



TO: The Governing Board
DATE: June 3, 2019
FROM: Jenine Windeshausen
SUBJECT: Financial Statements, Electric Revenues & Fiscal Year 2019-2020 Proposed Budget

ACTION REQUESTED

- a) Receive presentations on Year-to-Date Financial Information, Electric Rate and Revenue Analysis, and the Fiscal Year 2019-20 Proposed Budget; and
- a) Direct staff to return to the Board with proposed electric generation rates on July 1, 2019, and call for a public hearing regarding electric generation rate setting at that time; and
- b) Adopt the Proposed Budget and direct staff to return to the Board on August 5, 2019 with a Final Budget for Fiscal Year 2019-20.

BACKGROUND

Year-to-Date Financial Information. The attached year-to-data budget to actual information show Pioneer's financial position through March 31, 2019. The budget to actual information includes both the CCA Program and the mPOWER Program. The budget to actual for both programs are reflective of the pattern of revenue and expenditure flows through the year. The CCA Program, receives its highest margin over cost in the last two months of the fiscal year. Projected net income is expected to be approximately \$1.8 million less than budgeted. This is primarily due to unanticipated costs related to power supply (approximately 2.4% or \$1.5 million more) and less than expected revenues (approximately 4.5% or \$3.3 million less). Operation cost have been held down by not filling positions and delaying other expenditures related to program development, facility improvements and marketing. Continuing to keep positions vacant is not feasible. Additionally, it should be noted that the current year continues to include certain one-time expenses related to initiation of service such as printing and postage for customer notices.

Projections for the mPOWER Program indicate a net income loss of approximately \$167,000 for the year. This is due to a significant downturn in the number of applications resulting in a shortfall in processing fees. As a result, mPOWER Program staff time has been and will continue to be redirected to the CCA Program, where higher levels of staffing are needed. Continued realigned of resources from the mPOWER Program to the CCA Program will be of financial benefit to both programs.

Electric Rate and Revenue Analysis. Pacific Energy Advisors will provide an update on PG&E's recent and planned electric generation rate changes. They will also present three main electric generation rate scenarios for the Board to consider. Each rate scenario results in a corresponding revenue amount for Pioneer. The rate scenarios and corresponding revenue should be considered in light of Pioneer's need to cover increasing power supply costs balanced against Pioneer's rate stability and competitiveness objectives.



Fiscal Year 2019-20 Proposed Budget. Three budget scenarios are provided for the Board's consideration based on the three rate and revenue scenarios presented in the Electric Rate and Revenue discussion. Under expenditures, the proposed budget assumes increased power supply costs reflective of recent market conditions, increased staffing costs to align staffing with the levels necessary to support power procurement, regulatory affairs, and program development and support. As stated previously, the CCA program has maintained lower staffing levels given, various economic and financial management constraints. The CCA program needs increased support of power procurement activities, including back-office operations. There are ongoing staffing needs related to regulatory affairs, particularly given the dynamic regulatory environment associated with state policies, the condition of investor owned utilities and new market entrants, including CCAs. Program development through community involvement and emerging opportunities are also important for Pioneer to add economic, social and environmental value to its communities. The Proposed Budget does not include contribution to reserves. Contribution to reserves will be determined based on application of the Board adopted reserve policies and included in the final budget.

Adoption of the Proposed Budget provides appropriation authority until the Final Budget is adopted.

RECOMMENDATIONS AND NEXT STEPS

The Board is requested to consider and select one of the three rate and revenue scenarios, for adoption, and to call a public hearing for its July 1, 2019 meeting to consider adoption of the rates associated with the selected scenario.

The Board is requested to adopt the Proposed Budget for Fiscal Year 2019-20, which is based on a revenue projections assuming a 5% discount to PG&E. The Board is further requested to direct staff to prepare the Final Budget for the 2019-20 Fiscal Year based on the rates scheduled to be adopted at the July 1, 2019 Board meeting. The recommended Final Budget will also include a contribution to reserves, and more certain power supply costs, along with any other final budget adjustments.

FISCAL IMPACT

Adopting the Proposed Budget will provide appropriation authority as specified in the Proposed Budget.

ATTACHMENTS:

- Fiscal Year 2018-19 Year-to-Date Budget to Actual Report
- Rate and Revenue Analysis Presentation
- Budget Scenarios and Proposed Budget for Fiscal Year 2019-20

Pioneer Community Energy
Budget to Actuals - CCA Fund
For the Quarter Ended March 31, 2018
UNAUDITED

(Stated in Thousands \$000's)

	Budget	Actual	Projected Annual	YTD % of Budget
Operating Revenues				
Electricity sales, net	\$ 74,864	\$ 53,774	\$ 71,527	71.8 %
Total operating revenues	74,864	53,774	71,527	71.8 %
Operating Expenses				
Cost of electricity	59,856	48,301	61,330	80.7 %
Contract services	3,071	2,049	2,509	66.7 %
Staff compensation	2,241	505	678	22.5 %
General and administration	727	292	389	40.2 %
Program development	200	0	0	0.0 %
Marketing	550	141	173	25.7 %
Total operating expenses	66,645	51,288	65,079	77.0 %
Operating income (loss)	8,219	2,486	6,448	30.2 %
Nonoperating Revenues (Expenses)				
Interest income	120	326	380	271.3 %
Interest and related expenses	(391)	(259)	(390)	66.3 %
Total nonoperating revenues (expenses)	(271)	66	(10)	-24.5 %
Change in Net Position				
Change in net position	7,948	2,552	6,438	32.1 %
Net position at beginning of period	5,807	5,807	5,807	
Net position at end of period	\$ 13,755	\$ 8,359	\$ 12,245	60.8 %

Pioneer Community Energy
Budget to Actuals - mPOWER Fund
For the Quarter Ended March 31, 2018
UNAUDITED

(Stated in Thousands \$000's)

	Budget	Actual*	Projected Annual	YTD % of Budget
Operating Revenues				
Service charges [‡]	\$ 1,386	\$ 385	\$ 534	27.8 %
Total operating revenues	1,386	385	534	27.8 %
Operating Expenses				
Contract services	128	43	55	33.2 %
Staff compensation	634	300	382	47.4 %
General and administration	18	19	22	105.4 %
Marketing	19	14	17	74.7 %
Total operating expenses	799	376	477	47.1 %
Operating income (loss)	587	9	57	1.5 %
Nonoperating Revenues (Expenses)				
Interest income	0	11	12	0.0 %
Interest and related expenses	(128)	(209)	(236)	162.9 %
Total nonoperating revenues (expenses)	(128)	(198)	(224)	154.6 %
Change in Net Position				
Change in net position	459	(189)	(167)	-41.2 %
Net position at beginning of period	89	89	89	
Net position at end of period	\$ 548	\$ (100)	\$ (78)	-18.3 %

‡ Service charges include relevant fees, capitalized interest, and interest revenue from the 6% Levy

PIONEER COMMUNITY ENERGY

2019 Rate and Revenue Analysis*

Board of Director's Meeting

June 4, 2019



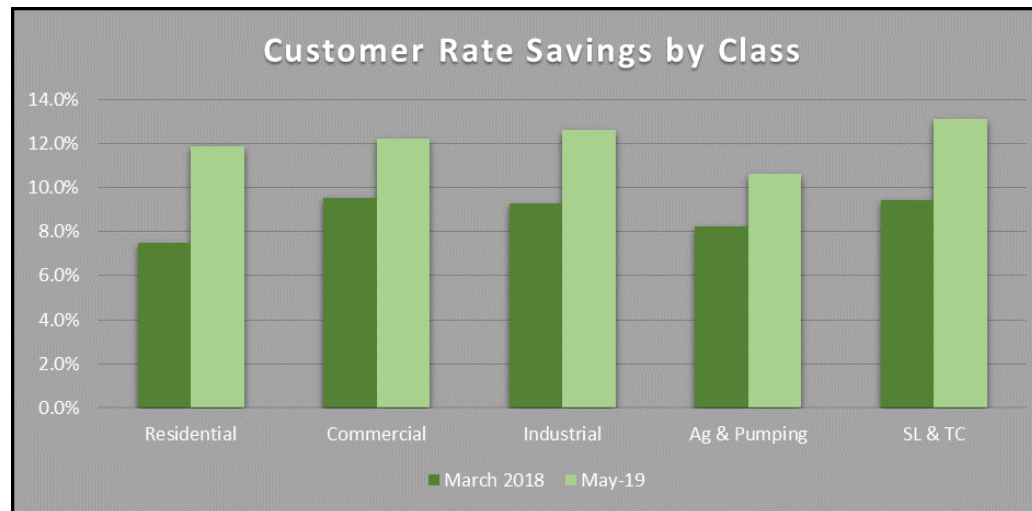
**All quantitative information is preliminary and subject to change*

Agenda

- Historical Rates and Customer Impacts
- Historical and Future Market Conditions
- Pioneer Proposed Rate Scenarios
- Recommendations and Upcoming Action Items

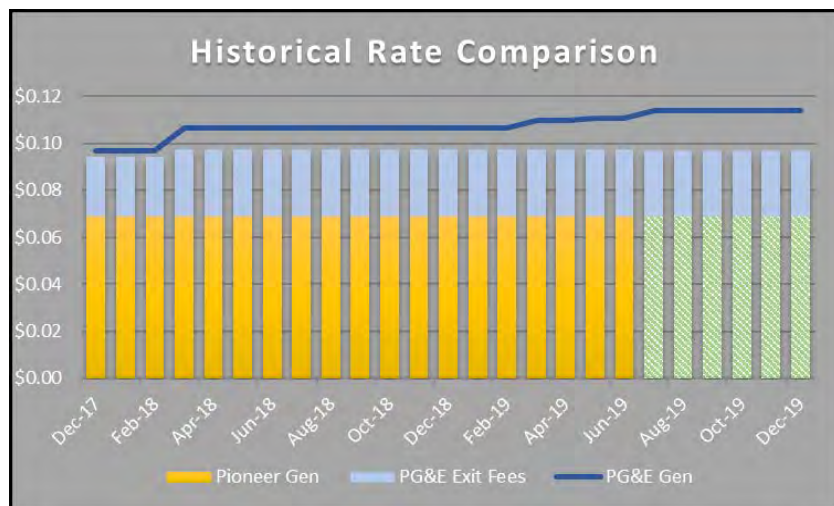
The following analysis is preliminary and based on best available information as of early June 2019.

PG&E 2019 Rates



- PG&E has undergone two sets of generation rate increases which have positively impacted Pioneer customers' rate competitiveness
- March 1, 2019: $\approx 3\%$ increase relative to 2018 generation rates
- May 1, 2019 : $\approx 1\%$ increase relative to March 2019 generation rates
- $\approx 4\%$ increase relative to 2018 generation rates overall

Pioneer Historical Rate Competitiveness

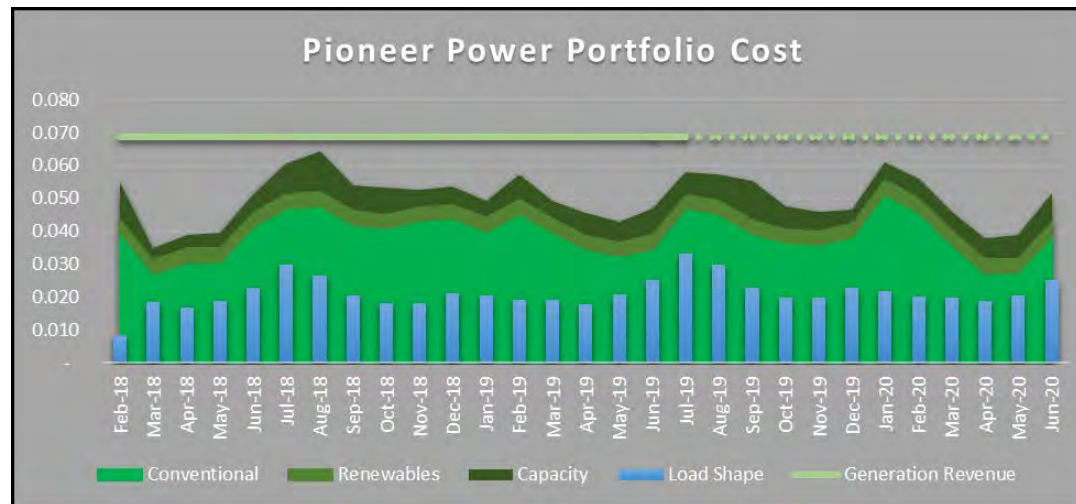


- Pioneer initially set rates at a 3% discount relative to PG&E in December 2017
- PG&E's March 2018 rate change increased Pioneer's discount to approximately 8%
- With rate stability being a key principle, Pioneer has postponed adjusting rates in 2019 pending PG&E's final ERRA implementation
- Rate adjustments are essential to aligning operations with market volatility and increased power supply costs
- Due to PG&E rate designed changes, individual customers will realize slightly different benefits based on specific usage patterns

PG&E's 2019 ERRA Rates

- PCIA changes and ultimate 2019 PG&E generation rates postponed to July 1, 2019 (earliest effective date)
 - Potential delay to September (dependent upon active protests)
- PCIA expected to decrease slightly for Pioneer customers overall
 - Unequal impacts realized across customer classes
- Anticipated increased PG&E generation rates would further increase Pioneer's generation rate discount
 - If no adjustment is made alongside PG&E's planned changes, Pioneer customers would realize an average discount of approximately 15% on the generation portion of their bill

Energy Portfolio Costs



- Operating margins are less than those anticipated when rates were set in 2017, due to current supply costs
- Primary factors include:
 - Increased volatility in the CAISO markets
 - Changes in regulatory compliance obligations
 - Increased market competition

Pioneer Proposed Rate Scenarios

- 3% discount relative to PG&E's proposed rates
 - Initial rate discount offered by Pioneer at time of service commencement
- 5% discount relative to PG&E's proposed rates
- 7% Discount relative to PG&E's proposed rates

Pioneer Proposed Rate Scenarios cont.

Scenario	7% Discount	5% Discount	3% Discount	**TOU True up
Total Avg. Rate Change	13.8%	17.1%	20.4%	0%
Total Avg. Rate (\$/kWh)	\$.078	\$.080	\$.083	\$.069
Est. Revenue (\$MM) Less Uncollectible	\$90.2	\$92.8	\$95.5	\$79.3
Gross Margin (\$MM) Less Power Supply Cost	\$27.2	\$29.8	\$32.5	\$16.3

*****Proposed action in the event PG&E ERRR rates are further delayed***

Recommendations and Upcoming Action

- Final Pioneer rate design to be created once final ERRA rates are released
 - Unless adverse changes are made to ERRA rates, Pioneer final rates will be modeled to Board-adopted scenario effective July 1, 2019
- Select proposed rate change alternative
 - At a minimum, truing up Pioneer's discount equally across all TOU periods with PG&E's current rates will ensure customers receive equitable discounts to their generation costs
- Final rate action to be scheduled for the Board on July 1, 2019

Questions & Discussion

Pioneer Community Energy
Fiscal Year Budget Scenarios
July 1, 2019 through June 30, 2020

	CCA @ 7% Discount	CCA @ 5% Discount Proposed Budget	CCA @ 3% Discount	Mpower	Total(s) @ 7% Discount	Total(s) @ 5% Discount Proposed Budget	Total(s) @ 3% Discount
REVENUES							
Sales of Electricity	\$ 89,690,000	\$ 92,321,172	\$ 94,948,945	\$ -	\$ 89,690,000	\$ 92,321,172	\$ 94,948,945
Program Income*	\$ -	\$ -	\$ -	\$ 1,130,655	\$ 1,130,655	\$ 1,130,655	\$ 1,130,655
Interest income	\$ 140,000	\$ 140,000	\$ 140,000	\$ -	\$ 140,000	\$ 140,000	\$ 140,000
Total Revenues	\$ 89,830,000	\$ 92,461,172	\$ 95,088,945	\$ 1,130,655	\$ 90,960,655	\$ 93,591,827	\$ 96,219,600
EXPENDITURES							
Power	\$ 65,509,098	\$ 65,509,098	\$ 65,509,098	\$ -	\$ 65,509,098	\$ 65,509,098	\$ 65,509,098
Staffing	\$ 841,426	\$ 841,426	\$ 841,426	\$ 435,649	\$ 1,277,075	\$ 1,277,075	\$ 1,277,075
General, Admin, and Professional Services	\$ 4,131,630	\$ 4,131,630	\$ 4,131,630	\$ 226,946	\$ 4,358,576	\$ 4,358,576	\$ 4,358,576
Programs	\$ 33,500	\$ 33,500	\$ 33,500	\$ -	\$ 33,500	\$ 33,500	\$ 33,500
Total Expenditures	\$ 70,515,653	\$ 70,515,653	\$ 70,515,653	\$ 662,595	\$ 71,178,249	\$ 71,178,249	\$ 71,178,249
OTHER USES							
Debt Principal Paydown	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ -	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Debt Service (Interest)	\$ 381,733	\$ 381,733	\$ 381,733	\$ 276,237	\$ 657,969	\$ 657,969	\$ 657,969
Total Expenditures and Other Uses	\$ 75,897,386	\$ 75,897,386	\$ 75,897,386	\$ 938,832	\$ 76,836,218	\$ 76,836,218	\$ 76,836,218
Memo							
Capitalized Leasehold Improvements	\$ 53,512	\$ 53,512	\$ 53,512	\$ -	\$ 53,512	\$ 53,512	\$ 53,512
FUND BALANCE							
Beginning Unrestricted Fund Balance**	\$ 6,644,993	\$ 6,644,993	\$ 6,644,993	\$ (77,812)	\$ 6,567,181	\$ 6,567,181	\$ 6,567,181
Net Increase (Decrease) in Fund Balance	\$ 13,932,614	\$ 16,563,786	\$ 19,191,559	\$ 191,823	\$ 14,124,437	\$ 16,755,609	\$ 19,383,382
Ending Fund Balance	\$ 20,577,607	\$ 23,208,779	\$ 25,836,552	\$ 114,011	\$ 20,691,618	\$ 23,322,790	\$ 25,950,563

* Program income includes relevant fees, capitalized interest, and interest revenue from the 6% Levy

** Beginning Fund Balance Net of Reserves