

# Fiscal Year 2024-2025 Mid-Year Budget Update

Executive Committee  
February 5, 2025

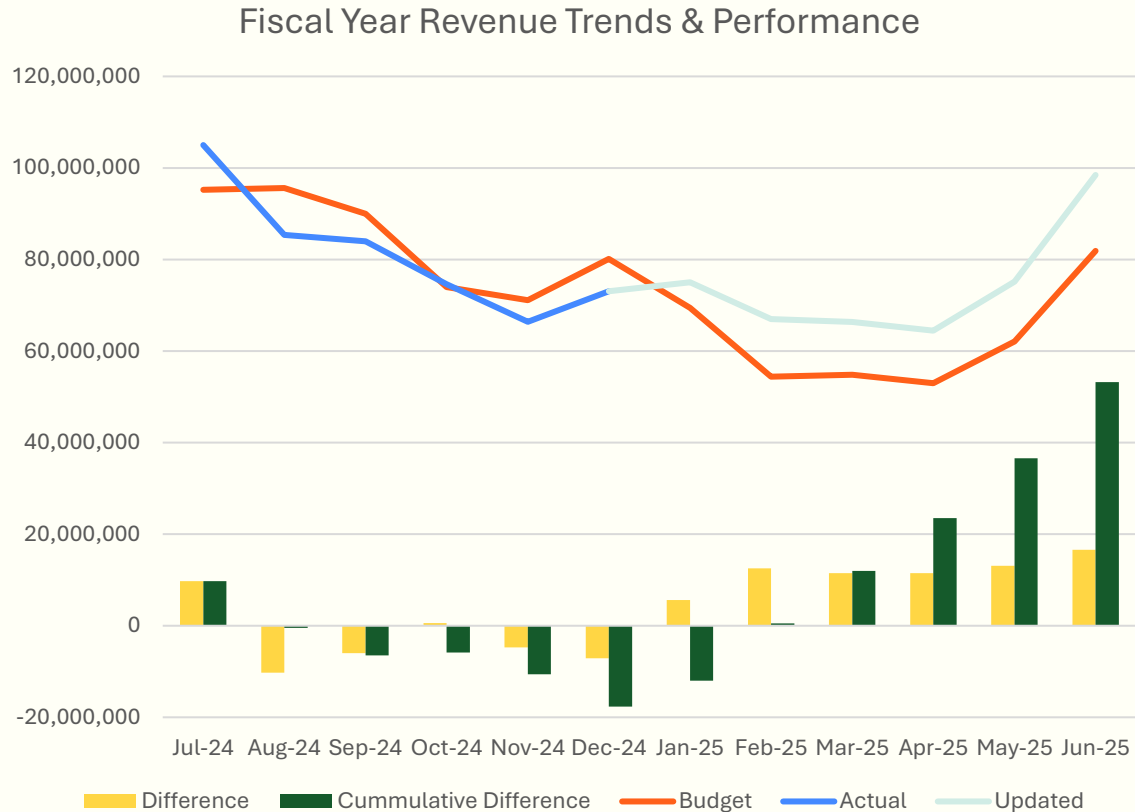


# Fiscal Year 2024-2025 Mid-Year Budget Summary

- Ava's Fiscal Year (FY) runs from July 1, 2024 to June 30, 2025
- Mid-year budget update based on actuals through Nov 2024, estimates for the month of Dec 2024, and updated forecast for Jan-Jun 2025
- Forecasted FY Total Net Revenues increased from \$42MM to \$95MM, primarily driven off an increase in Electricity Sales, partially offset by an increase in cost of energy
  - Note: Stockton & Lathrop starting service in April
- Increases to Cost of Energy is predominately from increases in renewable energy costs
- Decreases to Overhead Operating Expenses is mostly due to lower personnel costs due to hiring timing and reduced legal costs
- Increase in Non-Operating Revenue is from higher interest rates earned on interest bearing accounts

	June BUDGET	Mid-Year UPDATE	Delta
<b>OPERATING ACTIVITY</b>			
<b>REVENUE &amp; OTHER SOURCES</b>			
Electricity Sales	881,671,000	934,857,000	53,186,000
Uncollectables	(8,817,000)	(9,349,000)	(532,000)
Other Operating Revenue	0	4,846,000	4,846,000
<b>TOTAL OPERATING REVENUE</b>	<b>872,854,000</b>	<b>930,354,000</b>	<b>57,500,000</b>
<b>EXPENSES &amp; OTHER USES</b>			
Cost of Energy	760,248,000	775,538,000	15,290,000
Cost of Energy Services	11,608,000	11,601,000	(7,000)
<b>Total Energy Operating Expenses</b>	<b>771,856,000</b>	<b>787,139,000</b>	<b>15,283,000</b>
<b>Total Overhead Operating Expenses</b>	<b>45,267,000</b>	<b>39,334,000</b>	<b>(5,933,000)</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>817,123,000</b>	<b>826,473,000</b>	<b>9,350,000</b>
<b>NET OPERATING POSITION</b>	<b>55,731,000</b>	<b>103,881,000</b>	<b>48,150,000</b>
<b>NON-OPERATING ACTIVITY</b>			
<b>TOTAL NON-OPERATING REVENUE</b>	<b>11,799,000</b>	<b>15,459,000</b>	<b>3,660,000</b>
<b>TOTAL NON-OPERATING EXPENSES</b>	<b>25,300,000</b>	<b>24,414,000</b>	<b>(886,000)</b>
<b>NET NON-OPERATING POSITION</b>	<b>(13,501,000)</b>	<b>(8,955,000)</b>	<b>4,546,000</b>
<b>TOTAL NET REVENUES</b>	<b>42,230,000</b>	<b>94,926,000</b>	<b>52,696,000</b>

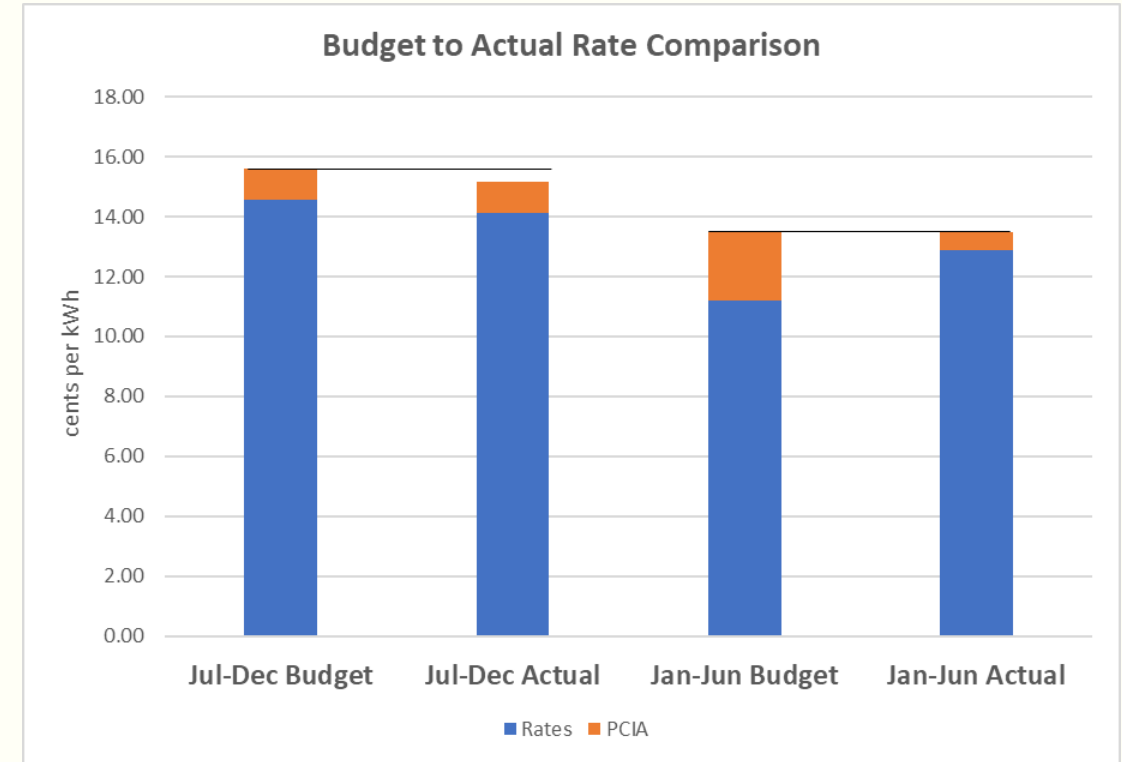
# Overview of Revenue Changes



- At time of budget approval, our rate estimates for July-Dec 2024 were slightly higher than what actualized
- Jan-Jun 2025 rates materialized higher than forecasted at time of budget approval
- On average, revenues were about 3.6% lower than expected in the first half of the Fiscal Year
- On average, revenues are expected to be about 19.2% higher than expected in the second half of the Fiscal Year
- For the full fiscal year, revenues are expected to be about 6.0% higher than expected

# Overview of Rate Changes

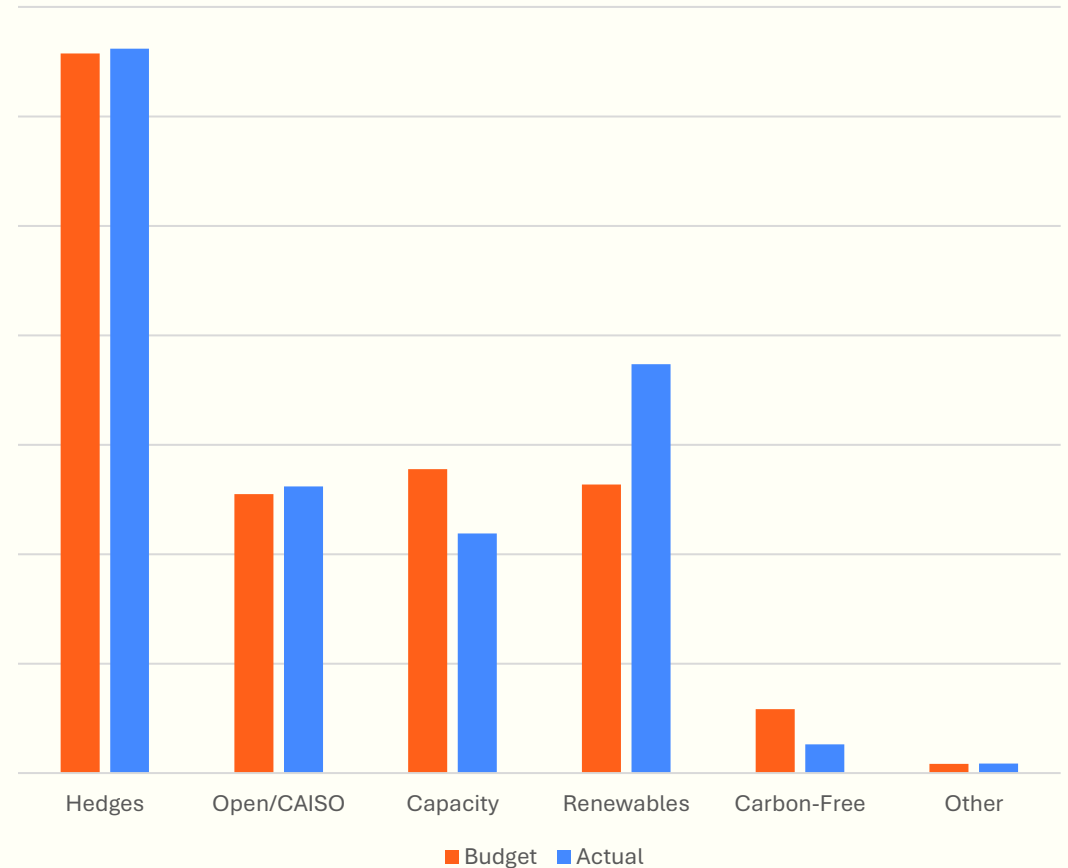
- As of June 2024 budget approval, the Jul-Dec 2024 rate estimates were slightly higher than what actualized. While the PCIA was relatively unchanged, overall generation charges actualized approximately half a cent per kWh lower
  - Note that load estimates were in line with actuals
- As of June 2024 budget approval, the Jan-Jun 2025 rate estimates were lower than what actualized; this was largely offset by a lower PCIA, leading to relatively flat overall generation charges
- The increase in rates leads to an increase in operating headroom and an increase in the current forecasted budget surplus
- Jan-Jun rates are structurally lower than Jul-Dec rates due to summer/winter rate differentials
- The increase in rates and decrease in PCIA is driven by lower brown power costs and higher RA and RPS



# Overview of Energy Cost Changes

- Energy costs typically have variability between budget and actuals and year over year volatility
- Decrease in Capacity is due to sale of previous procurement in anticipation of Stockton joining in 2024 and the CEC changing the load forecast methodology for 2025
- Renewable energy costs increased by nearly \$55MM, or about 41%
- Decreases in carbon free energy is due to increases in the large hydro allocation that is provided due to PCIA
- CAISO ancillary costs and basis price spreads have been consistently to our benefit

Budget to Actual Attribute Energy Costs



# Power Charge Indifference Adjustment Rate (PCIA) Uncertainty

- The California Public Utilities Commission (CPUC) set PCIA and PG&E bundled customer rates for 2025 in a [December 2024 decision](#).
- The CPUC's decision indicated that these rates are subject to after-the-fact revision for a change in PCIA methodology: **"the Commission may in another proceeding consider revisions to the [Market Price Benchmark] MPB methodology that may impact the adopted 2025 Final MPBs."**
- MPBs reflect prevailing market costs for different energy products – renewable energy certificates, brown power, and Resource Adequacy (RA). There is a formally set methodology approved by the CPUC to collect market data and calculate the MPBs. MPBs are used to calculate the PCIA and the PCIA is in turn part of the aggregate electricity rates.
- Translation – *Ava's 2025 collections are subject to revisitation via rate changes in 2026, if/when the CPUC revises the 2025 Final MPBs.*
- The CPUC may change a key element of the PCIA.
- Retroactive revisions to Ava's 2025 revenue could be effectuated via 2026 rates.

# PCIA Rate Uncertainty – PCIA Mechanics

- **PCIA and PG&E's bundled customer rates are a key determinant of Ava revenue**
- PCIA is a nonbypassable charge to recover the stranded costs of PG&E's legacy procurement portfolio.
- PCIA is *not* an exit fee. **All customers pay PCIA.**
  - MPBs determine the value of PG&E's legacy procurement portfolio, and so drive PCIA rates
  - High MPBs => low PCIA => greater operating headroom for Ava revenue
  - 2025 *Forecast* MPBs were relatively high (see sidebar).
  - A change to the 2025 methodology would impact
    - the true-up of 2025 rates (with revisions to take effect in 2026) and
    - the forecast of 2026 rates (which will also take effect in 2026, subject to true-up in 2027)

System RA MPBs (\$/kw/year)		
2023 (final)	2024 (final)	2025 (forecast)
14.37	28.26	40.31

**What change, if any, the CPUC will make to MPBs, is unknown. Accordingly, the financial impacts of any changes are also unknown.**

# Surplus Revenue Waterfall Allocation

		Allocation	Balance
Mid-Year Estimated Net Revenues			94,926,000
Contributions			
Working Capital		-	94,926,000
Reserve Funds		50,000,000	44,926,000
Divisional Surplus			
CARE/FERA/MED Credit	\$25	5,010,000	39,916,000
On Bill Credits	60%	15,000,000	24,916,000
Net Billing Tariff Program	40%	10,000,000	14,916,000
<b>Total Divisional</b>		<b>30,010,000</b>	
Reserve Fund Additional			14,916,000
<b>Total to Reserves</b>			<b>64,916,000</b>

## Resolution R-2024-42: Waterfall Allocations of Surplus Revenue

- First \$50MM to Reserve Funds
- CARE/FERA/MED customers each receive \$25 bill credit (currently about 200,400 accounts)
- Next \$25MM split 60/40 to additional on-bill credits and Net Billing Tariff resilience program
- Remaining surplus allocated to reserve funds



# Reserve Funds

<b>Contribution Year</b>	<b>Contribution</b>	<b>Withdraws</b>	<b>Balance</b>	<b>Operating Expenses*</b>	<b>PctCoverage</b>
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	828,800,000	39.9%
2024-2025**	64,916,000	-	395,789,400	1,076,267,000	36.8%

\*Operating Expenses are fiscal year ahead for coverage purposes

\*\*Proposed contribution with projected operating expenses to cover for FY 25-26 as of 1/28/2025

## Reserve fund policy P-10.1 as set by resolution R-2021-2

- Target percentage is 50% of operating expenses
- Range allows as low as 25% and as high as 75% variation

- Because reserves are to cover forward operating expenses, the Operating Expenses column are the forward fiscal year's values
- The Forward FY expenses for 2023-2024 contributions are current updated operating expenses
  - Current reserves provide approximately 40% coverage
- Contributions from current FY revenues increase balance to cover next FY's operating expense
  - Currently estimated near \$1B