MEETING of the Finance Committee of the
Clean Power Alliance of Southern California

Wednesday, March 24, 2021
11:00 a.m.

SPECIAL NOTICE: Pursuant to Paragraph 11 of Executive Order N-29-20, executed by the Governor of California on March 17, 2020, and as a response to mitigating the spread of COVID-19, the Finance Committee will conduct this meeting remotely.

Click here to view a Live Stream of the Meeting on YouTube
*There may be a streaming delay of up to 60 seconds. This is a view-only live stream.

To Listen to the Meeting:
https://zoom.us/j/99290923488
or
Dial: (669) 900-9128 Meeting ID: 992 9092 3488

PUBLIC COMMENT: Members of the public may submit their comments by one of the following options:

- **Email Public Comment**: Members of the public are encouraged to submit written comments on any agenda item to clerk@cleanpoweralliance.org up to four hours before the meeting. Written public comments will be announced at the meeting and become part of the meeting record. Public comments received in writing will not be read aloud at the meeting.

- **Provide Public Comment During the Meeting**: Please notify staff via email to clerk@cleanpoweralliance.org at the beginning of the meeting but no later than immediately before the agenda item is called.
  - You will be asked for your name and phone number (or other identifying information) similar to filling out a speaker card so that you can be called on when it is your turn to speak.
  - You will be called upon during the comment section for the agenda item on which you wish to speak on. When it is your turn to speak, a staff member will unmute your phone or computer audio.
  - You will be able to speak to the Committee for the allotted amount of time. Please be advised that all public comments must otherwise comply with our Public Comment Policy.
  - Once you have spoken, or the allotted time has run out, you will be muted during the meeting.

If unable to connect by Zoom or phone and you wish to make a comment, you may submit written comments via email to: clerk@cleanpoweralliance.org.

*While downloading the Zoom application may provide a better meeting experience, Zoom does not need to be installed on your computer to participate. After clicking the webinar link above, click “start from your browser.”

Meetings are accessible to people with disabilities. Individuals who need special assistance or a disability-related modification or accommodation to participate in this meeting, or who have a disability and wish to
request an alternative format for the meeting materials, should contact the Clerk of the Board at clerk@cleanpoweralliance.org or (213) 713-5995. Notification in advance of the meeting will enable us to make reasonable arrangements to ensure accessibility to this meeting and the materials related to it.

**PUBLIC COMMENT POLICY:** The General Public Comment item is reserved for persons wishing to address the Committee on any Clean Power Alliance-related matters not on today’s agenda. Public comments on matters on today’s Consent Agenda and Regular Agenda shall be heard at the time the matter is called. Comments on items on the Consent Agenda are consolidated into one public comment period.

Each speaker is customarily limited to two (2) minutes (in whole minute increments) per agenda item with a cumulative total of five (5) minutes to be allocated between the General Public Comment, the entire Consent Agenda, or individual items in the Regular Agenda. Please refer to Clean Power Alliance Policy No. 8 – Public Comments for more information.

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**CALL TO ORDER & ROLL CALL**

**GENERAL PUBLIC COMMENT**

**CONSENT AGENDA**

1. Approve Minutes from the February 24, 2021 Finance Committee Meeting

2. Receive and File February 2021 Risk Management Team Report

3. Receive and File February 2021 CPA Investment Report

4. Receive and File January 2021 Financial Dashboard

**REGULAR AGENDA**

5. Report from the Chief Financial Officer

6. Review River City Bank (RCB) Proposed Terms and Recommend Approval of an Amended and Restated Credit Agreement to the Board of Directors

7. Review FY 2021/22 Outlook and Cost Drivers

**COMMITTEE MEMBER COMMENTS**

**ADJOURN – NEXT MEETING APRIL 28, 2021**

*Public Records:* Public records that relate to any item on the open session agenda for a Committee Meeting are available for public inspection. Those records that are distributed less than 72 hours prior to the meeting are available for public inspection at the same time they are distributed to all, or a majority of, the members of the Committee. Public records are available for inspection online at www.cleanpoweralliance.org/agendas.
MINUTES
MEETING of the Finance Committee of the
Clean Power Alliance of Southern California
Wednesday, February 24, 2021, 11:00 a.m.

*The Finance Committee conducted this meeting remotely, in accordance with California Governor Newsom’s Executive Order N-29-20 and COVID-19 pandemic protocols.*

CALL TO ORDER & ROLL CALL

Chair Julian Gold called the meeting to order at 11:03 a.m. and Clerk of the Board, Gabriela Monzon, conducted roll call.

<table>
<thead>
<tr>
<th>Roll Call</th>
<th>Beverly Hills</th>
<th>Julian Gold</th>
<th>Committee Chair</th>
<th>Remote</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carson</td>
<td>Reata Kulcsar</td>
<td>Committee Member</td>
<td>Remote</td>
<td></td>
</tr>
<tr>
<td>Claremont</td>
<td>Corey Calaycay</td>
<td>Committee Member</td>
<td>Remote</td>
<td></td>
</tr>
<tr>
<td>Rolling Hills Estates</td>
<td>Steve Zuckerman</td>
<td>Committee Member</td>
<td>Remote</td>
<td></td>
</tr>
<tr>
<td>Santa Monica</td>
<td>Pam O’Connor</td>
<td>Committee Member</td>
<td>Remote</td>
<td></td>
</tr>
</tbody>
</table>

All votes are unanimous unless otherwise stated.

GENERAL PUBLIC COMMENT

There was no public comment.

CONSENT AGENDA

1. Approve Minutes from the January 27, 2021 Finance Committee Meeting
2. Receive and File January 2021 Risk Management Team Report

*Motion:* Committee Member O’Connor, Santa Monica  
*Second:* Committee Member Zuckerman, Rolling Hills Estates  
*Vote:* The consent agenda was approved by a roll call vote.

REGULAR AGENDA

5. Report from the Chief Financial Officer

David McNeil, Chief Financial Officer, provided a summary of CPA’s year-to-date financial results, and stated that CPA recorded a net income of $9.27 million through the first six months of fiscal year 2020/2021, $11 million below budget, due to above normal temperatures requiring CPA to serve load at high spot market prices and a $6.87 million increase in bad debt.
Mr. McNeil also provided an overview of CPA’s income statement from July to December 2020, and a budget to actual analysis. Additionally, Mr. McNeil discussed CPA’s financial outlook, emphasizing that there are several factors which have placed upward pressure on CPA’s costs including: Resource Adequacy (RA) and energy market prices, bad debt expense, and congestion revenue rights (CRR) market values. RA costs have sharply increased due to more restrictive regulations of import RA from the California Public Utilities Commission (CPUC), exacerbated by tight supply and, declining CRR net revenues, due to lower allocations by the California Independent System Operator (CAISO), leaving increased cost to procure CRRs to hedge congestion. Mr. McNeil noted that bad debt expense has increased sharply due to COVID-related economic impacts and the suspension of disconnections. CPA will encourage customers to participate in the CPUC-directed Arrearage Management Plan (AMP) administered by SCE, which will positively impact FY 21/22, and staff will adjust the allowance for bad debt in this fiscal year as needed.

Chair Gold asked about the percentage of RA already procured. Mr. McNeil explained that CPA is required to meet 90% of its RA obligation by October of the year prior, then go up to 115% of the requirement, therefore procurement is ongoing. In response to a follow up question from Committee Member Kulcsar regarding CPA’s $34.5 million RA costs and the consequences for non-compliance, Matt Langer, Chief Operating Officer, explained that the planning reserve margin helps to create a cushion for unexpected impacts to the grid, and if CPA does not comply with RA obligations, it can negatively impact its reputation, and be financially liable to the CAISO if it needs to backstop resources for non-compliance. Chair Gold asked for clarification on the AMP program and Mr. McNeil explained that past due balances are forgiven if customers adhere to a payment plan. Mr. Langer commented that funds were diverted from the public purpose program charge that every customer pays into. In response to Chair Gold and Committee Member Zuckerman’s questions regarding unintended negative consequences of the program, Mr. McNeil acknowledged that it may incentivize people to delay payments, but staff is evaluating strategies to incentivize customers to pay their bills on-time. Ted Bardacke, Executive Director, also noted that investments may be made in the marketing of the program that can yield financial relief for customers and CPA. Committee Member Zuckerman asked about the Power Charge Indifference Adjustment (PCIA) Undercollection Balancing Account, and Mr. Langer noted that the balance is recovered by SCE in an increase to the PCIA.

6. Direct Staff to Negotiate a Credit Agreement with River City Bank for Presentation to the Board of Directors at its April 1, 2021 Meeting

Mr. McNeil provided a summary of the item, noting that CPA’s two-year, $37 million Credit Agreement with River City Bank (RCB) expires on March 31, 2021. Mr. McNeil explained that RCB proposes favorable renewal terms that would reduce CPA’s costs and given current market conditions, the timing of a Request for Proposals (RFP) for an alternative facility is not optimal. RCB was selected from among respondents of a 2018 RFP, and an amended credit agreement was approved in 2019, which increased the credit facility amount from $20 million to $37 million and extended the term. Mr. McNeil explained that the credit agreement is a revolving credit facility that CPA uses to provide letters of credit and to borrow funds to provide working capital. Maintenance of the credit facility demonstrates financial strength, provides added liquidity, and supports an eventual credit rating.
In response to Committee Member Kulcsar’s questions regarding RCB’s ability to bid in a future RFP and its line of credit, Mr. McNeil clarified that RCB would be able to submit a bid in a future RFP but it may not be able to offer a line of credit the size of which CPA would need to get a credit rating. Mr. McNeil added that there are costs associated with a larger line of credit and that CPA does not need a larger line of credit at this time. Chair Gold commented that it appears that the timeline for CPA to acquire a credit rating has been paused, and Mr. McNeil noted that a banking services RFP will be released in late 2021, early 2022 to continue to progress towards a credit rating. Chair Gold asked about the bank’s financial position throughout the pandemic and inquired as to their ability to extend credit and maintain several Community Choice Aggregators (CCAs) in their financial portfolio. Mr. McNeil explained that RCB has satisfied reporting obligations and because CCAs are performing well and many of them have investment credit ratings, RCB’s exposure to CCAs is positive. Mr. Bardacke added that CCAs tend to borrow against their lines of credit only when they are launching, and Chair Gold commented that it may be beneficial to develop another banking relationship with a larger entity.

The Finance Committee expressed consensus and directed staff to negotiate a credit agreement with River City Bank for presentation to the Board at the April 1, 2021 Board Meeting.

COMMITTEE MEMBER COMMENTS

None.

ADJOURN

Committee Chair Gold adjourned the meeting at 11:53 a.m.
To: Clean Power Alliance (CPA) Finance Committee
From: Matthew Langer, Chief Operating Officer
Approved by: Ted Bardacke, Executive Director
Subject: Risk Management Team Report
Date: March 24, 2021

**FEBRUARY 2021 RMT REPORT**

**Key Actions**
- Discussed February 2021 market performance and impacts of high market prices due to cold weather events.
- Discussed elevated forward price curves for Q3 2021.
- Reviewed renewable energy and carbon free positions for 2020-2024 under Fiscal Year 2021-2022 budget scenarios.
- Reviewed 2021-2025 Resource Adequacy positions and discussed Q3 2021 pricing.

**Policy Compliance**
No policy deviations to report.

**ATTACHMENT**
None.
Staff Report – Agenda Item 3

To: Clean Power Alliance (CPA) Finance Committee

From: David McNeil, Chief Financial Officer

Subject: CPA Investment Report

Date: March 24, 2021

RECOMMENDATION
Receive and file.

ATTACHMENT
1) February 2021 Investment Report
# Clean Power Alliance
## Investment Report
### February 2021

<table>
<thead>
<tr>
<th><strong>Fund Name:</strong></th>
<th>Local Agency Investment Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
<td>2,511,487</td>
</tr>
<tr>
<td>Interest Paid (1)</td>
<td>-</td>
</tr>
<tr>
<td>Deposits</td>
<td>-</td>
</tr>
<tr>
<td>Withdrawals</td>
<td>-</td>
</tr>
<tr>
<td>Ending Balance</td>
<td>2,511,487</td>
</tr>
<tr>
<td>Interest Earned (2)</td>
<td>837</td>
</tr>
<tr>
<td>Average Monthly Effective Yield</td>
<td>0.407%</td>
</tr>
</tbody>
</table>

1. Interest is paid quarterly effective 15 days following the end of the quarter
2. Interest earned is based on daily compounding, account balances and monthly effective yield published by LAIF
To: Clean Power Alliance (CPA) Finance Committee

From: David McNeil, Chief Financial Officer

Approved by: Ted Bardacke, Executive Director

Subject: Financial Dashboard

Date: March 24, 2021

RECOMMENDATION
Receive and file.

ATTACHMENT
1) January 2021 Financial Dashboard
CPA recorded a $4.6 million loss in January 2021, decreasing year-to-date net income to $4.6 million. January net income was $500,000 below a budgeted net income of -$4.1 million, $11.8 million below budget.

January results were impacted by lower than budgeted CRR revenues (-$350k, -37%), and higher than budgeted energy (+$2.7m, +7%), CAISO grid (+$800k, +25%) and resource adequacy (+$3m, +50%) costs offset by lower than budgeted operating expenses (-$1m, -37%), higher than budgeted revenues (+$2.3m, +3%) and lower than budgeted renewable energy costs ($3m, -34%).

As of January 31, 2021 CPA had $67 million in cash and cash equivalents, $36 million available on its line of credit and no bank or other debt outstanding. The net position was $51.2 million and Fiscal Stabilization Fund balance was $17.39 million.

CPA is in compliance with its bank and other credit covenants and is in sound financial health.

Definitions:

Active Accounts: Active Customers served by CPA, per Calpine Invoice.

Participation Rate %: Active Customer Accounts divided by Eligible Customer Accounts.


YTD Sales Volume: Amount of energy (in gigawatt hours) sold to retail customers, year-to-date.

Revenues: Retail energy sales less allowance for doubtful accounts.

Cost of energy: Direct costs incurred to serve CPA’s load.

Operating expenditures: General, administrative, consulting, payroll and other costs required to fund operations.

Net income: Difference between revenues and expenditures, before depreciation and capital expenditures.

Cash and Cash Equivalents: Cash held as bank deposits.

Year-to-date (YTD): The fiscal period beginning July 1, 2020.
To: Clean Power Alliance (CPA) Finance Committee
From: David McNeil, Chief Financial Officer
Subject: Report from the Chief Financial Officer
Date: March 24, 2021

The Chief Financial Officer will provide a report on the following items:

- January 2021 results and FY 2020/21 Outlook
- Schedule for FY 2020/21 Amended Budget and FY 2021/22 Budget and Rate Setting

ATTACHMENTS

1) CFO Report Presentation
2) February 2021 Customer Payment Dashboard
Item 5
CFO Report

Wednesday, March 24, 2021
January 2021 Financial Results and FY 2020/21 Outlook

- CPA recorded a $4.6 million loss in January 2021, $500,000 below Budget for the month.

- As of January 31, 2021 CPA had $67 million in cash and cash equivalents, $36 million available on its line of credit and no bank or other debt outstanding.

- Reserves totaled $68.6 million consisting of $51.2 million net position and a Fiscal Stabilization Fund balance of $17.4 million.

- CPA expects losses in FY Q3 totaling $14 million consistent with its Budget projections. Full year net income is expected to come in below Budget due primarily to rising energy costs.

- CPA’s accounts receivable continue to age. The Allowance for Bad Debt is equal to 67% of 90+ day receivables as of February 28, 2021. Staff will present an in-depth review of accounts receivable to the Finance Committee in April.
2021 Budget and Rate Setting Season

- FY 2021-22 Rate Setting Process
- FY 2021-22 Annual Budget
- FY 2020-21 Budget Amendment
FY 2021/22 Rate Setting: Process & Board & Committee Schedule

☑ January-March 2021 (Staff) – Load forecasting, energy cost modelling, cost of service analysis, rate design and scenario planning

☑ March 17, 2021 (Executive) – Review Rate Design Alternatives

☑ March 18, 2021 (CAC) – Review Rate Design Alternatives

● April 1, 2021 (Board) – Review Rate Design Alternatives

● April 21, 2021 (Executive) – Recommend Rate Design

● May 6, 2021 (Board) – Decision on Rate Design

● June 3, 2021 (Board) – Approval of Final Rates
FY 2021/22 Budget Process & Board & Committee Schedule

• January-April 2021 (Staff) – FY 2021/22 Goal Setting, Departmental Budgeting, Rate Design Planning, Energy Cost Projections & Consolidated Budget Planning (ongoing)

• April 21, 2021 (Executive) – Budget Priorities

• April 28, 2021 (Finance) – FY 2021/22 Budget Priorities & FY Draft Operating Expense Budget

• May 6, 2021 (Board) – Budget Priorities

• May 19, 2021 (Executive) – Draft FY 2021/22 Budget

• May 26, 2021 (Finance) – Proposed FY 2021/22 Budget

• June 3, 2021 (Board) – Proposed FY 2021/22 Budget
FY 2020/21 Budget Amendment & Board & Committee Schedule

● March – April 2021 (Staff) – Departmental and Energy Cost and Load Forecast and Revenue Updates

● April 21, 2021 (Executive) – Budget Amendment Highlights

● April 28, 2021 (Finance) – Draft FY 2020/2021 Amended Budget

● May 6, 2021 (Board) – Proposed FY 2020/2021 Amended Budget
Consolidated Board & Committee Schedule

- March 17, 2021 (Executive) – Review FY 2021/22 Rate Design Alternatives
- March 18, 2021 (CAC) – Review FY 2021/22 Rate Design Alternatives
  - April 1, 2021 (Board) – Review FY 2021/22 Rate Design Alternatives
  - April 21, 2021 (Executive)
    - Review Amended FY 2020/21 Budget Highlights
    - Recommend FY 2021/22 Budget Priorities
    - Recommend FY 2021/22 Rate Design
  - April 28, 2021 (Finance)
    - Recommend FY 2020/21 Amended Budget
    - Review FY 2021/22 Budget Priorities & Operating Expenses
  - May 6, 2021 (Board)
    - Approve FY 2020/21 Amended Budget
    - Approve FY 2021/22 Budget Priorities
    - Approve FY 2021/22 Rate Design
  - May 19, 2021 (Executive) – Review Draft FY 2021/22 Budget
  - May 26, 2021 (Finance) – Recommend Proposed FY 2021/22 Budget
  - June 3, 2021 (Board) – Approve FY 2021/22 Budget & Rates
Clean Power Alliance
Customer Payment Dashboard
Updated: 2/28/2021

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AR Aging <- $M, % of AR ->

Allowance for Bad Debt ($M)

AR Aging Commercial/Residential Split
2/28/2021

<table>
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<tr>
<th></th>
<th>90+ Days</th>
<th>120+ Days</th>
<th>150+ Days</th>
<th>Total AR</th>
<th>90+ Days % of Category AR</th>
<th>Increase in 90+ Days since SIP</th>
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</thead>
<tbody>
<tr>
<td>Residential</td>
<td>$17,226,000</td>
<td>69%</td>
<td>$14,144,000</td>
<td>69%</td>
<td>$11,411,000</td>
<td>69%</td>
</tr>
<tr>
<td>Commercial</td>
<td>$7,685,000</td>
<td>31%</td>
<td>$6,438,000</td>
<td>31%</td>
<td>$5,080,000</td>
<td>31%</td>
</tr>
<tr>
<td>Total</td>
<td>$24,911,000</td>
<td>100%</td>
<td>$20,582,000</td>
<td>100%</td>
<td>$16,491,000</td>
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</tbody>
</table>

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Remittances-5 Day Moving Average

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Staff Report – Agenda Item 6

To: Clean Power Alliance (CPA) Finance Committee

From: David McNeil, Chief Financial Officer

Approved by: Ted Bardacke, Executive Director

Subject: Credit Agreement with River City Bank

Date: March 24, 2021

RECOMMENDATION

Recommend approval of Amended and Restated Credit Agreement with River City Bank (RCB) to the Board at the April 1, 2021 Board Meeting consistent with the following proposed terms:

Amount: $37 million
Expiry: 3/31/2022
Interest Rate: 1.6% over base rate
Letter of Credit Fee: 1.5% per annum
Loan Fee: .15% of Amount
Non utilization fee: .10% of unused Amount

ATTACHMENT

1) RCB Credit Agreement Renewal Presentation
Item 6
Bank Credit Agreement Renewal

Wednesday, March 24, 2021
Summary

- CPA’s two-year, $37 million Credit Agreement with River City Bank expires on March 31, 2021.

- In February 2021, the Finance Committee directed staff to negotiate a new credit agreement with River City Bank for presentation to the Board at the April 1, 2021 Board Meeting

- The Amended and Restated Credit Agreement with River City Bank is under legal review. The Agreement will be ready to present to the Board at its April 1, 2021 Board Meeting

- **Recommendation:** Recommend approval to the Board of Directors of an amended and restated Credit Agreement with River City Bank consistent with the terms described in this presentation
## Proposed Terms (1)

<table>
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<tr>
<th>Current</th>
<th>Proposed</th>
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</thead>
<tbody>
<tr>
<td>Amount $37 million</td>
<td>$37 million</td>
</tr>
<tr>
<td>Expiry 3/31/2021</td>
<td>3/31/2022</td>
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<tr>
<td>Interest Rate (1) 1.75%</td>
<td>1.60%</td>
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<td>Letter of Credit Fee 2% per annum</td>
<td>1.5% per annum</td>
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<tr>
<td>Loan Fee .25% of Amount</td>
<td>.15% of Amount</td>
</tr>
<tr>
<td>Non utilization fee .15% of unused Amount</td>
<td>.1% of unused Amount</td>
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</table>

(1) per annum over benchmark floating rate

- Estimated Annual Cost: $97,000
- Estimated annual savings: $60,000

(1) Proposed terms have been approved by RCB’s credit committee. Credit covenants are being updated. Staff do not anticipate issues finalizing credit covenants.
• **Recommendation:** Recommend approval of Amended and Restated Credit Agreement with RCB to the Board, consistent with the following proposed terms:

- **Amount:** $37 million
- **Expiry:** 3/31/2022
- **Interest Rate:** 1.6% over base rate
- **Letter of Credit Fee:** 1.5% per annum
- **Loan Fee:** 0.15% of Amount
- **Non utilization fee:** 0.10% of unused Amount
Thank You. Questions...?
Staff Report – Agenda Item 7

To: Clean Power Alliance (CPA) Finance Committee

From: David McNeil, Chief Financial Officer

Approved by: Ted Bardacke, Executive Director

Subject: FY 2021/22 Outlook and Cost Drivers

Date: March 24, 2021

RECOMMENDATION

Review presentation.

ATTACHMENT

1) FY 2021/22 Outlook and Cost Drivers Presentation
Item 7
FY 2021/22 Outlook and Cost Drivers

Wednesday, March 24, 2021
FY 2021-22 Financial Outlook

• A number of factors are placing upward pressure on CPA’s energy costs
  
  • Resource Adequacy prices
  
  • Energy prices
  
  • Congestion costs and CRR market values
  
  • Bad debt expense
FY 2021-22 Cost Considerations: Energy Market Dynamics

- Demand: Increasing frequency of extreme summer heat events increases demand during the summer peaks.

- Supply: 2010s witnessed retirements of generating assets, particularly coal and gas plants across the west. California entered 2020 with tight capacity.

- Summer 2020: Brownouts and extreme market prices demonstrated what happens when increased demand during peak periods meets constrained supply in California.
FY 2021-22 Cost Considerations: Energy Market Prices

- Increasing weather volatility and frequency of extreme heat events:

![Figure ES.1: July, August, and September Temperatures 1985 - 2020](image)

- Source: CEC Weather Data/CEC Analysis
FY 2021-22 Cost Considerations: Energy Market Prices

- CAISO market **forward prices have increased.** Q3 2021 forward prices now exceed actual price experienced in the summer of 2020.
FY 2021-22 Cost Considerations: Energy Market Prices

- Q3 Forward Prices increased significantly since August 2020, with the largest change in Q3 2021 (green line on the top)
FY 2021-22 Cost Considerations: Energy Market Prices

- Guided by CPA’s Energy Risk Management Policy (ERMP), CPA conducts hedging activity to minimize market risk and control costs
  - CPA is not perfectly hedged in every hour due to load and resource variability, resulting in exposure to spot market prices during the evening peak. The cost of this exposure is estimated based on now high forward prices
  - The ERMP hedging strategy is based on “dollar cost averaging” resulting in to be filled open positions in future months
  - The hedging program has resulted in significant reductions in procurement costs. Nonetheless the sharp increase in prices has resulted in significantly higher FY 2021/22 hedging costs and higher projected costs to serve CPA’s unhedged load
- Together these net energy costs are expected to be $187 million higher than Net energy costs included in the FY 2020/21 Budget
FY 2020-21 Cost Considerations: Resource Adequacy

- **Resource Adequacy (RA)** costs have sharply increased in 2021 due to retirement of gas-fired plants and the implementation of more restrictive CPUC regulations governing the “import” of RA into California, and looming capacity shortages in the Pacific Northwest.

- FY 2021/22 RA costs are expected to be $73 million or 72% higher than costs included in the FY 2020/21 Budget.
California Market Outlook on Supply

- California currently has a tight supply of RA, and supply will continue to be strained for through 2025
  - The remaining once-through cooling gas fleet (~4,500 MW) is expected to retire by 2024
  - The Diablo Canyon nuclear facility (2,300 MW) will fully retire by 2026
- While energy storage provides new, reliable capacity to the grid, storage additions aren’t expected to outpace retirements until the latter half of the decade
  - How the CPUC will count storage for RA in the future is subject to some uncertainty
Resource Adequacy (RA): A regional view

Pacific Northwest

- Traditionally PNW has a capacity surplus and has been a major exporter to California. It now faces capacity shortfalls tightening CA supply particularly during coincident summer heat events.

Several studies have indicated that the NW has a capacity shortfall:

- The region may begin to experience capacity shortages in the near term.
- By the mid-2020’s, the region may face a capacity deficit of thousands of MWs, which may result in both extraordinary price volatility and unacceptable loss-of-load.

Source: NWPP Exploring a Resource Adequacy Program for the Pacific Northwest
FY 2020-21 Cost Considerations: CRRs & Congestion

• **Congestion Revenue Right** (CRR) net revenues are expected to decline due to lower annual CRR allocations by the CAISO that occurred in November 2020, leading to increased cost to procure CRRs to hedge congestion risk

  • FY 2021/22 CRR Revenues are expected to be $11 million or 75% lower than those included in the FY 2020/21 Budget
FY 2021/22 Bad Debt Expense

• Bad debt expense is expected to increase from .5% of revenue or $3.75 million in the pre-pandemic period to 1.5% of revenues or $13m expected in FY 2021/22, an increase of nearly $9.25 million.

• The Arrearage Management Plan (AMP), a bad debt forgiveness program administered by SCE, may reduce bad debt by $1-3 million by the end of FY June 30, 2022.

• Additional reductions in bad debt may occur as a result of improved economic conditions and the resumption of disconnections and late payment penalties but the impact of these factors on payment behavior are difficult to predict.
Summary of Cost Drivers

<table>
<thead>
<tr>
<th>Cost Driver</th>
<th>Dollar Impact from Previous Year</th>
<th>Ability to Change (Short-Term)</th>
<th>Ability to Change (Long-Term)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource Adequacy prices</td>
<td>+$73 million</td>
<td>None</td>
<td>Medium</td>
</tr>
<tr>
<td>Energy market prices</td>
<td>+$187 million</td>
<td>None</td>
<td>Medium</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>+$1.7 million</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Congestion costs and CRR market values</td>
<td>+$11 million</td>
<td>None</td>
<td>Low</td>
</tr>
</tbody>
</table>

- Staff has evaluated options for reducing costs
  - Staff are taking steps to reduce contract and other operating costs which will be included in the FY 2021/22 Budget
  - Product content adjustments (~$16.5m savings) will be a Proposed Action Item at the April 2021 Board Meeting
  - CPA will need to address additional cost increases through rates. Staff will present rate design options to the Board at its April 2021 meeting.
Thank You. Questions…?

End of Document

Return to Agenda