

Association of Bay Area Governments Publicly Owned Energy Resources

ABAG POWER

Executive Committee

April 18, 2024

Agenda Item 5.c.

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

Subject:

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

Background:

The preliminary natural gas program budget for Fiscal Year (FY) 2024-25 reflects an increase of approximately \$4.9 million (39%), from \$12.4 million to \$17.2 million, compared to the previous FY. This increase includes a conservative estimate of 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 54 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 23 percent anticipates a significant increase in the quantity of gas purchased, and a decrease in

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

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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 one or more 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 also 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 – 157 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, meeting compliance obligations that will increase as a result of the program's significant increase in usage; and, second, enabling a strategic risk management and price optimization strategy that allows for significant arbitrage opportunity.

Staff Cost, Consultant Services, and Other Expenses

The proposed budget includes an increase to staff costs of \$645 thousand (114%). Currently, four staff each regularly allocate a portion of time to ABAG POWER, resulting in a combined 1.5 full-time equivalent employees. The increase budget reflects a need to provide exceptional billing, account management, and customer service to a greater number of participating members; continued progress on the implementation of the Strategic Implementation Roadmap; and more staff time dedicated to identifying and recommending grant funding opportunities. Staff anticipates the additional resources can support the program's growth and the costs shared as new members join the program.

Consultant Services are proposed to decrease by 38 thousand (12%), primarily due to a decrease in Program Design services. This decrease offsets proposed increases in database hosting (\$13 thousand; 56 percent), and brokerage fees (\$12 thousand; 100%), which will increase due to the program purchasing more gas and serving a greater number of billing-related accounts, as well as an increase in gas scheduling services (\$43 thousand; 40%) to incorporate an operational consulting scope of work.

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 therm. Staff estimate this cost to be \$27 thousand. No other changes are proposed to Other Expenses.

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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 preliminary budget.

Issues:

None.

Recommended Action:

The ABAG POWER Executive Committee is requested to review and comment on the Fiscal Year 2024-25 Preliminary Operating Budget. The final budget will be presented for approval to the Executive Committee at its scheduled June 20, 2024, meeting.

Attachments:

- ABAG POWER Fiscal Year 2024-25 Preliminary Operating Budget
- Current Working Capital Deposits by Member

Reviewed:

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