

Association of Bay Area Governments Publicly Owned Energy Resources

ABAG POWER

Executive Committee

June 28, 2024

Agenda Item 6.a.2

Fiscal Year 2024-25 Association of Bay Area Governments (ABAG) Publicly Owned Energy Resources (POWER) Operating Budget

Subject:

Approval of Fiscal Year 2024-25 Association of Bay Area Governments (ABAG) Publicly Owned Energy Resources (POWER) Operating Budget in the amount of \$18,010,520 and accompanying levelized charges for the period July 1, 2024, to June 30, 2025, including the assessment of \$1,528,561 in working capital deposits.

Changes from Preliminary Operating Budget:

Four changes are included in the proposed budget that differ from the preliminary operating budget presented on June 15, 2024:

1. General:
 - a. The number of school districts with pending or completed enrollment has increased from 14 to 19. This increase and other factors result in an increase in projected portfolio usage of 245,445 dekatherms (37%) when compared to FY 2023-24, and various corresponding increases in revenue and expenses.
2. Cost of Energy:
 - a. Inclusion of updated natural gas commodity futures prices, resulting in a decrease in the projected weighted average cost of gas of \$0.20 (-4%) per million thermal British units (\$/MMBtu), from \$5.15/MMBtu to \$4.95/MMBtu.
3. Staff Cost:
 - a. Overall staff cost reflects a decrease of \$104,567 (-9%) compared to the preliminary budget due to:
 - i. the removal of two full-time employee-equivalent positions
 - ii. increased allocation of current staff time
 - iii. increases to cost-of-living adjustment and indirect cost rate
4. Consultant Services:
 - a. The number of school districts pending or completed enrollment has increased from 14 to 19, resulting in an increase of \$21,240 (80%) in anticipated School Project for Utility Rate Reduction (SPURR) fees.
 - b. The cost of gas scheduling and operational consulting services has increased by \$96,000 (64%).
 - c. Administrative support services have been added in the amount of \$200,000.

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Background:

The natural gas program budget for Fiscal Year (FY) 2024-25 reflects an increase of approximately \$5.6 million (46%), from \$12.4 million to \$18.0 million, compared to the previous FY. This increase includes nineteen (19) new members joining ABAG POWER following the successful bid for the School Project for Utility Rate Reduction's (SPURR) Request for Qualifications and Proposals.

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.

Cost of Energy

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

Pacific Gas and Electric Company (PG&E) pass-through costs represent 57 percent 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 enormously in recent years, driven by PG&E's cost recovery for safety improvements including system hardening, leak detection, and storage asset management.¹

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 29 percent anticipates a significant increase in the quantity of gas purchased, and a decrease in market prices. 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 the state and federal agencies that regulate pipeline operators. Like PG&E's transportation rates, these costs have increased in recent years for similar reasons and are expected to increase by 7 percent in FY 24-25.

ABAG POWER is required to hold gas storage inventory with at least one CPUC-approved independent storage provider (ISP). There are currently four ISPs. Due to limited availability of storage inventory, and increasing safety and maintenance-related requirements, storage rates have increased substantially in recent years. To hedge against future increases, ABAG POWER entered into a three-year contract for storage inventory, spanning April 2024 to March 2027. The overall increase is significant – 84 percent – but reflects a lower rate for storage inventory than in prior years and a greater inventory volume. The increased volume serves two purposes: first,

¹ https://www.pge.com/en_US/about-pge/company-information/regulation/general-rate-case/grc.page

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meeting compliance obligations that will increase as a result of the program's significant increase in usage; and, second, enabling storage arbitrage opportunity intended to recover a significant portion of the storage costs.

Staff Cost, Consultant Services, and Other Expenses

The proposed budget includes an increase to staff costs of \$540 thousand (95%). Four staff each regularly allocate a portion of time to ABAG POWER, and the updated allocations result in a combined 2.15 full-time equivalent (FTE) employees, an increase from 1.5 FTE in FY 2023-24. The increased budget also reflects a 3.8% cost of living adjustment, and an update to the methodology used to calculate indirect cost rates across all entities administered by the Metropolitan Transportation Commission. The proposed rate is calculated based on actual indirect costs attributable to ABAG POWER and direct salary and benefits charged to ABAG POWER using audited FY 2022-23 actuals.

Consultant Services are proposed to increase by \$258 thousand (80%), primarily due to administrative support services needed to provide billing, account management, and customer service to a greater number of participating members; enable continued progress on the implementation of the Strategic Implementation Roadmap; and ensure time to identify and recommend grant funding opportunities.

Other Expenses

For special districts who join ABAG POWER as a result of SPURR's Request for Qualifications and Proposals, ABAG POWER will pay to SPURR a usage-based administrative fee of \$0.0185 per them. Staff estimate this cost to be \$52 thousand.

Working Capital Deposits

During FY 2023-24, the ABAG POWER Board of Directors adopted Resolution 23-06 to increase the working capital deposit for the natural gas program from 2.0 to 3.0 months of estimated expenses, and to collect the additional month of estimated expenses over a 24-month period beginning either July 1, 2024, or upon the effective date of new member agreements, whichever is later. Attached to this memorandum is a calculation of the member-specific working capital deposit amounts based on the proposed budget.

Issues:

None.

Recommended Action:

The ABAG POWER Executive Committee is requested to review and approve as proposed the Fiscal Year 2024-25 Operating Budget in the amount of \$18,010,520, and accompanying levelized charges and working capital deposit assessments, as shown in agenda item 6.a.4 and 6.a.5, respectively, for the period July 1, 2024, through June 30, 2025.

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Attachments:

- ABAG POWER Fiscal Year 2024-25 Operating Budget Presentation
- ABAG POWER Fiscal Year 2024-25 Operating Budget
- ABAG POWER Fiscal Year 2024-25 Operating Budget Levelized Charges
- ABAG POWER Fiscal Year 2024-25 Working Capital Deposit Assessments

- ABAG POWER Fiscal Year 2024-25 Operating Budget Summary Approval

Reviewed:

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Brad Paul