

Association of Bay Area Governments Publicly Owned Energy Resources

ABAG POWER

Executive Committee

June 15, 2023

Agenda Item 6.b.

Fiscal Year 2023-24 Association of Bay Area Governments (ABAG) Publicly Owned Energy Resources (POWER) Operating Budget

Subject:

Approval of Fiscal Year 2023-24 Association of Bay Area Governments (ABAG) Publicly Owned Energy Resources (POWER) Operating Budget in the amount of \$12,372,840 and accompanying levelized charges for the period July 1, 2023 through June 30, 2024.

Changes from Preliminary Budget

Five changes are included in the proposed budget that differ from the preliminary budget presented on April 20, 2023:

1. Revenue from the Sale of Energy has decreased by \$171,720 (1%), as a result of an accompanying decrease in expenses.
2. Pacific Gas and Electric Company (PG&E) pass-through costs have increased by \$447,679 (7%) based on current year expense trends and the anticipated approval of PG&E's 2023-2026 rate case.
3. Commodity and shrinkage costs have decreased by \$694,788 (18%) due to changes in market price estimates.
4. Pipeline transportation costs have increased by \$59,369 (15%) based on current year expense trends and the anticipated approval of PG&E's 2023-2026 rate case.
5. Storage costs have decreased by \$27,057 (4%) due to a transition to independent storage providers.

Background

The proposed natural gas program budget for Fiscal Year (FY) 2023-24 reflects a decrease of approximately \$0.5 million (4%), from \$12.9 million to \$12.4 million, compared to the previous fiscal year.

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. 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 56% 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 – and subsequently approved - cost recovery for safety improvements including system hardening, leak detection, and storage asset management. The overall increase of \$1.1 million (18%) is due to a corresponding increase in PG&E's 2023-2026 General Rate Case.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 decrease of \$2.2 million (40%) anticipates a decrease in market prices and no significant change 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 the state and federal agencies that regulate pipeline operators. A year-over-year increase of \$100,430 (15%) anticipates rate increases supporting safety, maintenance, and operational improvements, primarily within California.

ABAG POWER is required to hold gas storage capacity both with PG&E and a third-party provider. Storage costs are expected to increase by \$425,426 (234%) due to rising rates for storage for proposed safety improvements, similar to pass-through costs.

Staff Cost

Staff costs will increase by \$59,369 (12%) due to the anticipated agency approval of a 4.5% Cost of Living Adjustment (COLA) and reallocation of staff time.

Consultant Services

During FY 2022-23, the Executive Committee approved entering a contract with GPT Secure, LLC, in the amount of \$216,645 for a two-year term to provide consultant services related to the quantification and management of carbon offsets. Staff estimate concluding the current fiscal year with a remaining contract balance of approximately \$173,000, resulting in an increase of approximately \$23,000 (16%) compared to the prior year.

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

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Other Expenses

There is a minor increase of \$3,200 (5%) proposed to the audit fees and a significant decrease of \$8,800 (93%) to bank service charges; otherwise, there are no other notable proposed changes to expenses.

Issues:

Total working capital deposits are still at \$1,988,459 – roughly the same amount since FY 2008-09. The total capital deposits represent 1.9 months of working capital, which does not meet the program's stated goal of at least two months of estimated expenses (\$2,058,940, based on the proposed FY 2023-24 budget).

Given fluctuations in gas prices experienced in FY 2022-23 and feedback received at the April 20, 2023 Executive Committee meeting, staff are analyzing strategies to mitigate price uncertainty, such as increasing working capital deposits, leveraging storage inventory, and/or procuring fixed-price supply contracts. Staff anticipate presenting options and seeking approval from the Executive Committee in the fall of 2023 in advance of the winter season.

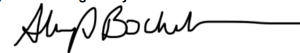
Recommended Action:

The ABAG POWER Executive Committee is requested to review and approve as proposed the Fiscal Year 2023-24 Operating Budget in the amount of \$12,372,840 and accompanying levelized charges as shown in agenda item 6.d. for the period July 1, 2023, through June 30, 2024..

Attachments:

- ABAG POWER Fiscal Year 2023-24 Operating Budget Presentation
- ABAG POWER Fiscal Year 2023-24 Operating Budget
- ABAG POWER Fiscal Year 2023-24 Operating Budget Levelized Charges
- ABAG POWER Fiscal Year 2023-24 Operating Budget Summary Approval

Reviewed:

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Alix Bockelman