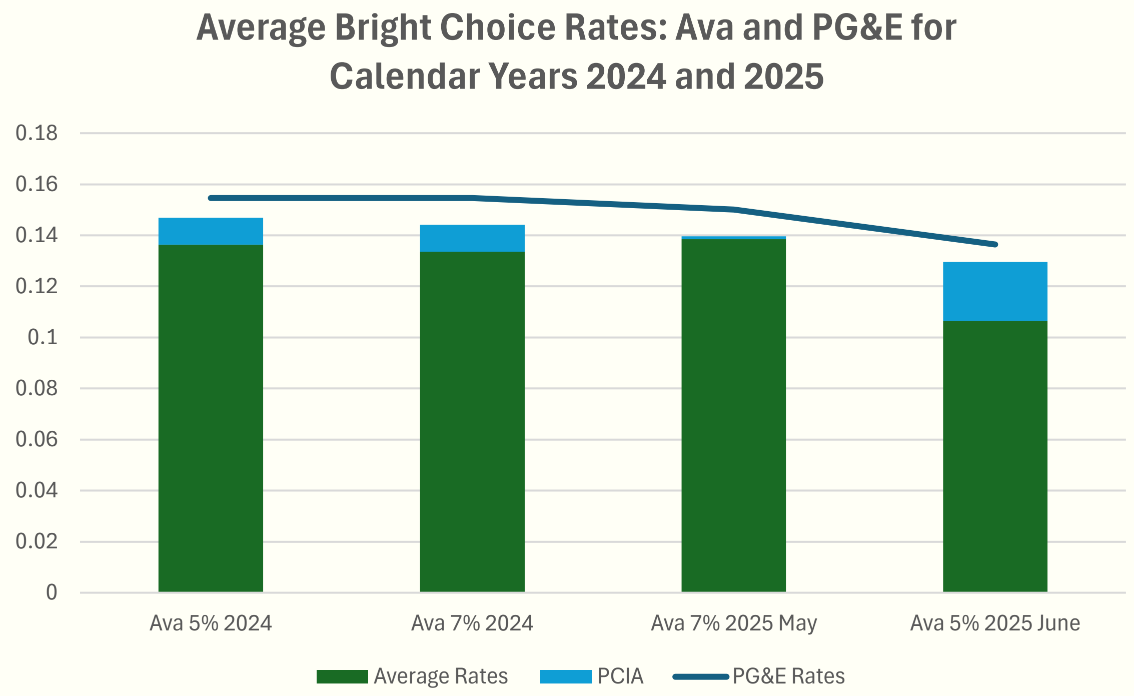
Summary of Budget Changes

- This June Budget update incorporates material changes from May's draft budget presentation:

  The May Energy Resource Recovery Account (ERRA) filing with the CPUC has created a material adjustment to the estimated Power Charge Indifference Adjustment (PCIA) for Ava customers for the 2025 calendar year.

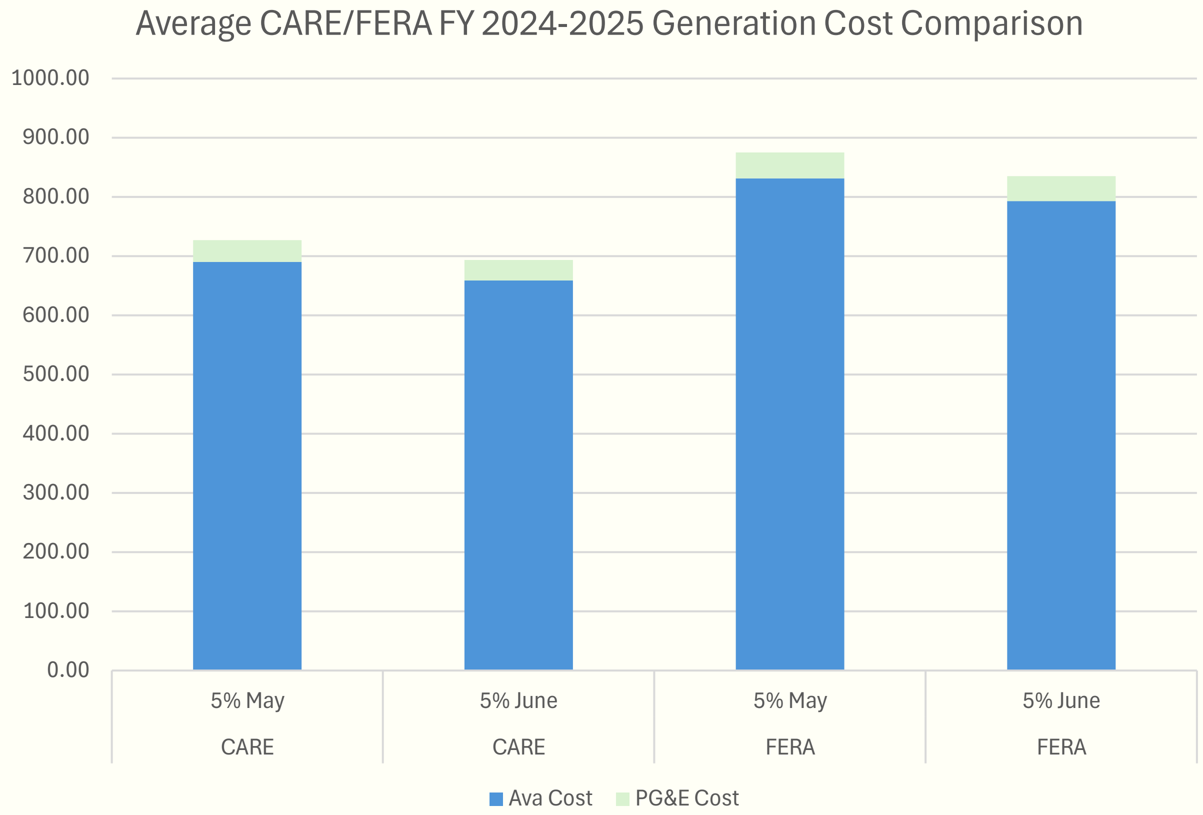
  - Please note, there will be a final filing in October/November and these estimates may change further
  - The ERRA filing proposes decreased rates and increased PCIA for 2025

- Value proposition for Bright Choice is recommended to be maintained at 5% discount to PG&E
- $50 CARE/FERA credit is not recommended for 2024-25 as reducing rates and 2023-24 anticipated in-bill credits keep these customers on par to this benefit
- Anticipated net revenues are recommended to be contributed to financial reserves, and a waterfall scenario is presented to address possible surplus above expectations
- Increased carbon free energy procurement targets are maintained
- Meaningful contribution to local development programs is maintained
- Expansion of staff, operations, and overhead is maintained



CARE/FERA

- This Draft Budget does not recommend the $50 CARE/FERA credit because with the reduced rates, and the increase in forecasted 2023-24 on-bill credit, the average CARE/FERA customer is at least as well off as having received the credit.
  - Annual average CARE customer savings from rate reduction: $31.50
  - Annual average FERA customer savings from rate reduction: $37.90
  - In Jan 2024 the board approved (per resolution R-2024-2) after the reserve allocation 60% of the remaining budget surplus to be allocated to on-bill credits with a meaningful contribution to CARE/FERA customers
    - This 60% surplus allocation to on-bill credits is currently estimated at ~$34MM
    - A $25 bill credit to all CARE/FERA customers equates to ~$3.3MM
    - Staff will propose actual on-bill credit amounts per customer segment with final surplus figures



Excludes T&D Charges

Recommended Budget Base Case Assumptions

Revenues

- No changes to 2023-24 Value Proposition
  - Bright Choice held at 5% discount to PG&E
  - No change to Renewable 100
- No initial bill credit applied to CARE & FERA customers
- Assumes 2024 rates and PCIA forecasts are unchanged
- Assumes Rates and PCIA for 2025 are enacted as stated in May ERRA filing and are based on non-stressed, or mean-forecasted, energy rates
- 1.0% uncollectable rate for full fiscal year
- No recognition of GASB 62 revenue ($42.5MM)
- 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 $22.4MM

Budget Comparison Fiscal Year 2024-2025

- Recommended Budget revenue estimates are maintained at 5% discount to PG&E for Bright Choice and a 0.25 cent premium for Renewable 100 customers
- Recommended Budget has no $50 CARE/FERA credit in Other Operating Revenue
- Increases in Cost of Energy are driven by market price volatility with renewable attributes
- All other cost items are unchanged including Local Development contribution
- Recommended Budget yields net result of 4.8% margin, which is a 66.5% reduction from May's estimates

	June Updated BUDGET	May Draft BUDGET	FY 2024 BUDGET
OPERATING ACTIVITY			
REVENUE & OTHER SOURCES			
Electricity Sales	881,671,000	979,017,000	957,028,000
Uncollectables	(8,817,000)	(9,790,000)	(12,095,000)
Other Operating Revenue	0	(6,487,000)	(6,642,000)
TOTAL OPERATING REVENUE	**872,854,000**	**962,740,000**	**938,291,000**
EXPENSES & OTHER USES			
Cost of Energy	760,248,000	753,523,000	682,367,000
Cost of Energy Services	11,608,000	11,608,000	11,219,000
Total Energy Operating Expenses	771,856,000	765,131,000	693,586,000
Total Overhead Operating Expenses	45,267,000	45,267,000	39,299,000
TOTAL OPERATING EXPENSES	817,123,000	810,398,000	732,885,000
NON-OPERATING ACTIVITY			
TOTAL NON-OPERATING REVENUE	11,799,000	11,799,000	1,728,000
TOTAL NON-OPERATING EXPENSES	25,296,000	25,296,000	27,650,000
NET NON-OPERATING POSITION	**(13,497,000)**	**(13,497,000)**	**(25,922,000)**
TOTAL REVENUES	**884,653,000**	**974,539,000**	**940,019,000**
TOTAL EXPENSES	**842,419,000**	**835,694,000**	**760,535,000**
TOTAL NET REVENUES	**42,234,000**	**138,845,000**	**179,484,000**

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 increase 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	810,350,000	40.8%
*2024-2025**	*42,234,000*	-	373,107,400	*1,045,192,000*	*35.7%*

*Proposed contribution with projected operating expenses to cover as of 5/28/2024

- Based on the updated May ERRA filing, staff recommends the following waterfall with surplus budget revenues
  - No allocation to working capital
  - Up to the first $50MM to be allocated to reserve funds
  - Any additional remaining budget surplus above the first $50MM will first be allocated to a $25 CARE/FERA on-bill credit (estimated ~$3.3MM)
  - Additional budget surplus above the previous allocations and up to a total of $25MM will be allocated 60% to one-time on-bill credits for customers and 40% to NBT incentives. This gives $10MM to NBT and $15MM to customers
  - Any additional remaining budget surplus above the previous allocations will be added to reserve funds

Draft Budget: Operating Revenues

	June Updated BUDGET	May Draft BUDGET	FY 2024 BUDGET
OPERATING ACTIVITY			
REVENUE & OTHER SOURCES			
Electricity Sales	881,671,000	979,017,000	957,028,000
Uncollectables	(8,817,000)	(9,790,000)	(12,095,000)
Other Operating Revenue	0	(6,487,000)	(6,642,000)
TOTAL OPERATING REVENUE	**872,854,000**	**962,740,000**	**938,291,000**

- Revenues are based on the following assumptions:
  - Bright Choice product maintained at 5% discount to PG&E
    - Every 1% change in Bright Choice results in ~$6.9MM change in revenues
  - Renewable 100 product maintained at a 0.25 cent premium to PG&E
    - Every 0.25 cent change in Renewable 100 results in ~$5.0MM change in revenues
  - Rates and PCIA for 2025 are non-stressed, or as expected, energy rates from May ERRA filing
- Uncollectables are estimated at 1.0% of sales through the fiscal year
- No planned recognition of GASB 62 existing revenue balance ($42.5MM)
- Other Operating Revenue
  - Current fiscal year CARE/FERA credit is netted in Electricity Sales

Draft Budget: Overview of Operating Expenses

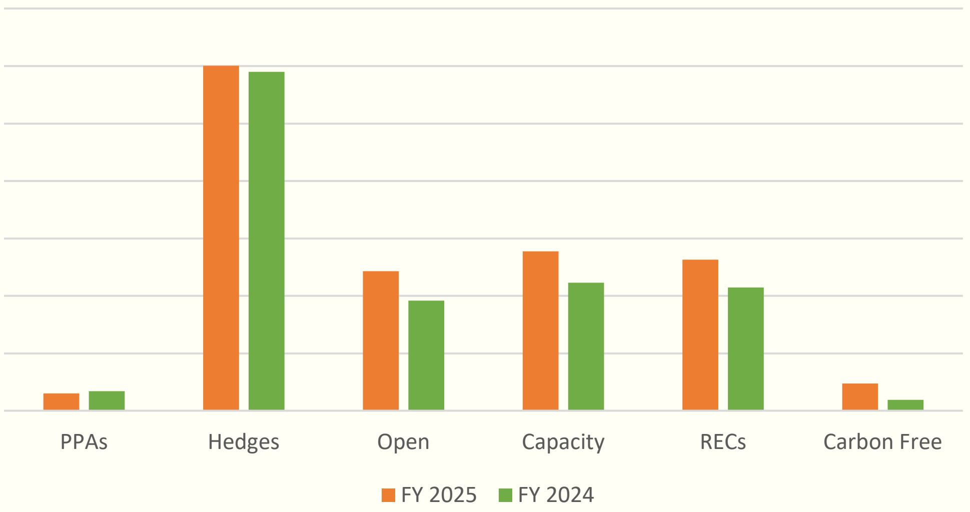
	June Updated BUDGET	% Cost
EXPENSES & OTHER USES		
Cost of Energy	760,248,000	90.2%
Cost of Energy Services	11,608,000	1.4%
Total Energy Operating Expenses	771,856,000	91.6%
Overhead Operating Expenses		
Personnel	26,592,000	3.2%
Marketing & Communications	6,168,000	0.7%
Legal, Policy, & Regulatory Affairs	4,104,000	0.5%
Other Professional Services	2,136,000	0.3%
General & Administrative	5,868,000	0.7%
Depreciation	399,000	0.0%
Total Overhead Operating Expenses	45,267,000	5.4%
TOTAL OPERATING EXPENSES	817,123,000	
NON-OPERATING EXPENSES		
Borrowing Interest	2,796,000	0.3%
Local Development Funding	22,400,000	2.7%
Total Capital Expenditures	100,000	0.0%
TOTAL NON-OPERATING EXPENSES	25,296,000	3.0%
TOTAL EXPENSES	**842,419,000**	

- 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

	June Updated BUDGET	May Draft BUDGET	FY 2024 BUDGET
EXPENSES & OTHER USES			
Cost of Energy	760,248,000	753,523,000	682,367,000
Cost of Energy Services	11,608,000	11,608,000	11,219,000
Total Energy Operating Expenses	771,856,000	765,131,000	693,586,000

FY 2025 Budget to FY 2024 Actuals by Cost Element



We are seeing upward pressure on renewable energy costs that is estimated could increase 2024 REC costs by ~$20MM, which would be partially offset by PCIA reductions in 2025

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

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%

Draft Budget: Overhead Expenses

	June Updated BUDGET	FY 2024 BUDGET
EXPENSES & OTHER USES		
Overhead Operating Expenses		
Personnel	26,592,000	21,911,000
Marketing & Communications	6,168,000	5,303,000
Legal, Policy, & Regulatory Affairs	4,104,000	3,509,000
Other Professional Services	2,136,000	2,505,000
General & Administrative	5,868,000	5,711,000
Depreciation	399,000	360,000
Total Overhead Operating Expenses	45,267,000	39,299,000

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 components

Draft Budget: Personnel

	June Updated BUDGET	FY 2024 BUDGET
PERSONNEL		
Salaries & Wages	19,765,000	16,587,000
Retirement	2,450,000	2,058,000
Health Care/Benefits	3,961,000	2,913,000
Payroll Expenses	416,000	353,000
Total	26,592,000	21,911,000

- 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 Designer	Local Development
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

	June Updated BUDGET	FY 2024 BUDGET
NON-OPERATING ACTIVITY		
NON-OPERATING REVENUE		
Interest Income	11,400,000	1,680,000
Grants	350,000	0
Other Non-Operating Revenue	49,000	48,000
TOTAL NON-OPERATING REVENUE	11,799,000	1,728,000
NON-OPERATING EXPENSES		
Borrowing Interest	2,796,000	1,650,000
Local Development Funding	22,400,000	25,500,000
Total Capital Expenditures	100,000	500,000
TOTAL NON-OPERATING EXPENSES	25,296,000	27,650,000
NET NON-OPERATING POSITION	**(13,497,000)**	**(25,922,000)**

- **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
  - Contributions from PPA's for workforce development grants are estimated $350,000
- **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
  - Minor capital expenditures for office related items such as furniture

Draft Budget: Local Development

	June Updated BUDGET	FY 2024 BUDGET
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*	-	22,683,000
Estimated with Surplus	22,400,000	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

Appendix

How Ava Works—Energy Delivery

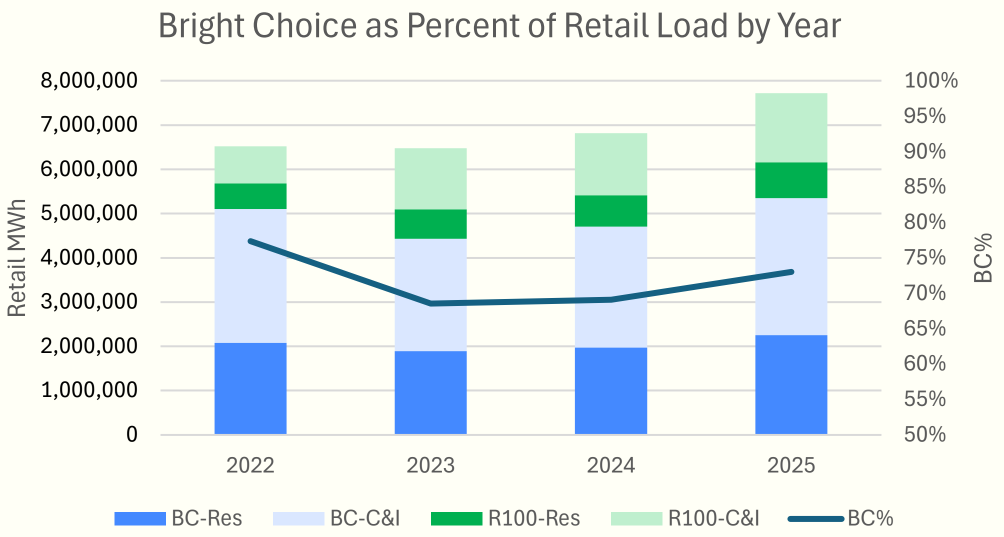
- Ava sells energy directly to its customers by procuring energy through various market mechanisms and scheduling delivery into California Independent Service Operator (CAISO)
- Ava is not responsible for transmission or delivery of the commodity; this is a service retained by PG&E
- Per Ava's risk management 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—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—Product 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%



2025 distribution does not include opt-ups in discussion

At the current 2024 load distribution:

- 1% change in the Bright Choice value proposition results in a change of $6.9MM
- 0.25 cent change in the Renewable 100 value proposition results in a change of $5.0MM

Thank you!

Ava Community Energy

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