Sonoma Clean Power

Staff Report – Item 07

To: Sonoma Clean Power Authority Board of Directors

From: Mike Koszalka, COO
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Issue: Approve the Proposed Annual Budget for Fiscal Year 2021-2022 with no Change to Rates on July 1, 2021

Date: June 3, 2021

Requested Action

Approve the Proposed Fiscal Year 2021-2022 Annual Budget with no change to Rates on July 1, 2021.

Proposed Budget Updates

To facilitate review of the proposed budget updates in this report, staff will highlight what has changed from the Draft Budget presented at the May meeting. This summary of changes can be found following the revised staff report Summary below.

Summary

To set a new fiscal year budget, staff brings the budget to the CAC and BOD twice. The first Draft Budget is presented by staff for review and comment by the CAC and BOD to give staff direction on the early draft of the budget. This occurred in April for the CAC and May for the BOD. In the second budget review, the Proposed Budget is presented for approval.

The Proposed Budget presented in this report has been adjusted from the Draft Budget reviewed with the CAC and the BOD. The following are attributes of the Proposed Budget and assumptions regarding customer billing rates for Fiscal Year 2021-2022:

- Requires no rate changes at the start of the fiscal year on July 1, 2021.
- Plans SCP's next rate change on or about February 1, 2022.
- Reduces the planned revenues relative to the current fiscal year due to lower SCP customer rates.
- Based on the most recent consultant forecast for the PCIA change in January 2022, and the most recent forecast of PG&E's expected change in generation rates in January 2022, the Operating Account Fund (for rate stabilization) provides $1.3 million in funding support during the fiscal year to keep customer bills within 5% of PG&E bundled customers.
- Customer bills remain within 5% of PG&E bundled customer bills for the fiscal year.
- Preserves about $16.0 million in SCP's rate stabilization fund to subsidize future customer rates as PG&E increases its fees.

The Consumer Advisory Committee reviewed this Proposed Budget at their meeting on May 20th and recommends Board approval.

Changes from the Draft Budget

This section summarizes the changes made to the Draft Budget subsequent to the CAC and BOD review.

Revenues	Revenues were increased $1.7 Million due to a change in the forecast for PG&E generation rates and their PCIA fee in 2022.
Operating Account Fund	A reduction of $113,000 in the use of the Operating Account Fund to adequately subsidize customer rates.
Cost of Energy and Scheduling	The estimated cost of energy during the coming fiscal year has risen a bit due to the updated market outlook on future energy prices. See the Budget Tables later in this report for details.
Outreach and Communications	Added 19.5% ($220,000) to support the successful launch of the Advanced Energy Center based on the results of focus groups and recent market research.

	This additional amount would support updating displays quarterly, improve our ability to connect with and provide services to impacted customers, and updating customer communication and reporting tools. The need for this greater level of marketing support is a direct result of the recently completed market research focus groups. The focus groups gave us directional information that suggest SCP needs to revisit basic SCP information communications with customers to improve understanding and clarity about what SCP does/why it's important. We need to enhance our customer research around customer needs, and generally increase our listening to customers as well as increasing the level and modes of communications to them.

Background

Staff is presenting a budget for Fiscal Year 2021-2022 that continues to fulfill SCP's adopted goals for providing electricity from very low greenhouse gas sources, investing in local renewables, operating the Advanced Energy Center and delivering a broad set of the most innovative programs for customers in California, many of which have been replicated by other electric providers. SCP's programs have grown to the point that they are one of the most valued aspects of being a customer of Sonoma Clean Power. We expect this value to increase as we open the Advanced Energy Center starting June 15.

From the outset, SCP has held an extremely high standard for its operations – usually far in advance of State requirements, such as creating EverGreen, the nation's first, and only, electric supply that provides 100% local renewable energy 24/7 without any reliance on fossil energy sources for any purpose. SCP invested in 70 megawatts (MW) of new solar power and 50 MW of local baseload geothermal power in its first four months of operations and has pushed the growing CCA industry to follow suit.

Staff believe this leadership role is important to sustain over the next several years of extremely high PG&E exit fees on our customers, and the Board wisely set aside $22 million from the last fiscal year to subsidize customer rates during this period. At least until PG&E's Diablo Canyon nuclear power plant is permanently retired in 2025, our customers will likely be subject to a PG&E Power Charge Indifference Adjustment (PCIA) fee that is more than 250% higher than in 2014 when SCP started service.

When SCP set rates that are currently in effect, the Board's guidance was to adopt a change to Board Policy B.2 on April 2, 2020 directing the Authority to avoid using credit reserves unless the rates would need to exceed 7% above bundled service rates. Staff has sought to beat that requirement by keeping rates at or below a 5% differential, and this Proposed Budget continues that approach.

At the end of FY 19-20, SCP deferred $22 million in revenues and set these funds aside (called the Operating Account Fund) with the intent to use them in future periods to protect customers from rate shock due to changes in the PCIA. This Proposed Budget shows that we expect to keep our customers' bills within 5% of PG&E bundled customer bills by using the Operating Account Fund and not having to use any of SCP's existing credit reserves.

It is important to note that this forecast is based on the best information available to SCP at this time, and that the PCIA fee is extremely difficult to forecast for several reasons. First, the PCIA can be influenced by PG&E's decisions, for example, whether to offer excess resource adequacy (RA) into the market or not. Those decisions impact the PCIA fee on our customers and are made solely at the discretion of the investors of a company that has a history of working to oppose CCAs. Second, the regulatory rules of how the PCIA is calculated are changing rapidly and are expected to continue to change over the coming years. And finally, the PCIA is highly dependent on the market price of natural gas fueled power, which itself fluctuates significantly with the commodity price of methane. For these reasons, staff will continue to update the Committee and Board on the PCIA as new information is available.

The Proposed Budget reflects a scenario where our current rates from April 1, 2021 are sustained through January 31, 2022. On or about February 1, 2022, staff expects that SCP may need to adjust rates to account for changes to the PCIA. However, PG&E could change bundled rates and fees at earlier and/or later dates than expected, so this date may change.

Budget Overview

The Fiscal Year 2021-2022 Proposed Budget and rates presented in this item seek to:

- Continue to procure a supply portfolio of electricity generation that is at least 30% lower in greenhouse gas emissions than PG&E's portfolio,
- Actively participate in joint procurement through the new CCPower JPA
- Focus program activities into improving existing programs, opening the Advanced Energy Center, improving the availability and equitable participation in SCP programs, and showcasing SCP's new headquarters as a living example of an advanced energy facility.
- Maintain the current level of customer service support, increase community outreach and improve our communications to customers through marketing.
- Increase funding and staff support for the new building, planning and the Advanced Energy Center.

PROPOSED BUDGET

The Proposed Budget is presented first in the form that will be used for adoption, and then is followed by supplemental information. The budget categories are intentionally general enough to allow some measure of staff discretion, without requiring frequent budget adjustments.

	Revised Budget FY 20-21	DRAFT Budget FY 21-22	PROPOSED Budget FY 21-22	Changes from Draft Budget
REVENUES & OTHER SOURCES				
Electricity Sales (net of allowance)	$ 188,347,000	$ 177,577,000	$ 179,277,000	Up $1.7M from draft budget due to updated forecast of PCIA and PG&E rates
Operating Account Fund Inflows	$ 4,630,000	$ 1,466,000	$ 1,353,000	Slightly smaller use of rate stabilization funds than in the draft budget
EverGreen Premium (net of allowance)	$ 1,488,000	$ 2,074,000	$ 2,074,000	
CEC Grant Proceeds	$ 2,974,000	$ 2,065,000	$ 2,065,000	
BAAQMD Grant	$ 50,000	$ 50,000	$ 50,000	
Interest Income	$ 750,000	$ 840,000	$ 840,000	
Total Revenues	$ 198,239,000	$ 184,072,000	$ 185,659,000	
EXPENDITURES				
Product				
Cost of Energy and Scheduling	$ 167,024,000	$ 158,069,000	$ 159,436,000	Updated estimated energy costs due to recent market trends
Data Management	$ 3,195,000	$ 3,198,000	$ 3,198,000	
Service Fees to PG&E	$ 969,000	$ 973,000	$ 973,000	
Product Subtotal	$ 171,188,000	$ 162,240,000	$ 163,607,000	
Personnel	$ 5,623,000	$ 6,200,000	$ 6,200,000	
Outreach and Communications	$ 1,130,000	$ 1,130,000	$ 1,350,000	Added communication resources based on recent mkt research results
Customer Service	$ 383,000	$ 363,000	$ 363,000	
General and Administration	$ 615,000	$ 1,140,000	$ 1,140,000	
Other Professional Services				
Legal	$ 360,000	$ 410,000	$ 410,000	
Regulatory and Compliance	$ 397,000	$ 430,000	$ 430,000	
Accounting	$ 217,000	$ 245,000	$ 245,000	
Legislative	$ 78,000	$ 120,000	$ 120,000	
Other consultants	$ 185,000	$ 225,000	$ 225,000	
Other Professional Services Subtotal	$ 1,237,000	$ 1,430,000	$ 1,430,000	

	Revised Budget FY 20-21	DRAFT Budget FY 21-22	PROPOSED Budget FY 21-22	Changes from Draft Budget
EXPENDITURES – ***continued***				
Industry Memberships and Dues	$ 437,000	$ 536,000	$ 536,000	
Programs				
Program Dev. and Implementation	$ 3,149,000	$ 5,640,000	$ 5,640,000	
CEC Grant Program	$ 5,561,000	$ 4,000,000	$ 4,000,000	
Programs Subtotal	$ 8,710,000	$ 9,640,000	$ 9,640,000	
Total Expenditures	$ 189,323,000	$ 182,679,000	$ 184,266,000	
Revenues Less Expenditures	$ 8,916,000	$ 1,393,000	$ 1,393,000	
OTHER USES				
Capital Outlay	$ 8,916,000	$ 1,393,000	$ 1,393,000	
DEBT SERVICE				
Debt Service	$ -	$ -	$ -	
Total Expenditures, Other Uses	$ 198,239,000	$ 184,072,000	$ 185,659,000	Maintain reduction in overall costs from FY20-21
Net Increase/(Decrease) in Fund Balance	$ -		$ -	
Cumulative Net Increase/(Decrease) in Fund Bal.				
Operating Account Fund (Bill Stability)	$ 17,370,000	$ 15,904,000	$ 16,017,000	

INFORMATION ONLY - SUPPLEMENTAL TO THE PROPOSED BUDGET

Details on the proposed budget are provided in this section along with projections of the next five years. This five-year outlook is subject to significant changes as new information is available regarding PCIA and the market cost of energy.

	PROPOSED Budget FY 21-22	Forecast [1] FY 22-23	Forecast FY 23-24	Forecast FY 24-25	Forecast FY 25-26
REVENUES & OTHER SOURCES					
Electricity Sales (net of allowance)	$ 179,277,000	$ 186,775,000	$ 168,055,000	$ 165,195,000	$ 177,926,000
Operating Account Fund Income/(Deferral)	$ 1,353,000	$ -	$ 10,320,000	$ 9,135,000	$ 1,665,000
EverGreen Premium (net of allowance)	$ 2,074,000	$ 2,133,000	$ 2,187,000	$ 2,241,000	$ 2,298,000
Grant Proceeds	$ 2,115,000	$ -	$ 500,000	$ 500,000	$ 500,000
Interest Income	$ 840,000	$ 600,000	$ 600,000	$ 500,000	$ 500,000
Total Revenues	$ 185,659,000	$ 189,508,000	$ 181,662,000	$ 177,571,000	$ 182,889,000
EXPENDITURES					
Product					
Cost of Energy and Scheduling	$ 159,436,000	$ 158,471,000	$ 159,036,000	$ 154,243,000	$ 158,657,000
Data Management	$ 3,198,000	$ 3,199,000	$ 3,199,000	$ 3,200,000	$ 3,200,000
Service Fees to PG&E	$ 973,000	$ 974,000	$ 974,000	$ 974,000	$ 974,000
Product Subtotal	$ 163,607,000	$ 162,644,000	$ 163,209,000	$ 158,417,000	$ 162,831,000
Personnel	$ 6,200,000	$ 6,572,000	$ 6,834,000	$ 7,108,000	$ 7,400,000
Outreach and Communications	$ 1,350,000	$ 1,130,000	$ 1,130,000	$ 1,130,000	$ 1,130,000
Customer Service	$ 363,000	$ 350,000	$ 355,000	$ 360,000	$ 365,000
General and Administration	$ 1,140,000	$ 958,000	$ 913,000	$ 750,000	$ 775,000
Other Professional Services					
Legal	$ 410,000	$ 500,000	$ 500,000	$ 500,000	$ 500,000
Regulatory and Compliance	$ 430,000	$ 460,000	$ 492,000	$ 527,000	$ 563,000
Accounting	$ 245,000	$ 255,000	$ 265,000	$ 276,000	$ 287,000
Legislative	$ 120,000	$ 124,000	$ 128,000	$ 132,000	$ 136,000
Other consultants	$ 225,000	$ 235,000	$ 245,000	$ 250,000	$ 250,000
Other Professional Services Subtotal	$ 1,430,000	$ 1,574,000	$ 1,630,000	$ 1,685,000	$ 1,736,000
Industry Memberships and Dues	$ 536,000	$ 563,000	$ 591,000	$ 621,000	$ 652,000
Programs	$ 9,640,000	$ 6,500,000	$ 7,000,000	$ 7,500,000	$ 8,000,000
Total Expenditures	$ 184,266,000	$ 180,291,000	$ 181,662,000	$ 177,571,000	$ 182,889,000
Revenues Less Expenditures	$ 1,393,000	$ 9,217,000	$ -	$ -	$ -
OTHER USES					
Capital Outlay	$ 1,393,000	$ -	$ -	$ -	$ -
DEBT SERVICE					
Debt Service	$ -	$ -	$ -	$ -	$ -
Total Expenditures, Other Uses	$ 185,659,000	$ 180,291,000	$ 181,662,000	$ 177,571,000	$ 182,889,000
Net Increase/(Decrease) in Fund Balance	$ -	$ 9,217,000	$ -	$ -	$ -
Operating Account Fund Balance (EOY)	$ 16,017,000	$ 25,234,000	$ 14,914,000	$ 5,779,000	$ 4,114,000

[1] This series of revenue and cost forecasts are based on the best available information available at the time of the forecast (May, 2021).

Further detail on each of the proposed budget categories follows.

REVENUES AND OTHER SOURCES

The primary source of income is from the retail sale of electricity to CleanStart and EverGreen customers. Customers of both of these services provide all of the Electricity Sales revenue. EverGreen costs 2.5 cents per kWh over the price of CleanStart and provides 100% renewable energy from sources in Sonoma and Mendocino Counties. The EverGreen premium pays for the purchase of local sources of renewable geothermal and solar and is not intended to produce surplus income.

The total sales are based on the following scenario:

- No change to rates on July 1, 2021
- Set new rates only when PG&E changes the PCIA or their generation rates. PG&E's next significant changes are expected on January 1, 2022. Due to the limited forewarning of rates, SCP rate changes can be effective 30 days after PG&E publishes new rates.

The total sales estimate is based on 87% of eligible customers and load participating in SCP. The net financial performance of SCP is not sensitive to small changes in the rate of participation because a majority of expenses are proportional to the load served. In other words, income and expenses generally tend to go up and down together.

Staff's estimate of uncollectable billings remains at 1.25% of gross revenues. Total budgeted revenues are net of this reduction.

Staff has forecast energy sales for CleanStart and EverGreen and has developed low-kWh, mid-kWh, and high-kWh scenarios to determine a range of expected outcomes. Staff presents the mid-kWh scenarios in this budget.

EXPENDITURES

Product

Cost of Energy and Scheduling includes all of the various services purchased from the power market through our suppliers. This includes 2,393,000 MWh of energy, long term renewable power purchase agreements, ProFIT feed-in-tariff projects, capacity (resource adequacy, or RA), short term renewable and carbon free contracts, scheduling services, CAISO fees, and other miscellaneous power market expenses. The volume of purchased energy is approximately 7% greater than the volume sold because of normal system transmission and distribution losses.

SCP has entered into renewable and financial hedge contracts with suppliers that will meet approximately 90% of its expected energy requirements through the full fiscal year, meaning that energy costs are reasonably well known, although changes in energy market prices will still have an impact on SCP's costs.

Major amounts of SCP's customer load are also served by customer-owned solar arrays. Small amounts also reduce the load of other SCP customers through NetGreen overproduction. None of this production is reportable on SCP's Power Content Label, however, because it is treated as a load reduction rather than supply energy under California regulations.

Based on current rates of participation by net-metered customers, the total cash-out amount forecast for SCP's NetGreen customers is estimated to be about $460,000 for the fiscal year.

Energy is procured for over 90% of the forecast load through December 2024. The primary price risks are therefore related to forecast error, changes in rates of customer participation, Public Safety Power Shutoffs (PSPS), variable generation output of solar and wind resources, generation curtailment risks, forward pricing peak and off-peak unhedged energy, unprocured resource adequacy, and legislative and regulatory risks (e.g., PCIA fees).

Scheduling Coordinator services are provided by Northern California Power Agency through December 2024. The charges for this service are included together with energy and resource adequacy in the budget. After electric power is scheduled for delivery to customers and ultimately consumed by those customers, the actual electric consumption must be trued up against the forecasted and scheduled energy. This true up occurs through the settlement process, or "settlements." Settlements also entail addressing a number of other market and regulatory requirements. The impact on budgeting is that invoices and credits occur several months (and sometimes up to two years) following a given month of service.

Data Management is a broad scope of services provided by contract through Calpine Energy Solutions, including billing data validation, bill coordination with

PG&E, billing management of special programs (e.g., NetGreen and ProFIT), call center services and billing technical support, customer enrollment database management, move-in/move-out services, CAISO data preparation, WREGIS data preparation, and many support functions related to data reporting.

Service Fees to PG&E consist of a charge of $0.35 per account per month (including a $0.21 per account service fee and a $0.14 per account meter data management fee). There are also numerous small fees associated with data requests. The fees cover PG&E's costs associated with additional data processing and bill coordination, and are mandatory and regulated by the California Public Utilities Commission (CPUC).

Personnel

Personnel costs include direct salaries, benefits, workers compensation premiums, and payroll taxes. We have added employee development expenses of 1% of direct labor costs to improve the skills and abilities of our staff. For FY 21-22, we expect to hire four new full-time staff. One for the front desk in the new headquarters building, one for building management for the new headquarters building and the AEC, and one in Planning & Analytics. SCP also expects to add a senior Legal Director role in this next fiscal year.

Outreach and Communications

The attached Proposed Budget assumes that nearly all marketing efforts will focus on the Advanced Energy Center and Outreach Communications and sponsorships. Other marketing focuses include Advanced Energy Build and other programmatic support.

SCP will continue to focus on increasing our reach and relevance to Impacted communities through our updated Marketing team outreach efforts, and with our Programs Equity Framework and Community Education and Engagement Plan. SCP will also continue supporting nonprofit events and efforts which provide exposure and visibility for SCP as a community partner committed to supporting our diverse communities as the economy opens up post-pandemic.

Similarly, SCP will continue to reinforce brand awareness through our consistent marketing, public relations and social media platforms, and will continue to provide leadership within the non-profit sector and the community choice industry.

Customer Service

This subcategory includes required customer noticing and local business and industry development.

Customer Noticing

There are several kinds of official mailed notices SCP provides to its customers. Outside of enrollment rollouts, the following notices are mailed out to applicable customers:

- Move-in notice postcard (weekly)
- Move-in notice letter (weekly)
- EverGreen confirmation notices (weekly)
- NetGreen welcome (weekly)
- Opt-out confirmation - immediate notice (weekly)
- Opt-out confirmation – 6-month notice (weekly)
- Late payment notice (monthly)
- Pre-collections notice (monthly)
- Joint Rate Comparison with SCP and PG&E information (annually)
- California Energy Commission's Power Content Label (annually)
- As needed, special rate notices (e.g., NetGreen 2.0 transition)

The budget reflects the approximately 1,250 letters mailed every week plus the required annual mailings.

Business and Industry Development

The Customer Service team also works with SCP's local business and industry groups through memberships and sponsorships to increase awareness of SCP and improve relationships. SCP hopes to participate in many events that raise money and awareness for local businesses, such as the food, wine, and agricultural industries. This is contingent on the economy opening back up and that business are able to once again host events. Development broadly includes frequent meetings with customers, other CCAs, industry stakeholder groups, and PG&E.

Other Professional Services

<u>Legal</u>

An increase in costs is expected in this category for the next fiscal year as regulatory activity increases.

<u>Regulatory & Compliance</u>

This category includes technical research into CPUC rate cases, resource adequacy, PCIA and other key issues. It includes technical and legal consultants for compliance filing preparation, review, and filings.

<u>Accounting</u>

Accounting includes services from three different providers. Maher Accountancy provides the day-to-day accounting for SCP, including generation of financial statements and consolidated reports. The County's Auditor Controller Treasurer Tax Collector's (ACTTC) office provides internal auditing and control for SCP. SCP also has an outside auditor review our financial statements each year. A modest increase in accounting fees is anticipated as the business has increased in complexity.

<u>Legislative</u>

Staff anticipate rehiring a Sacramento legislative lobbyist. These costs also include coverage for tracking and advancing bills in the legislative session that affect SCP and the energy industry directly. Contributions to the statewide CalCCA trade association continue to allow SCP to track and participate in legislative work that affects CCAs across the state.

<u>Other Consultants</u>

Other Consultants covers costs related to outside services needed for basic internal operations, such as: IT services/repairs, nighttime security for the buildings at 431 E Street and 741 4th Street, administration fees for our insurance benefits and retirement plans, consultants for mandatory training, and the collection agency SCP uses for past-due accounts. With the addition of the new headquarters building, the

Advanced Energy Center and our new Integrated Resource modeling software tool, these costs are increasing.

CalCCA

The CalCCA trade association is an important entity for sharing the costs of legislative, regulatory, and analytic work. The association has been instrumental in improving SCP's effectiveness at the CPUC on matters including the PCIA, resource adequacy, and in the legislature on organizing and providing direction to lobbyists and requesting action. We expect further improvements in the association's service to SCP and the other CCA power providers around California.

Programs

The semi-annual Programs Strategic Action Plan recently presented to the Committee and Board details the programs that SCP is planning to deliver in the next fiscal year. In addition, the Programs Equity Framework is an enhancement to that plan and will result in new programs and initiatives that will be brought to the Committee and Board for review.

Other Uses

Capital Outlay is for equipment costing in excess of $1,000, including computers, printers and furniture. However, SCP's capital investment in its owned headquarters building will conclude in early FY 21-22.

Debt Service

SCP currently carries no debt.

Net Increase/ (decrease) in Available Fund Balance

Staff has balanced our FY21-22 expected net fund balance to zero by using funds from the Operating Account fund as previously discussed.