

## Association of Bay Area Governments Publicly Owned Energy Resources

### ABAG POWER

#### Executive Committee

June 16, 2022

Agenda Item 7.b.

#### Fiscal Year 2022-23 Operating Budget

#### **Subject:**

Approval of Fiscal Year (FY) 2022-23 Operating Budget in the amount of \$12,869,639, and accompanying levelized charges for the period July 1, 2022, through June 30, 2023.

#### **Background:**

The natural gas program budget for FY 2022-23 reflects an increase of \$2.9 million (28%), from \$10.0 million to \$12.9 million, compared to the previous fiscal year.

#### **Notable Changes from Preliminary Operating Budget**

Since the preliminary operating budget was presented on April 21, 2022, there are three changes, explained below:

<b>Budget Component</b>	<b>Preliminary Budget (04/21/22)</b>	<b>Proposed Budget (06/17/22)</b>
PG&E Pass-through Costs	\$5,489,557	\$5,816,444
Gas Commodity & Shrinkage Costs	\$3,755,549	\$5,330,015
Staff Cost	\$431,291	\$507,019

1. Permanent increases in PG&E pass-through costs took effect both January 1 and March 1, 2022. An additional increase is anticipated to take effect January 1, 2023; the proposed budget increase adjusts for the cumulative effect of these rate increases, resulting in a slightly higher rate per therm, and accounts for a minor increase in portfolio usage.
2. Natural gas market prices began to rise this April and have continued to increase at an extraordinary rate during the past two months. Prices are expected to remain volatile and high throughout the summer months (\$10/Dth) before a slight decline during the winter months (\$6-8/Dth), and ultimately beginning to normalize (\$3-5/Dth) next summer.
3. An increase in staff costs reflect the anticipated hire of one full-time employee that will work 25% time on ABAG POWER. This position would increase the number of ABAG POWER full-time equivalents from 1.20 to 1.45.

#### **Revenue**

The gas program operates as a not-for-profit entity; therefore, revenue equals costs less interest and other income. The increase in revenue is due to a corresponding increase in expenses.

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**Cost of Energy**

The cost of energy is comprised of pass-through, gas commodity and shrinkage, transportation, and storage costs. These costs are highly correlated to the program's usage, and are each expressed as a dollars per dekatherm (\$/Dth) rate.

PG&E pass-through costs represent 45% of the program budget and primarily consist of customer and transportation charges associated with local distribution. The California Public Utilities Commission (CPUC) determines "just and reasonable" rates requested by PG&E through public proceedings. These costs have increased significantly in recent years, driven by PG&E's requested cost recovery for safety improvements including system hardening, leak detection, and storage asset management, that was approved by the CPUC. The overall increase of \$1.0 million (22%) is due to a corresponding increase in PG&E's adopted 2023-2026 General Rate Case.<sup>1</sup>

Gas commodity costs are impacted by both the program's usage and market factors including supply and demand, purchase location, and contract structure. The year-over-year increase of \$1.6 million (44%) anticipates an increase in market prices and a minor increase in usage. Shrinkage refers to the loss of a small volume of gas during compression and long-distance transport. Because of shrinkage, the program must purchase more gas than is actually used.

Intra- and inter-state pipeline transportation costs are dependent upon the program's gas purchasing strategy, which details where, and in which amounts, gas is purchased. Pipeline transportation rates are determined by state and/or federal agencies which regulate pipeline operators. An anticipated increase of \$85 thousand (15%) reflects the approval of routine safety and modernization measures proposed by pipeline operators.

The CPUC requires ABAG POWER, as a CTA, to hold gas storage capacity both with PG&E and a third-party provider. Storage costs are expected to increase by \$11 thousand (7%) due to rising rates for storage for proposed safety improvements, similar to pass-through costs.

**Staff Cost**

Staff costs will increase by \$92 thousand (22%) as a result of a 2.8% Cost of Living Adjustment (COLA), position reclassification, and the anticipated hiring of one full-time employee working partially (25%) on ABAG POWER.

**Consultant Services**

There are no changes proposed to the consultant services budget. During FY 2021-22, the Executive Committee adopted ABAG POWER's Stakeholder Engagement Report and Strategic Implementation Roadmap (SIP), largely concluding program design work budgeted for \$150,000 per year. Staff proposes the same amount be earmarked during FY 2022-23 for implementing initiatives identified in the SIP, including management of carbon offsets, participation in state and federal vehicle fuel programs, and certification of gas supply. These serves are intended to

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<sup>1</sup> [https://www.pge.com/en\\_US/about-pge/company-information/regulation/general-rate-case/grc.page](https://www.pge.com/en_US/about-pge/company-information/regulation/general-rate-case/grc.page)

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provide both revenue-generating activities (vehicle fuel programs) and environmental benefits for program participants.

### **Other Expenses**

There is a minor decrease of \$6 thousand (9%) proposed to the audit fees; otherwise, there are no other proposed changes to expenses.

### **Issues:**

None.

### **Recommended Action:**

The ABAG POWER Executive Committee is requested to review and approve as proposed the Fiscal Year 2022-23 Operating Budget in the amount of \$12,869,639, and accompanying levelized charges as shown in agenda item 7.c. for the period July 1, 2022, through June 30, 2023.

### **Attachments:**

- ABAG POWER Fiscal Year 2022-23 Operating Budget (Presentation)
- ABAG POWER Fiscal Year 2022-23 Operating Budget Levelized Charges
- ABAG POWER Fiscal Year 2022-23 Operating Budget (Summary Approval)

### **Reviewed:**

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for

Brad Paul

	YTD Actuals as of 04/30/22	Projected FY 2021-22	Amended FY 2021-22	Preliminary FY 2022-23	\$ Change Increase/(Decrease)	% Change Increase/(Decrease)
<b>Revenue</b>						
Sale of Energy	\$ 7,895,280	\$ 10,008,240	\$ 10,008,240	\$ 12,857,280	\$ 2,849,040	28%
Interest Income - Banks/LAIF	2,117	8,469	5,000	3,159	(1,841)	-37%
Other Revenue	4,509	9,018	9,200	9,200	-	0%
Total Revenue	7,901,907	10,025,728	10,022,440	12,869,639	2,847,199	28%
<b>Expense</b>						
<b>Cost of Energy</b>						
PG&E Pass-through Costs	4,523,504	6,635,256	4,770,212	5,816,444	1,046,232	22%
Gas Commodity & Shrinkage Costs	3,000,963	4,501,445	3,711,895	5,330,015	1,618,120	44%
Intra/Interstate Pipeline Transportation	506,740	760,110	570,859	655,993	85,134	15%
Gas Storage	127,043	190,564	170,371	181,774	11,402	7%
Total Cost of Energy	8,158,250	12,087,375	9,223,337	11,984,225	2,760,888	30%
<b>Staff Cost</b>						
Salary & Benefits	220,688	331,032	276,473	338,013	61,540	22%
Overhead	105,268	157,902	138,403	169,006	30,603	22%
Total Staff Cost	325,956	488,934	414,876	507,019	92,143	22%
<b>Consultant Services</b>						
Program Design Services	82,838	82,838	150,000	150,000	-	0%
Gas Scheduling Services	89,000	106,800	106,800	106,800	-	0%
Database Hosting Services	18,545	18,545	18,545	18,545	-	0%
Financial Reporting	-	-	-	-	-	0%
Brokerage Services	7,028	10,541	12,000	12,000	-	0%
External Legal Support	-	-	-	-	-	0%
Electronic Data Interchange Services	5,588	8,382	7,750	7,750	-	0%
Total Consultant Services	202,999	227,107	295,095	295,095	-	0%
<b>Other Expenses</b>						
Audit	46,799	70,000	70,000	63,800	(6,200)	-9%
Interest Expense/Bank Charges	1,698	2,547	9,500	9,500	-	0%
Catering	-	250	1,500	1,500	-	0%
Market Pricing Subscriptions	1,718	1,660	1,660	1,718	58	3%
Travel	-	-	1,000	1,000	-	0%
Industry Memberships & Conferences	300	300	1,450	1,450	-	0%
Insurance	700	700	700	700	-	0%
Postage	268	500	-	-	-	0%
Miscellaneous	-	-	300	300	-	0%
Total Other Expense	51,483	75,957	86,110	79,968	(6,142)	-7%
Total Expense	8,738,688	12,879,373	10,019,418	12,866,306	2,846,888	28%
<b>Operating Surplus/(Deficit)</b>	<b>\$ (836,781)</b>	<b>\$ (2,853,645)</b>	<b>\$ 3,022</b>	<b>\$ 3,333</b>	<b>\$ 311</b>	