



## Staff Report - Item 03

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**To:** Sonoma Clean Power Authority Board of Directors

**From:** Mike Koszalka, COO  
Geof Syphers, CEO  
Rebecca Simonson, Director of Programs

**Issue:** Approve the Proposed Annual Budget for Fiscal Year 2022-2023

**Date:** June 2, 2022

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### Requested Action

Approve the Proposed Fiscal Year 2022-2023 Annual Budget.

### Summary

The proposed budget for FY2022-23 has not changed from the draft reviewed in the previous Board meeting. The Community Advisory Committee recommended approval in their meeting of May 19<sup>th</sup>. Staff's proposed budget for Fiscal Year 2022-2023 from July 1, 2022, through June 30, 2023:

- Requires no rate changes at the start of the fiscal year on July 1, 2022.
- Maintains total SCP customer bills equal to PG&E bundled customer bills
- Projects overall expenses to increase by slightly less than inflation (4% above FY 21-22)
- Projects an increase in financial reserves sufficient to meet SCP's long-term target (as revised in Item 9) by July 2023.
- Assumes no rate increases all year.

### Background

Staff presents a budget for Fiscal Year 2022-2023 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 programs and services with an increasing focus on previously underserved communities.

From the outset, SCP has held a high standard for its operations - usually far in advance of State requirements, such as creating EverGreen, the nation's first (and still the only) electric supply that provides 100% local renewable energy 24/7 without any reliance on fossil energy sources for any purpose.

From its inception until early 2020, SCP had been able to provide customers lower overall bills each year. This had been achieved by offering significantly lower electric generation rates to all customer classes in order to more than offset the PCIA fee PG&E charges SCP customers. These low generation rates have resulted in tens of millions in customer bill savings since 2014. In May of 2020, SCP had to set rates slightly above PG&E to cover most expenses, with the premium ranging up to 5%. With the April 1, 2022 rate adjustment, the premium cost SCP was charging customers for the past two years was eliminated and customer bills are now equal to PG&E bundled customers' bills.

Once SCP's long-term financial reserve targets are met - possibly by June of 2023 - SCP may be in a good position to provide a small rate savings to customers again, while continuing to supply much cleaner power and extra customer programs.

At the end of FY 19-20, SCP's Board of Directors 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. The Board added another \$4 million at the end of FY 20-21. After a surprising increase in the market price for power caused a large decrease in the PCIA, those funds were not immediately needed. Since it is not prudent to continue to defer recognizing those revenues, staff is recommending the Board recognize these funds as revenues in this Board meeting, which would allow SCP to move the total increase in net position into reserves.

It is important to note that this forecast is based on the best information available 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 can change rapidly and may continue to change over the coming years. And finally, the PCIA is highly dependent on the market price of natural gas, which itself fluctuates significantly with the commodity price of methane,

and natural gas prices are affected by regional and world events (e.g., Texas ice storm, Russia's war on Ukraine, winter temperatures). For these reasons, staff will regularly update the Committee and Board on the PCIA as new information becomes available.

## **Budget Overview**

The Fiscal Year 2022-2023 draft 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.
- Emphasize customer programs that help cut the use of gasoline and natural gas, as these actions are the faster and least expensive ways to cut greenhouse gas emissions today.
- Expand customer outreach through improved market research and listening to our various communities.
- Expand community education activities.
- Increase emphasis on serving previously underserved communities in SCP's customer programs.
- Promote the Advanced Energy Center and further develop the Center into a valuable community resource.
- Maintain the current level of customer participation and expand customer participation in Evergreen.

## **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.

	Rev. 1 Budget FY21-22	PROPOSED Budget FY22-23	
<b>REVENUES &amp; OTHER SOURCES</b>			
Electricity Sales <sup>1</sup> (net of allowance)	191,599,000	244,400,000	Removes cost premium. Equal total bills with PG&E.
EverGreen Premium <sup>2</sup> (net of allowance)	2,074,000	2,312,000	Steady growth is planned.
CEC Grant Proceeds	2,065,000	1,414,000	Continued CEC grant activity through end available funds.
BAAQMD Grant	50,000	0	This grant has ended.
Misc Revenue	0	1,025,000	CPUC funds for program implementation.
Interest Income	840,000	380,000	Continued low interest rates are assumed.
<b>Total Revenues</b>	<b>196,628,000</b>	<b>249,531,000</b>	
<b>EXPENDITURES</b>			
<b>Product</b>			
Cost of Energy and Scheduling <sup>3</sup>	165,468,936	171,380,000	Relatively modest increase is due to SCP's existing purchases.
Data Management	3,198,000	2,677,000	Decrease in cost from contract renegotiation.
Service Fees to PG&E	973,000	979,000	No significant change expected.
<b>Product Subtotal</b>	<b>169,639,936</b>	<b>175,036,000</b>	
<b>Personnel</b>	<b>6,200,000</b>	<b>7,650,000</b>	See details in write-up.
<b>Energy Center, Mktg &amp; Comm</b>	<b>1,350,000</b>	<b>2,557,000</b>	Consolidates many SCP activities. See details in write-up.
<b>Customer Service</b>	<b>363,000</b>	<b>291,000</b>	Some activities move to 'Energy Center, Mktg & Comm'
<b>General and Administration</b>	<b>1,140,000</b>	<b>1,140,000</b>	No change expected.

	Rev. 1 Budget FY21-22	PROPOSED Budget FY22-23
<b>EXPENDITURES – continued</b>		
<b>Other Professional Services</b>		
Legal	410,000	430,000
Regulatory and Compliance	430,000	460,000
Accounting	245,000	258,000
Legislative	120,000	220,000
Other consultants	225,000	571,000
<b>Other Professional Services Subtotal</b>	<b>1,430,000</b>	<b>1,939,000</b>
<b>Industry Memberships and Dues</b>	<b>536,000</b>	<b>560,000</b>
		Includes CalCCA and APPA
<b>Programs</b>		
Program Implementation <sup>4</sup>	5,640,000	6,025,000
CEC Grant Program <sup>5</sup>	4,000,000	4,180,000
<b>Programs Subtotal</b>	<b>9,640,000</b>	<b>10,205,000</b>
		See Programs Strategic Action Plan for details.
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<b>Total Expenditures</b>	<b>190,298,936</b>	<b>199,378,000</b>
<b>Revenues Less Expenditures</b>	<b>6,329,064</b>	<b>50,153,000</b>
<b>OTHER USES</b>		
Capital Outlay	1,393,000	600,000
		Significant reduction as most furniture and computers already purchased.
<b>Total Expenditures, Other Uses</b>	<b>191,691,936</b>	<b>199,978,000</b>
<b>Net Increase/(Decrease) in Fund Balance</b>	<b>4,936,064</b>	<b>49,553,000</b>

Notes on the Proposed Budget Table on Previous Page:

1. Revenues from electricity sales are net of the allowance for uncollectible accounts, estimated to be 1.25%.
2. The EverGreen premium covers the incremental cost of EverGreen power above the cost for CleanStart. The rest of the revenues for EverGreen customers appears in the Electricity Sales line item.
3. The Cost of Energy and Scheduling includes NetGreen costs, ProFIT payments, California ISO fees and scheduling as well as all energy and capacity costs.
4. Funds approved by the Board to be loaned to customers through on-bill financing, and funds paid back to SCP, are treated as balance sheet items and are not on the income statement.
5. The difference between the CEC grant proceeds and grant expenses is SCP's cash portion of the matching funds.

Further detail on each of the proposed budget categories follows in the next section.

## **INFORMATION ONLY - SUPPLEMENTAL TO THE PROPOSED BUDGET**

### **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 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 estimates uncollectable billings at 1.25%. This is unchanged from last year largely due to the \$3.9 million in State customer arrearage funds SCP received in FY21-22 to help those who couldn't afford to pay power bills during covid.

### **EXPENDITURES**

#### **Product**

Cost of Energy and Scheduling includes all of the various services purchased from the power market through our suppliers. This includes 2,251,000 MWh of energy, long term renewable power purchase agreements, ProFIT feed-in-tariff projects, capacity (resource adequacy), short term renewable and carbon free contracts (aka hydropower), 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 in to 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 payout amount forecast for SCP's NetGreen customers is estimated to be about \$510,000 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. Fees charged to SCP by CC Power, the JPA formed with other CCAs to jointly procure power are also included in this budget category as all of those costs are related to procurement.

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. The reduction in this budget category for FY 22-23 is reflective of the price reduction we just obtained from Calpine with our contract extension approved by the Board in April 2022.

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 training and development expenses of 1% of direct labor costs to improve the skills and abilities of our staff. A number of new staff were hired over the past year and their full annual compensation costs were not yet fully reflected in the FY 21-22 expenses. In addition, staff expect to continue to find opportunities to reduce contracting costs through hiring staff to replace contractors, and may add 3-4 additional staff in the coming fiscal year. Staff completed a compensation benchmarking study in 2021 and SCP adjusted some salary ranges and our benefits package to remain competitive, after losing some staff to competing CCAs. In addition, cost of living changes are reflected in the draft budget.

## **Energy Center, Marketing and Communications**

There is a substantial consolidation of budgets into this category. As SCP nears the end of the CEC Lead Locally grant, budgeting for the Advanced Energy Center was moved from Programs to the respective departments that account for the various types of costs to run the facility and in keeping with GASB accounting rules. Most of the budget increase in this category reflects transfers of funding from other departments as explained below.

- \$80,000 for Industry Specific/Commercial Account support re-allocated from Customer Service budget.
  - Includes sponsoring/supporting efforts and events that support industries which are key economic drivers in our service territory and/or industries which are high users of electricity (wine, ag, cheese, specialty beverage, lumber, dairies, cannabis, hospitality, etc.)
- Discontinuation of separate Advanced Energy Center budget. Expenses now allocated directly to individual budgets on the Sonoma Clean Power side.
  - Examples include hardware, software + programming/upgrades/maintenance (kiosks, TV screens, etc.), retailing and merchandising hardware (poster holders, plex pieces, other displays); includes

consultant work for initial merchandising plan + seasonal/periodic changeouts.

- Consolidation of all educational efforts (classes and trainings at the Advanced Energy Center, ongoing SCP-Sonoma Water Energy Education program in elementary schools, CTE Foundation support) and grants/scholarships (SRJC Spirit of Entrepreneurship Grant, SSU 10,000 Degrees Scholarships, etc.)
- Continuation of the Empower Program (\$40,000)
- Budget to support ongoing bi-lingual Focus Group + Brand Awareness surveys and the addition of bi-lingual Customer Satisfaction + Commercial Account surveys.

In addition to consolidating our community education expenses, the draft budget assumes stepping up efforts to improve and expand customer education as encouraged by Committee and Board members, and from the input we received from several English and Spanish language focus groups SCP completed in the last several months.

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**

The Customer Service budget has decreased to reflect a transfer of community support and events that were previously paid out of Customer Service and consolidating all event, community support and education into the Energy Center, Marketing and Communications budget.

### 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.

## **Other Professional Services**

### Legal

This covers attorney expenses for general governance plus power supply negotiations and any other legal issues that arise.

### Regulatory & Compliance

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.

### Accounting

Accounting includes services from two different providers. Maher Accountancy provides the day-to-day accounting for SCP, including generation of financial statements and consolidated reports. SCP also has an outside auditor review our financial statements each year.

### Legislative

Staff retains 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. The statewide CalCCA trade association continues to allow SCP to track and participate in legislative work that affects CCAs across the state. New in this coming fiscal year are expenses for federal lobbying on the GeoZone.

## Other Consultants

Other Consultant covers costs related to outside services needed for basic internal operations, such as: IT services/repairs, nighttime security for the HQ building and the Advanced Energy Center, administration fees for our insurance benefits and retirement plans, consultants for mandatory training, and the collection agency SCP uses for past-due accounts. Technical consultants for the GeoZone are also included in this category.

## **Industry Memberships and Dues**

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. A recent CalCCA win involved securing \$3.9 million for SCP customers unable to pay their bills through covid, and proportional amounts for all California CCA customers.

SCP is also a member of the American Public Power Association (APPA). This is a nationwide association of public power entities. They recently added a membership category for CCAs nationwide.

## **Programs**

The semi-annual Programs Strategic Action Plan recently presented to the Committee and Board details the programs 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.

## **Debt Service**

SCP currently carries no debt.

### **Net Increase/ (decrease) in Available Fund Balance**

Staff is planning for a substantial net increase in our available fund balance as we are recommending that the Committee and Board prioritize reaching SCP's long-term reserve targets to maintain financial stability in the face of continuing uncertainty with power costs, natural gas prices and the PCIA.

## FOUR-YEAR OUTLOOK

This four-year outlook is subject to significant changes as new information is available regarding PCIA and the market cost of energy.

	PROPOSED Budget FY 22-23	Forecast FY 23-24	Forecast FY 24-25	Forecast FY 25-26
<b>REVENUE AND OTHER SOURCES:</b>				
Electricity Sales (net of allowance)	\$ 244,400,000	\$ 189,361,000	\$ 204,064,000	\$ 212,134,000
Evergreen Premium (net of allowance)	\$ 2,312,000	\$ 2,335,000	\$ 2,359,000	\$ 2,382,000
CEC Grant Proceeds	\$ 1,414,000	\$ -	\$ -	\$ -
Interest Income	\$ 380,000	\$ 360,000	\$ 360,000	\$ 360,000
Miscellaneous revenue	\$ 1,025,000	\$ 1,025,000	\$ 1,025,000	\$ -
<b>Total Revenue and Other Sources</b>	<b>\$ 249,531,000</b>	<b>\$ 193,081,000</b>	<b>\$ 207,808,000</b>	<b>\$ 214,876,000</b>
<b>EXPENDITURES AND OTHER USES:</b>				
<b>Product</b>				
Cost of Energy and Scheduling	\$ 171,380,000	\$ 167,313,000	\$ 175,402,000	\$ 193,245,000
Data Management	\$ 2,677,000	\$ 2,678,000	\$ 2,678,000	\$ 2,678,000
Service Fees to PG&E	\$ 979,000	\$ 979,000	\$ 979,000	\$ 979,000
<b>Product Cost Subtotal</b>	<b>\$ 175,036,000</b>	<b>\$ 170,970,000</b>	<b>\$ 179,059,000</b>	<b>\$ 196,902,000</b>
<b>Personnel</b>	<b>\$ 7,650,000</b>	<b>\$ 7,850,000</b>	<b>\$ 8,072,000</b>	<b>\$ 8,475,000</b>
<b>Energy Center, Mktg &amp; Communications</b>	<b>\$ 2,557,000</b>	<b>\$ 2,390,000</b>	<b>\$ 2,462,000</b>	<b>\$ 2,536,000</b>
<b>Customer Service</b>	<b>\$ 291,000</b>	<b>\$ 300,000</b>	<b>\$ 309,000</b>	<b>\$ 318,000</b>
<b>General &amp; Administration</b>	<b>\$ 1,140,000</b>	<b>\$ 1,241,000</b>	<b>\$ 1,253,000</b>	<b>\$ 1,285,000</b>
<b>Other Professional Services</b>				
Legal	\$ 430,000	\$ 430,000	\$ 430,000	\$ 430,000
Regulatory and Compliance	\$ 460,000	\$ 493,000	\$ 527,000	\$ 564,000
Accounting	\$ 258,000	\$ 267,000	\$ 276,000	\$ 286,000
Legislative	\$ 220,000	\$ 228,000	\$ 236,000	\$ 244,000
Other Consultants	\$ 571,000	\$ 510,000	\$ 528,000	\$ 546,000
Industry Memberships and Dues	\$ 560,000	\$ 580,000	\$ 600,000	\$ 621,000
<b>Programs</b>				
Program Dev. And Impementation	\$ 6,025,000	\$ 7,744,000	\$ 7,850,000	\$ 8,000,000
Program - CEC Grant	\$ 4,180,000	\$ 300,000	\$ -	\$ -
<b>Total Expenditures</b>	<b>\$ 199,378,000</b>	<b>\$ 193,303,000</b>	<b>\$ 201,602,000</b>	<b>\$ 220,207,000</b>
<b>Revenues Less Expenditures</b>	<b>\$ 50,153,000</b>	<b>\$ (222,000)</b>	<b>\$ 6,206,000</b>	<b>\$ (5,331,000)</b>
<b>Other Uses</b>				
Capital Outlay	\$ 600,000	\$ 400,000	\$ 414,000	\$ 428,000
Debt Service	\$ -	\$ -	\$ -	\$ -
<b>Total Expenditures, Other Uses</b>	<b>\$ 199,978,000</b>	<b>\$ 193,703,000</b>	<b>\$ 202,016,000</b>	<b>\$ 220,635,000</b>
<b>Net Increase/(Decrease) in Fund Balance</b>	<b>\$ 49,553,000</b>	<b>\$ (622,000)</b>	<b>\$ 5,792,000</b>	<b>\$ (5,759,000)</b>