Staff Report Item 17

To:	Ava Community Energy Authority
From:	Howard Chang, CEO
Subject:	*Mid-Year Budget Update*
Date:	2/19/2025

Summary/Recommendation

This memo updates the Board on budget performance for the current fiscal year.

Financial Impact

This is an informational item

Analysis and Context

Ava's current fiscal year (FY) runs from July 1, 20242, through June 30, 2025. This update comes at near the mid-year point and covers actual activity through November, 2024, comprehensive estimates for December, 2024, and projected estimates for January through June, 2025.

Attachments

A. PowerPoint presentation

Attachment Staff Report Item 17A

Ava Community Energy

Fiscal Year 2024-2025 Mid-Year Budget Update

Board of Directors
February 19, 2025

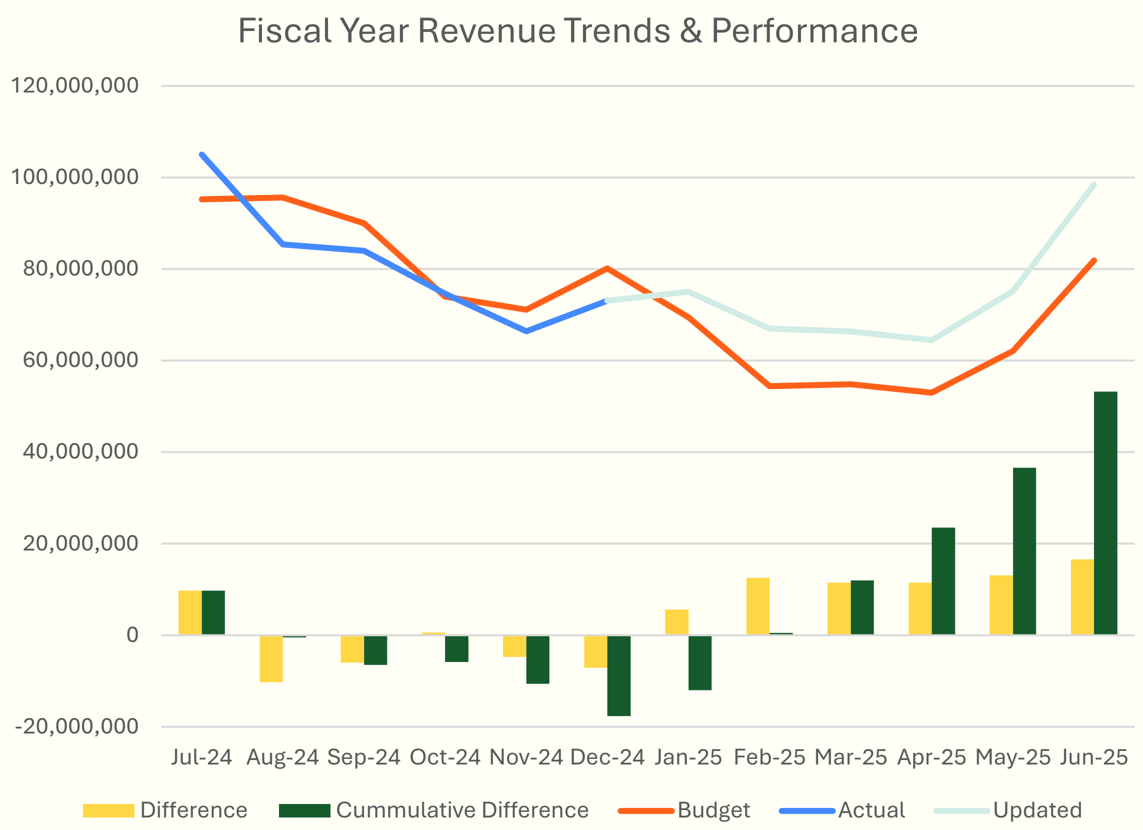
Fiscal Year 2024-2025 Mid-Year Budget Summary

Attachment Staff Report Item 17A

- 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

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

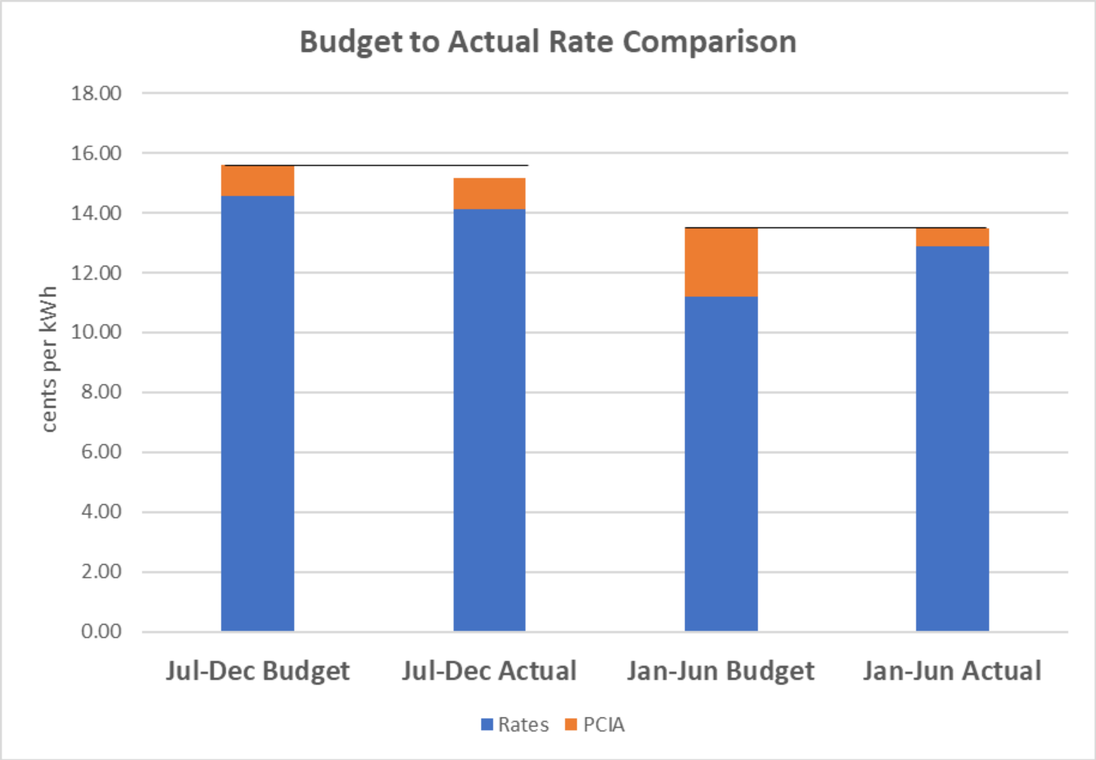
Overview of Revenue Changes



- 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 initially estimated in the second half of the Fiscal Year
- For the full fiscal year, revenues are expected to be about 6.0% higher than expected

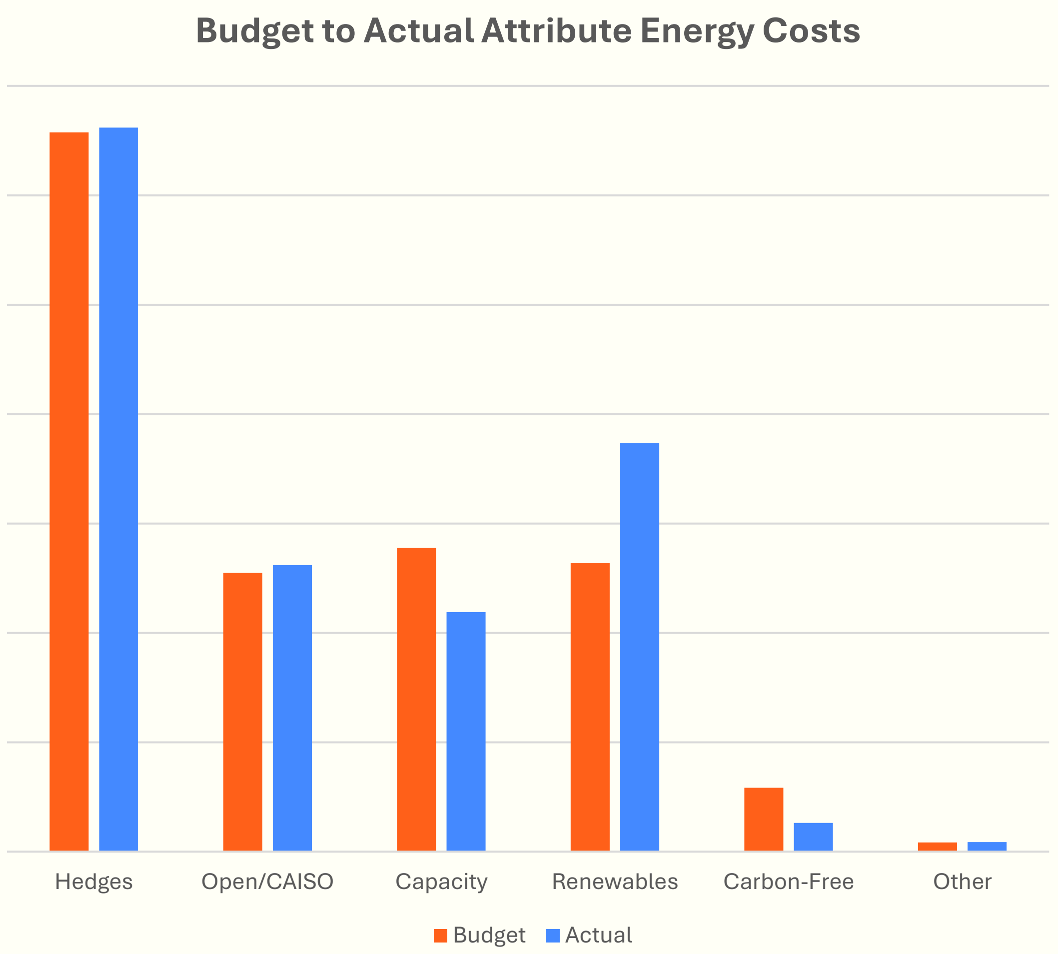
Overview of Rate Changes

- 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 due to energy market 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



Power Charge Indifference Adjustment Rate (PCIA) Uncertainty

- The California Public Utilities Commission (CPUC) December 2024 decision setting 2025 rates held these rates 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.
- On February 10 the CPUC issued a draft of a new rulemaking to revise the RA MPB. The preliminary scope is narrow but may change. The Commission will vote to open the rulemaking on Feb. 20.

- The CPUC is reviewing 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 precise 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	$25	4,257,500	40,668,500
On Bill Credits	60%	15,000,000	25,668,500
Net Billing Tariff Program	40%	10,000,000	15,668,500
Total Divisional		**29,257,500**	
Reserve Fund Additional			15,668,500
Total to Reserves			**65,668,500**

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 170,300 accounts including estimates for Stockton and Lathrop)
- Next $25MM split 60/40 to additional on-bill credits and Net Billing Tariff resilience program
- Remaining surplus allocated to reserve funds

Reserve Funds

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Contribution Year	Contribution	Withdraws	Balance	Operating Expenses*	PctCoverage
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	826,473,000	40.0%
2024-2025**	*65,668,500*	-	*396,541,900*	*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, which includes serving Stockton & Lathrop from April to June
  - Current reserves provide approximately 40% coverage
- Contributions from current FY revenues increase balance to cover next FY's operating expense, which is currently estimated to increase to $1.1BN
- Expansion into San Joaquin County increases load and annual operating expenses, reducing our reserve % coverage