



Item 4 – Winter Electricity Market Update

Discussion about Options/Next Steps

January 18, 2023



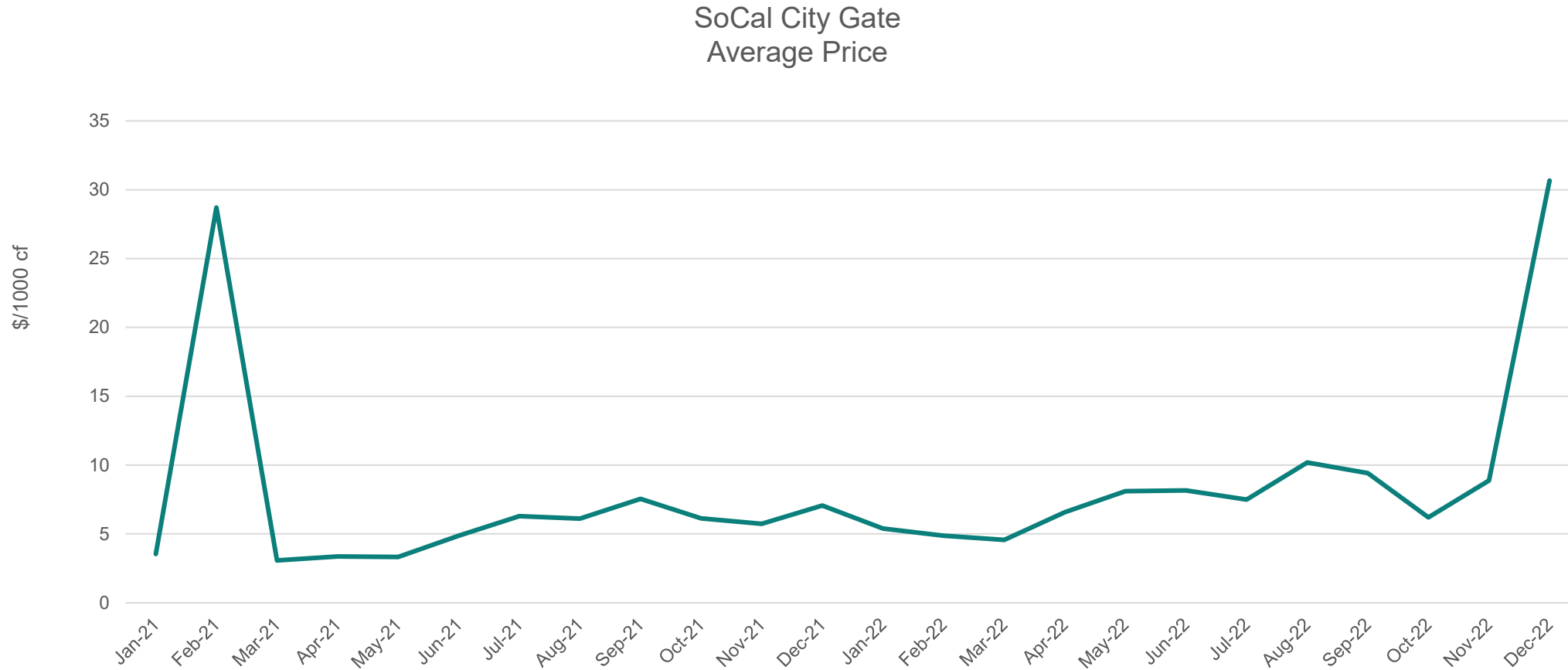
Summary

- ⚡ A large spike in natural gas prices beginning in December resulted in significantly higher electricity prices in December and January, and likely into February and March as well
- ⚡ Financial losses during the September 2022 heat wave combined with sustained wholesale electricity price increases in late 2022 and early 2023 means CPA will not meet its FY 2022/23 financial objectives.
 - Renewable electricity prices are also expected to be higher than previously estimated.
 - Staff estimate a contribution to the net position in FY 2022/23 of ~\$50 million compared to a budgeted contribution of ~\$200 million
- ⚡ SCE implemented significant rate increases on January 1, 2023 dramatically improving CPA's rate competitiveness
- ⚡ To address market volatility, lower than budgeted financial results, and prepare for unforeseen events, staff recommend that the Board consider:
 - Increasing CPA's \$80 million credit line with JPMorgan in March 2023
 - Increasing rates in March 2023 (for April implementation) either through an interim "market adjustment" before the traditional rate setting cycle, or through accelerating the timing of its single annual rate setting cycle set (e.g. July implementation)



Gas Prices

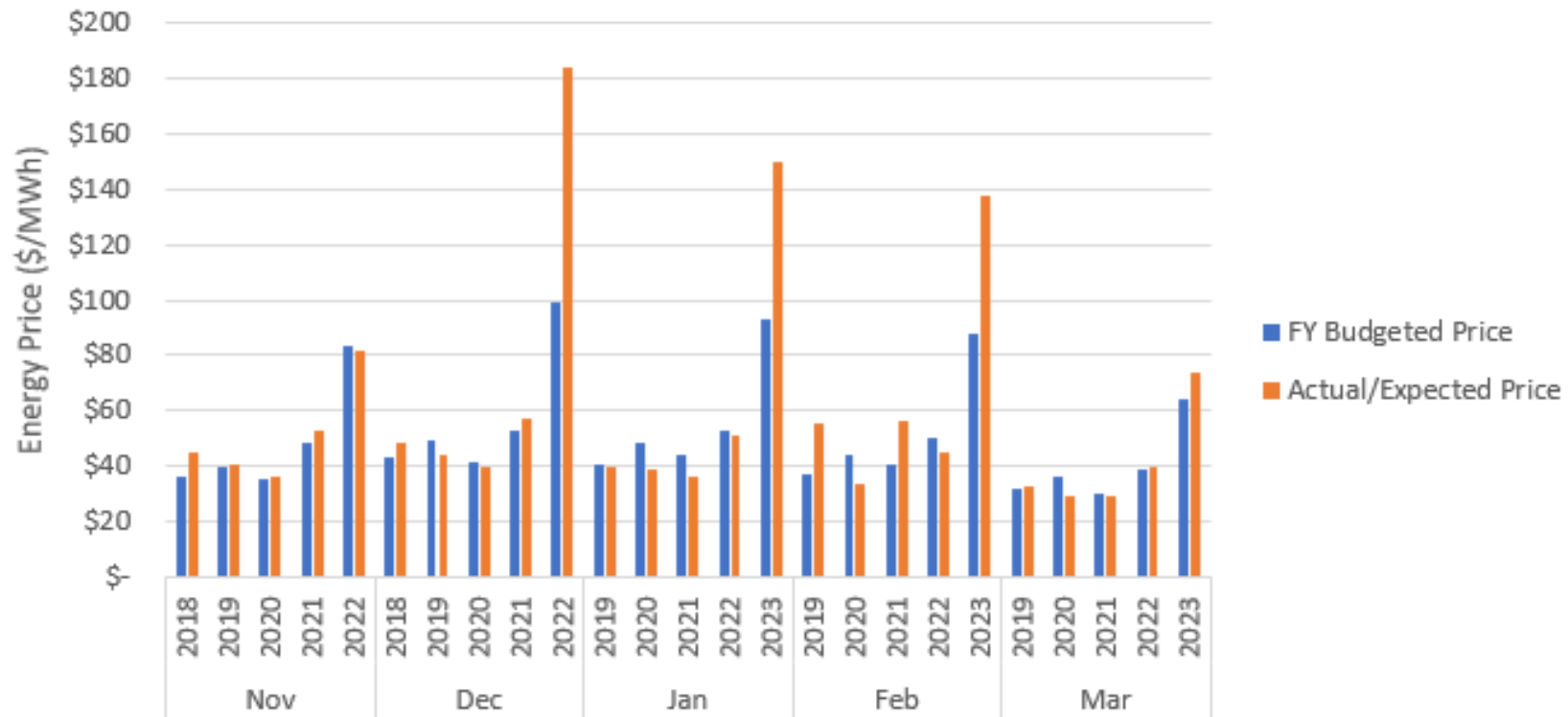
⚡ December prices reached levels unseen since 2021 Texas cold snap that lasted just a few days; high prices are being sustained into January, February and beyond



Electricity Prices

- ⚡ Since December, electricity prices have far exceeded CPA budget forecast *and* historical winter prices

Budgeted Fiscal Year Prices vs. Actual/Expected Prices



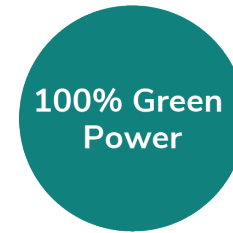
Residential Rate Comparisons



40% renewables
lowest cost option



50% renewables
historic "parity rate"



100% renewable energy
no up-charge for low-income customers

Energy Product	July 2022 (Average Monthly Bill)	Comparison to SCE	Jan 2023 (Average Monthly Bill)	Comparison to SCE
SCE base rate (~35% renewables)	\$172		\$190	
Lean Power	\$170	-1.0%	\$161	-16%
Clean Power	\$172	0.0%	\$162	-15%
100% Green	\$177	3.0%	\$168	-12%

Jan 2023 monthly bills are estimates; comparisons may vary slightly



Next Steps and Options for Discussion

- ⚡ Discuss increase in credit line and amendments to credit agreement with Executive and Finance Committees in February 2023 to provide additional liquidity and support a credit rating
- ⚡ Consider a rate adjustment in March to ensure CPA enters FY23/24 in strong fiscal health

Options	Benefits	Challenges
1. No Rate Adjustment	<ul style="list-style-type: none"> • Maintains CPA value proposition of just one rate adjustment per year aligned with budget setting 	<ul style="list-style-type: none"> • FY 2022/23 reserve accumulation will fall significantly below budgeted target • May delay credit rating • Positive financial performance for FY22/23 at risk if other adverse and unforeseen market events were to occur
2. Interim Adjustment for Q4 22/23 followed by Traditional Rate Setting Process in May/June for July Implementation	<ul style="list-style-type: none"> • Clear connection between recent market events and revenue need • More precise view of FY 2023/24 revenue requirements and cost of service to be able to set rates accordingly, in line with the annual budgeting process • Can be designed to still have bill savings across all rate products for the rest of the fiscal year 	<ul style="list-style-type: none"> • Two rate changes may be challenging for Board action and customer communications • Additional administrative time and resources to design and implement two rate changes
3. Single Rate Change in March to cover Q4 22/23 and all of FY 23/24	<ul style="list-style-type: none"> • Simplicity and consistency in board and customer messaging 	<ul style="list-style-type: none"> • Setting rates out of alignment with budget process risks “undershooting” revenues in a volatile market for FY 23/24 • “All at once” approach could mean very significant rate increase in March • Uncertainty in different costs for the components of CPA’s cost of service could end up with mis-aligned differentials among CPA’s three rate products

Questions and Comments