

A large, stylized lightbulb graphic is positioned on the left side of the slide. The bulb is light green, and the base is composed of several horizontal green bars. A blue checkmark is visible inside the bulb's glass part.

# Audit & Finance Committee Meeting

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*February 10, 2020*

# Staff Report

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- Restricted Cash
  - Restricted cash held at First Republic Bank as collateral for LCs released (PG&E and Wright). Was \$11.5 million at 12/31/19. As of today, restricted cash balance at FRB is \$4.6 million (part released in January, part in February)
  - Temporarily holding \$26.8 million of cash from Wright until their guaranty agreement is in place (working with legal teams)
- Investment Manager RFP – Update
  - Submittal date – February 7
  - 7 firms expressed interest
  - 6 submitted proposals as of the stated cutoff date/time

# FY2020-21 Budget Schedule

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- Draft Budget Review
    - A&F Committee Meeting - May 11, 2020
  - Final Budget Review/Approval/Recommendation
    - A&F Committee Meeting – June 8, 2020
  - Final Budget Approval
    - Full Board Meeting – June 25, 2020
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- Other Review? April? (Would need to schedule another A&F Meeting)

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# FY2019-2020, Q2 Financial Review

# Revenue – Quarterly Trend

Revenue by Quarter as of		December, 2019	
Quarter	Revenue Comparison vs Budget		
	Actual	Budget	Var Fav/(Unf)
Q1-FY2018/19	\$71.8	\$75.9	(\$4.0)
Q2-FY2018/19	64.2	60.3	3.9
Q3-FY2018/19	54.5	54.1	0.3
Q4-FY2018/19	69.3	65.4	3.9
<b>Total YTD 2018-2019</b>	<b>\$259.8</b>	<b>\$255.6</b>	<b>\$4.1</b>
Q1-FY2019/20	85.3	82.3	3.1
<b>Q2-FY2019/20</b>	<b>\$70.4</b>	<b>\$65.2</b>	<b>\$5.1</b>
<b>Total YTD 2019/20</b>	<b>\$155.7</b>	<b>\$147.5</b>	<b>\$8.2</b>

- Q2 Energy usage was just 0.1% less than budget, and 1.7% higher than prior year
- Q2 Revenues higher than budget due to unbudgeted PG&E rate increase and more Commercial Demand charges billed in Q2 than planned due to billing cycles
- Expecting lower revenues in Q3/Q4 due to PCIA increase (delayed from Jan 1 planned date)

# Revenue – Monthly Trend

Revenue (Last 13 months)		December, 2019	
Month	Revenue Comparison vs Budget		
	Actual	Budget	Var Fav/(Unf)
Dec-18	\$20.1	\$18.9	\$1.2
Jan-19	\$18.8	\$20.4	(\$1.6)
Feb-19	\$17.7	\$16.6	\$1.1
Mar-19	\$18.0	\$17.1	\$0.8
Apr-19	\$17.3	\$16.4	\$0.9
May-19	\$24.0	\$24.5	(\$0.5)
Jun-19	\$27.9	\$24.5	\$3.5
Jul-19	\$27.6	\$27.5	\$0.1
Aug-19	\$29.6	\$27.9	\$1.7
Sep-19	\$28.2	\$26.9	\$1.2
Oct-19	\$27.6	\$27.6	(\$0.0)
Nov-19	\$18.9	\$16.2	\$2.7
Dec-19	\$23.9	\$21.5	\$2.4

# Cost of Energy – Quarterly Trend

<u>Cost of Energy by Quarter as of</u>		December, 2019	
Quarter	COE Comparison vs Budget		
	Actual	Budget	Var Fav/(Unf)
Q1-FY2018/19	\$45.9	\$46.5	\$0.5
Q2-FY2018/19	41.2	42.4	1.2
Q3-FY2018/19	57.3	44.7	(12.6)
Q4-FY2018/19	49.6	42.6	(7.0)
<b>Total YTD 2018-2019</b>	<b>\$194.0</b>	<b>\$176.1</b>	<b>(\$17.9)</b>
Q1-FY2019/20	54.7	56.6	1.8
<b>Q2-FY2019/20</b>	<b>\$48.3</b>	<b>\$54.0</b>	<b>\$5.7</b>
<b>Total YTD 2019/20</b>	<b>\$103.1</b>	<b>\$110.6</b>	<b>\$7.5</b>

- Base energy prices remained relatively low and stable for Q1 and Q2
- Net RA costs (Purchases net of Sales) remains close to budgeted level

# Cost of Energy – Monthly Trend

<u>Cost of Energy (Last 13 months)</u>		December, 2019	
Month	COE Comparison vs Budget		
	Actual	Budget	Var Fav/(Unf)
Dec-18	\$17.3	\$14.8	(\$2.6)
Jan-19	\$20.2	\$16.6	(\$3.6)
Feb-19	\$15.7	\$14.2	(\$1.5)
Mar-19	\$21.4	\$13.9	(\$7.5)
Apr-19	\$15.4	\$13.7	(\$1.7)
May-19	\$17.8	\$14.1	(\$3.7)
Jun-19	\$16.4	\$14.8	(\$1.6)
Jul-19	\$16.6	\$18.7	\$2.0
Aug-19	\$18.8	\$18.9	\$0.2
Sep-19	\$19.3	\$19.0	(\$0.3)
Oct-19	\$16.8	\$18.2	\$1.3
Nov-19	\$14.0	\$17.1	\$3.1
Dec-19	\$17.5	\$18.8	\$1.3



# Change in Net Position (YTD as of December 2019)

<u>Change in Net Position - As of</u>		December, 2019	
Accounts	Year-to-date vs Budget		
	Actual	Budget	Var Fav/(Unf)
Revenues	\$155.7	\$147.5	\$8.2
Cost of Energy	103.1	110.6	7.5
Other Opex	7.2	9.2	2.0
Non-Opex/(Income)	(1.2)	(1.1)	0.1
<b>Net Position</b>	<b>\$46.6</b>	<b>\$28.8</b>	<b>\$17.8</b>

Higher revenues than budgeted – unbudgeted rate increase

Lower costs than budgeted – lower energy costs than planned

Lower expenses than budgeted across multiple areas – some are timing-related

# Summary Financial Statement vs. Budget – Q2

	Quarter 2 ending December 2019					
	Current Quarter			Year-to-date		
	Actual	Budget	Var Fav/(Unf)	Actual	Budget	Var Fav/(Unf)
<b>OPERATING REVENUES</b>						
Electricity Sales, net	69,743,582	64,603,334	5,140,249	154,389,182	146,250,151	8,139,032
Green electricity premium	625,692	643,849	(18,156)	1,318,215	1,271,764	46,450
<b>Total Operating Revenues</b>	<b>70,369,275</b>	<b>65,247,182</b>	<b>5,122,092</b>	<b>155,707,397</b>	<b>147,521,915</b>	<b>8,185,482</b>
<b>OPERATING EXPENSES</b>						
Cost of energy	48,346,047	54,043,441	5,697,394	103,095,122	110,630,420	7,535,298
Staff compensation	1,006,187	1,033,669	27,481	1,910,666	2,067,337	156,671
Data Manager	946,747	955,531	8,784	1,897,005	1,911,062	14,057
Service Fees - PG&E	312,765	314,014	1,249	626,072	628,028	1,956
Consultants & Professional Services	179,989	210,583	30,594	248,992	507,833	258,841
Legal	307,556	367,875	60,319	575,879	735,750	159,871
Communications and Noticing	350,829	438,700	87,871	581,129	877,400	296,271
General and Administrative	333,719	318,822	(14,898)	659,920	637,644	(22,277)
Community Energy Programs	349,967	1,190,031	840,064	657,853	1,802,531	1,144,678
Depreciation	22,942	24,600	1,658	45,121	49,200	4,079
<b>Total Operating Expenses</b>	<b>52,156,749</b>	<b>58,897,266</b>	<b>6,740,517</b>	<b>110,297,760</b>	<b>119,847,205</b>	<b>9,549,445</b>
<b>Operating Income (Loss)</b>	<b>18,212,525</b>	<b>6,349,917</b>	<b>11,862,609</b>	<b>45,409,637</b>	<b>27,674,710</b>	<b>17,734,927</b>
<b>NON-OPERATING REVENUES (EXP.)</b>						
<b>Total Nonoperating Income/(Expense)</b>	621,951	558,000	63,951	1,223,125	1,116,000	107,125
<b>CHANGE IN NET POSITION</b>	<b>18,834,476</b>	<b>6,907,917</b>	<b>11,926,560</b>	<b>46,632,762</b>	<b>28,790,710</b>	<b>17,842,052</b>
<b>CHANGE IN NET POSITION</b>						
Net Position at the beginning of period	167,937,414	156,669,235	11,268,178	140,139,128	134,786,442	5,352,686
<b>Change in Net Position</b>	<b>18,834,476</b>	<b>6,907,917</b>	<b>11,926,560</b>	<b>46,632,762</b>	<b>28,790,710</b>	<b>17,842,052</b>
Net Position at the end of period	186,771,890	163,577,152	23,194,738	186,771,890	163,577,152	23,194,738
<b>Ending Cash &amp; Cash Equivalents</b>	<b>175,426,717</b>	<b>154,688,316</b>	<b>20,738,401</b>			

## Quarterly Results:

- Revenues were \$5.1 million above Budget – mostly due to Commercial (PG&E rate increase not fully-budgeted since it was finalized after budget approval)
- Expenses were \$6.7 million below budget as energy prices remained low and a number of other expenses continued to be delayed
- Change in Net Position was \$11.9 million better than budget but is not expected to continue at that pace for the rest of the year as the PCIA increase is expected to be adopted soon

# Summary Financial Statement vs. Budget – Full-year Forecast

FY 2019-2020 Budget & Projections	FY 2020	FY 2020	FY 2020	Variance	Variance
	Approved Budget	YTD Actual through December 2019	Forecasted Full Year FY19-20 - 6 mos Actual	Forecast \$ vs. FY19/20 Budget Fav/(Unf)	Forecast % vs. FY19/20 Budget Fav/(Unf)
<b>OPERATING REVENUES</b>					
Electricity Sales, net	265,221,745	154,389,182	273,456,288	8,234,543	3.1%
ECO100 Premium	2,560,486	1,318,215	2,606,936	46,450	1.8%
<b>Total Operating Revenues</b>	<b>267,782,231</b>	<b>155,707,397</b>	<b>276,063,224</b>	<b>8,280,993</b>	<b>3.1%</b>
<b>OPERATING EXPENSES</b>					
Cost of electricity	216,549,065	103,095,122	209,013,767	7,535,298	3.5%
Personnel	4,589,149	1,910,666	4,432,478	156,671	3.4%
Data Manager	3,822,123	1,897,005	3,808,066	14,057	0.4%
Service Fees - PG&E	1,256,056	626,072	1,254,099	1,956	0.2%
Professional Services	896,333	248,992	637,492	258,841	28.9%
Legal	1,471,500	575,879	1,311,629	159,871	10.9%
Communications and Outreach	1,754,800	581,129	1,458,529	296,271	16.9%
General and Administrative	1,277,187	659,920	1,299,463	(22,277)	-1.7%
Community Energy Programs	5,094,473	657,853	3,949,795	1,144,678	22.5%
Depreciation	98,400	45,121	94,321	4,079	4.1%
<b>Total Operating Expenses</b>	<b>236,809,086</b>	<b>110,297,760</b>	<b>227,259,641</b>	<b>9,549,445</b>	<b>4.0%</b>
<b>Operating Income/(Loss)</b>	<b>30,973,145</b>	<b>45,409,637</b>	<b>48,803,583</b>	<b>17,830,438</b>	<b>57.6%</b>
<b>Total Non-operating Income/(Expense)</b>	<b>2,232,000</b>	<b>1,223,125</b>	<b>2,377,125</b>	<b>145,125</b>	<b>6.5%</b>
<b>CHANGE IN NET POSITION</b>	<b>33,205,145</b>	<b>46,632,762</b>	<b>51,180,708</b>	<b>17,975,564</b>	<b>54.1%</b>
<b>CHANGE IN NET POSITION</b>					
Net Position at the beginning of period	134,786,442	140,139,128	140,139,128	5,352,686	
Inc/(Dec) in Net Position	<b>33,205,145</b>	<b>46,632,762</b>	<b>51,180,708</b>	<b>17,975,564</b>	
Net Position at the end of period	<b>167,991,587</b>	<b>186,771,890</b>	<b>191,319,836</b>	<b>23,328,250</b>	
Unrestricted Cash - End of Period	\$ 58,039,576	\$ 18,703,629	\$ 30,671,681		
Restricted Cash - End of Period	\$ 13,165,799	\$ 13,038,299	\$ 5,618,194		
Securities Investments	\$ 87,897,375	\$ 143,684,789	\$ 143,684,789		
<b>Approx. Cash &amp; Cash Equivalents</b>	<b>159,102,751</b>	<b>175,426,717</b>	<b>179,974,663</b>		
Target Operating Reserves (120 days) - Unrestricted	\$ <b>77,855,042</b>	\$ <b>72,524,555</b>	\$ <b>74,715,498</b>		
Actual Days Cash on Hand - Unrestricted	<b>225</b>	<b>269</b>	<b>280</b>		
Unrestricted Cash in Excess of Operating Reserve	\$ <b>68,081,910</b>	\$ <b>89,863,863</b>	\$ <b>99,640,971</b>		

## Full-year forecast:

- Revenues expected to be at approx 3% above budget- mostly due to Commercial rates higher than planned
- Expenses expected to be 4% below budget
- FY2019-20 Change in Net Position currently forecasted to \$51 million, almost \$18.0 million better than budget (about the level it was as of end of Q2)
- Days cash on hand expected to exceed budgeted level of 225

# Customer Accounts and Usage

<u>Customer Accounts - As of</u>		December, 2019		
Customer Type	Customer Accounts vs Budget			
	Actual	Budget	Var Fav/(Unf)	Var (%)
Residential	266,983	266,669	314	0.1%
Commercial/Industrial	28,580	28,570	10	0.0%
<b>Total</b>	<b>295,563</b>	<b>295,239</b>	<b>324</b>	<b>0.1%</b>

<u>Energy Used - As of</u>		December, 2019		
Customer Type	YTD Usage vs Budget (MWh)			
	Actual	Budget	Var Fav/(Unf)	Var %
Residential	681,359	673,712	7,647	1.1%
Commercial/Industrial	1,123,189	1,132,524	(9,335)	-0.8%
<b>Total</b>	<b>1,804,547</b>	<b>1,806,236</b>	<b>(1,689)</b>	<b>-0.1%</b>

# Cash and Investment Summary – Quarterly Trend

	Jun-18	Dec-18	Jun-19	Sep-19	Dec-19
<b>Investment Account - First Republic</b>					
<b>Asset Summary</b>					
Cash	\$ 20,019,851	\$ 1,011,843	\$ 4,507,825	\$ 12,472	\$ 24,909,433
Fixed Income	\$ 30,105,348	\$ 99,774,998	\$ 90,743,561	\$ 125,751,451	\$ 118,775,356
Ending Balance	<b>\$ 50,125,199</b>	<b>\$ 100,786,840</b>	<b>\$ 95,251,385</b>	<b>\$ 125,763,923</b>	<b>\$ 143,684,789</b>
<b>Other Accounts - Unrestricted</b>					
Unrestricted - M&T LockBox					\$ 1,387,129
Unrestricted - Wilmington LockBox	\$ 5,376,290	\$ 4,981,788	\$ 5,632,155	\$ 6,517,561	\$ 4,718,731
Operating Account - First Republic	\$ 2,413,747	\$ 1,986,181	\$ 3,299,345	\$ 6,938,712	\$ 3,807,695
Savings Account - First Republic	\$ 5,995,341	\$ 10,897,449	\$ 9,885,949	\$ 3,232,013	\$ 8,790,615
Other Accounts	\$ 278,835	\$ 558	\$ 573	\$ (49)	\$ (541)
Subtotal Unrestricted (non-Investment accounts)	<b>\$ 14,064,213</b>	<b>\$ 17,865,976</b>	<b>\$ 18,818,022</b>	<b>\$ 16,688,237</b>	<b>\$ 18,703,629</b>
<b>Other Accounts - Restricted</b>					
Restricted Cash - Wilmington LockBox	\$ 2,500,000	\$ 2,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Restricted Cash - First Republic	\$ -	\$ -	\$ 11,665,799	\$ 11,538,299	\$ 11,538,299
Subtotal Restricted (non-Investment accounts)	<b>\$ 2,500,000</b>	<b>\$ 2,500,000</b>	<b>\$ 13,165,799</b>	<b>\$ 13,038,299</b>	<b>\$ 13,038,299</b>
<b>Total Cash</b>	<b>\$ 66,689,412</b>	<b>\$ 121,152,816</b>	<b>\$ 127,235,206</b>	<b>\$ 155,490,459</b>	<b>\$ 175,426,717</b>

## Changes (reductions) in Restricted Cash expected after December 31, 2019

- \$1.1 million LC terminated; collateral transferred to unrestricted in January
- \$0.9 million of LC released by PG&E – transferred to unrestricted in January
- \$5.0 million LC to be released by Wright – to be transferred to unrestricted in February
- \$0.5 million to be released by Wilmington in May

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# Reserve Policy

# Current Reserve Policy

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PCE will maintain reserves at the following funding levels:

Operating / Working Capital Reserve equal to 120 days of operating expenses, including power supply expenses:

- The Operating / Working Capital Reserve includes the Rate Stabilization/ Contingency Reserve equal to 15% of projected revenues to mitigate volatility in the power markets and the Power Charge Indifference Adjustment (PCIA).
- If the Rate Stabilization Reserve calculation exceeds 120 days of operating expenses, the Operating Reserve will be increased accordingly.

## *Issues with current policy:*

- 1. Enough to sustain significant volatility in rates and energy costs?**
- 2. Unclear how the Operating Reserve would be adjusted, but moot at this point because Rate Stabilization Reserve of 15% does not exceed 120 days (revenues would have to exceed \$485 million for the calculation to exceed 120 days of expenses)**
- 3. Not limited to unrestricted cash**

# Reserve Policy

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The following draft proposal was presented at December 9, 2019 Audit & Finance Meeting:

PCE will strive to maintain the following two reserves:

- A. Operating / Working Capital Reserve equal to a minimum of **135 days of unrestricted cash on hand** of all operating expenses, including cost of electricity expenses, in order to:
- Provide a source of funds to mitigate significant negative impact of power market volatility
  - Provide a source of funds for unanticipated/unbudgeted expenditures that are approved by the Board

***and***

- B. Rate Stabilization Reserve equal to a minimum of **45 days of unrestricted cash on hand** of all operating expenses, including cost of electricity expenses, in order to:
- Provide a source of funds to provide rate stability to PCE customers in the event of the Board's determination that there is a need to pass along unanticipated significant increases in electricity rates and the Board desires to mitigate those increases

*Note: Unrestricted cash on hand is cash that is either (1) not restricted by contract term or loan covenant, or (2) not committed by a Board action*



# Reserve Policy - Research/Discussions/Findings

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## *Discussion with Rating Agency*

- More reserves are always better
- Rate stabilization reserve is a positive
- Level of reserves

View CCA's more stringently than other JAA's

Days cash on hand counts access to line of credit if there is no Material Adverse Change clause

Access to Line of Credit is a plus if it is from a national bank. However, this is more true for orgs that have debt. In most cases, they assume that public power companies wouldn't keep high cash balance

180 days of reserves is "less than standard"

"Could easily see above 250 days in total for reserves"

Metric for JAA methodology is planning to updated to add ~50 days to Days Cash on Hand

- Specific reserves (e.g. Rate Stabilization, PPA, Debt, etc) would be good, but are more relevant for entities that have debt and coverage ratio covenants
- With respect to the fact that reserves (or tapping into them) don't change the income statement picture (i.e. Change in Net Position)

Public Markets value stability and consistency in performance

Like to have smooth/upward sloping performance

If there were dips, in the income statement, would need to explain

[The comments around this seem to be in conflict with the view that multiple reserves are better]

# Reserve Policy - Research/Discussions/Findings

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## *Discussion with Financial Consultant*

- “The credit issue is that the financial evaluation focuses on recurring revenues that are exceeding recurring expenses”
- “ A withdrawal from reserves could be perceived as a negative if current revenues were not sufficient for debt service coverage, or if financial operations reflect net losses
- “But, if the reserve is not required by covenant, and can be changed by Board policy, then a specific reserve, or withdrawal from it, may not matter”

## *Recent Marin Clean Energy Change in Reserve Policy*

- On November 21, 2019, MCE’s Board approved a resolution to increase its Liquidity Target to 240 days by FY2021-22 from the prior target of 140 days
- MCE’s projected levels are 158 days at end of FY2019-20 year and 245 days by FY2021-22
- “To be in line with utilities that have stronger “A” ratings”.

# Reserve Policy – Observations/Conclusions

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- More reserves would be better –
  - 210 days if possible, or even higher
  - Maybe a plan to stair-step into that level
  - For example, 180 now, 210 at some specified date after, and maybe something higher after that
  - Would ensure that we meet our current objective and still be building cash toward a future/higher level
- Rate Stabilization Reserve – not clear that it is a good idea
  - Not clear what it would be used for or how
  - If rates needed to increase to maintain our margins (which would move us from maintenance of “5% lower than PG&E”), tapping into reserves wouldn’t change our margins
  - Tapping into a reserve would mean having to replenish it and explain why we are not in compliance
  - Tapping into a reserve would have no impact on our then-current year Change in Net Position
  - Adopting GASB 62 (MCE did this) would enable tapping into reserve to adjust margins, but I don’t think we need to go that far if/until we decided to issue bonds

# Reserve Policy – Recommendation

	Actual December 31, 2019	Forecasted June 30, 2020	Projected June 30, 2024
<b>Total Cash Balance</b>	<b>\$175,426,717</b>	<b>\$179,974,663</b>	<b>\$192,373,119</b>
Restricted by Term/Covenant	13,038,299	5,618,194	-
Restricted by Program (not currently part of Policy)	10,000,000	10,000,000	20,000,000
<b>Unrestricted Cash</b>	<b>152,388,418</b>	<b>164,356,469</b>	<b>172,373,119</b>
Days Cash on Hand (Adjusted for Program Commitments)	<b>252</b>	<b>264</b>	<b>244</b>
<b>Current Policy</b>			
120 Days Operating Reserve	72,524,555	74,715,498	84,746,101
15% of Projected Revenues	46,712,219	46,712,219	39,600,150
Adjusted Reserve based on 15% Test	72,524,555	74,715,498	84,746,101
<b>Cash in Excess of Current Reserve Policy</b>	<b>79,863,863</b>	<b>89,640,971</b>	<b>87,627,018</b>
<b>Options for Revised Policy</b>			
150 Days Reserve	90,655,693	93,394,373	105,932,626
Unrestricted Cash in Excess of 150 Days Reserve	61,732,725	70,962,096	66,440,493
180 Days Reserve	108,786,832	112,073,248	127,119,152
Unrestricted Cash in Excess of 180 Days Reserve	43,601,586	52,283,222	45,253,967
210 Days Reserve	126,917,970	130,752,122	148,305,677
Unrestricted Cash in Excess of 210 Days Reserve	25,470,448	33,604,347	24,067,442
240 Days Reserve	145,049,109	149,430,997	169,492,202
Unrestricted Cash in Excess of 240 Days Reserve	7,339,309	14,925,472	2,880,917

Restricted by Program => the restricted amount in excess of current year's approved spending budget

## Recommendation

- Single Reserve
- 180 days starting upon Board approval
- Increase 7.5 days each June 30:
  - June 30, 2021 = 187.5
  - June 30, 2022 = 195.0
  - June 30, 2023 = 202.5
  - June 30, 2024 = 210.0