



Audit & Finance Committee Meeting

February 13, 2023

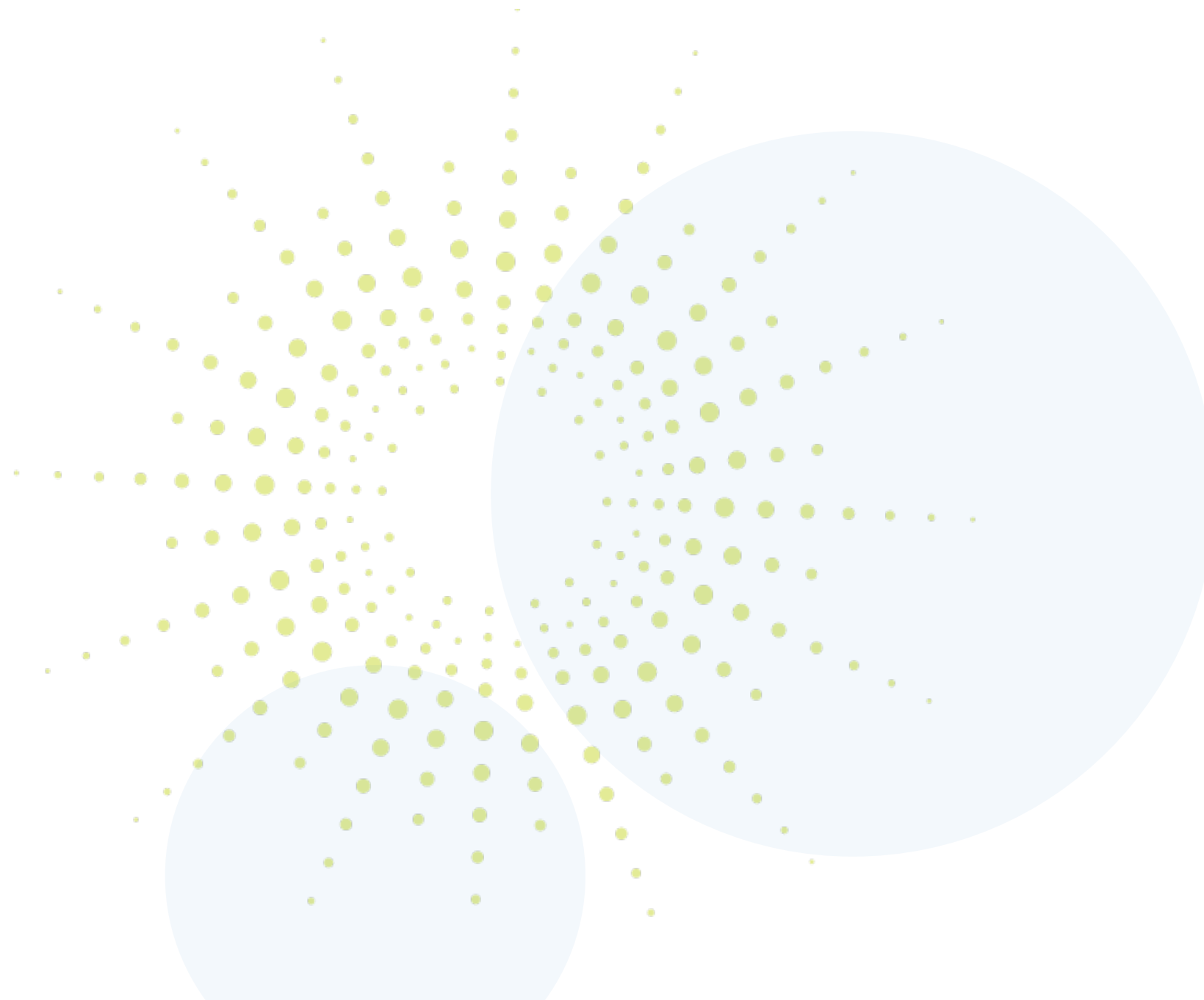
Agenda

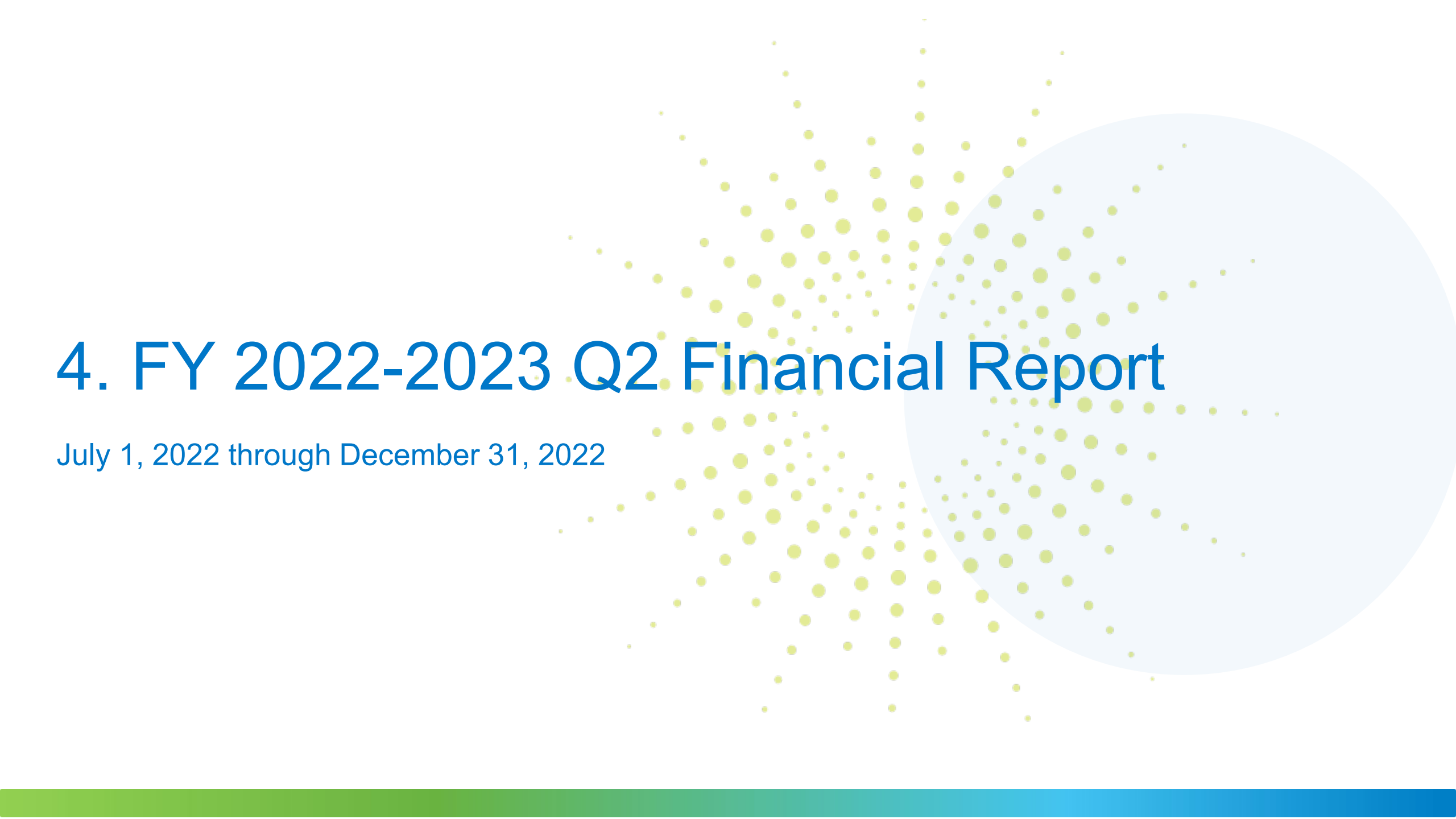
- Call to Order / Roll Call
- Public Comment (for items not on the Agenda)
- Action to set the Agenda and Approve Consent Items
- Regular Agenda
 2. Chair Report
 3. Staff Report (None)
 4. FY 2022-2023 Q2 Financial Report
 5. Projected Impact of 2.1.2023 PCE Rate Change on FY 2022-2023 Year End Results
 6. Budget Variances Discussion
 7. Committee Members' Report

2. Chair Report



3. Staff Report





4. FY 2022-2023 Q2 Financial Report

July 1, 2022 through December 31, 2022

FY 2022-2023 Year-to-Date Actual vs. Budget Load Performance

- Total loads year-to-date are 1.3% below budget
 - Commercial and Industrial loads are just at budget
 - Residential loads are 4% below budget

	Year-to-date (Q2 of FY 2022-2023)			
(in kWh)	Actual	Budget	Variance	Variance as % Budget
Commercial and Industrial	1,010,247,538	1,001,729,259	8,518,279	0.85%
Residential	737,494,177	769,176,966	(31,682,788)	-4.12%
Total	1,747,741,715	1,770,906,224	(23,164,509)	-1.31%

Revenue – Year-to-Date Actual vs. Budget & Monthly Trend

- Revenue

- Year-to-date revenue is \$5.4M below budget, or 2% under year-to-date budget
- Revenue underperformance is driven mostly by residential loads and revenues coming in under budget

Revenue (Last 13 months)

December-22

Month	Revenue Comparison vs Budget (in Millions)		
	Actual	Budget	Var Fav/(Unf)
Dec-21	\$16.0	\$17.1	(\$1.1)
Jan-22	\$15.1	\$17.6	(\$2.5)
Feb-22	\$14.1	\$16.0	(\$1.9)
Mar-22	\$14.7	\$16.8	(\$2.1)
Apr-22	\$26.1	\$15.5	\$10.7
May-22	\$29.5	\$19.6	\$9.9
Jun-22	\$36.3	\$23.3	\$13.0
Jul-22	\$35.0	\$39.2	(\$4.2)
Aug-22	\$37.0	\$41.1	(\$4.1)
Sep-22	\$41.4	\$39.7	\$1.7
Oct-22	\$32.4	\$33.8	(\$1.4)
Nov-22	\$33.8	\$31.6	\$2.2
Dec-22	\$35.0	\$35.2	(\$0.2)

Cost of Energy – Year-to-Date Actual vs. Budget & Monthly Trend

- Cost of Energy

- Year-to-date cost of energy expenses are \$13 million over budget, or 9% over year-to-date budget
- The months of September and December had the highest energy expenses greater than budget, given higher energy costs in those months attributed to the September heat events and higher natural gas prices in December

Cost of Energy (Last 13 months)

December-22

Month	COE Comparison vs Budget (in Millions)		
	Actual	Budget	Var Fav/(Unf)
Dec-21	\$18.8	\$19.3	\$0.5
Jan-22	\$20.3	\$18.8	(\$1.5)
Feb-22	\$17.6	\$17.2	(\$0.4)
Mar-22	\$18.4	\$16.9	(\$1.5)
Apr-22	\$19.5	\$16.5	(\$2.9)
May-22	\$19.8	\$17.6	(\$2.2)
Jun-22	\$23.6	\$18.2	(\$5.4)
Jul-22	\$23.1	\$23.7	\$0.6
Aug-22	\$25.7	\$26.9	\$1.2
Sep-22	\$36.1	\$26.7	(\$9.4)
Oct-22	\$19.1	\$21.9	\$2.8
Nov-22	\$21.1	\$21.5	\$0.5
Dec-22	\$31.4	\$22.8	(\$8.6)

FY 2022-23 Q2 Financial Performance – Year to Date Actual vs. Budget

	Year -to-date				Full Year (FY 2022-2023)	
	Actual	Budget	Variance Favorable / (Unfavorable)	YTD Actual as % of YTD Budget	Budget	YTD Actual as % of Full Year Budget
OPERATING REVENUES						
Electricity Sales, net	\$ 213,645,027	\$ 219,142,719	\$ (5,497,691)	97.49%	\$ 364,961,141	58.54%
Green electricity premium	\$ 1,536,690	\$ 1,422,832	\$ 113,858	108.00%	\$ 2,822,550	54.44%
Total Operating Revenues	\$ 215,181,717	\$ 220,565,551	\$ (5,383,833)	97.56%	\$ 367,783,691	58.51%
OPERATING EXPENSES						
Cost of energy	\$ 156,507,649	\$ 143,578,411	\$ (12,929,238)	109.01%	\$ 264,208,440	59.24%
Staff compensation	\$ 3,704,773	\$ 4,291,611	\$ 586,838	86.33%	\$ 8,583,221	43.16%
Data Manager	\$ 1,763,451	\$ 1,800,000	\$ 36,549	97.97%	\$ 3,600,000	48.98%
Service Fees - PG&E	\$ 660,550	\$ 675,000	\$ 14,450	97.86%	\$ 1,350,000	48.93%
Consultants & Professional Services	\$ 524,138	\$ 829,094	\$ 304,956	63.22%	\$ 1,431,813	36.61%
Legal	\$ 723,873	\$ 737,000	\$ 13,127	98.22%	\$ 1,474,000	49.11%
Communications and Noticing	\$ 589,182	\$ 1,228,854	\$ 639,672	47.95%	\$ 2,686,208	21.93%
General and Administrative	\$ 1,132,987	\$ 1,191,000	\$ 58,013	95.13%	\$ 2,359,806	48.01%
Community Energy Programs	\$ 1,931,850	\$ 4,320,000	\$ 2,388,150	44.72%	\$ 8,640,000	22.36%
Depreciation	\$ 38,147	\$ 48,000	\$ 9,853	79.47%	\$ 96,000	39.74%
Total Operating Expenses	\$ 167,576,601	\$ 158,698,970	\$ (8,877,632)	105.59%	\$ 294,429,488	56.92%
Operating Income (Loss)	\$ 47,605,116	\$ 61,866,581	\$ (14,261,465)	76.95%	\$ 73,354,203	64.90%
NON-OPERATING REVENUES (EXP.)						
Total Nonoperating Income/(Expense)	\$ (548,347)	\$ 300,000	\$ (848,347)	-182.78%	\$ 600,000	-91.39%
CHANGE IN NET POSITION	\$ 47,056,769	\$ 62,166,581	\$ (15,109,812)	75.69%	\$ 73,954,203	63.63%

Change in Net Position Year-to-Date Actual vs. Budget

- Year-to-date Change in Net Position is healthy at \$47 million, however, is under the year-to-date budget of \$62 million
- Higher than budget cost of energy expenses and softness in revenue performance year-to-date dampened actual change in net position

	Year -to-date			
	Actual	Budget	Variance Favorable / (Unfavorable)	YTD Actual as % of YTD Budget
OPERATING REVENUES				
Total Operating Revenues	\$ 215,181,717	\$ 220,565,551	\$ (5,383,833)	97.56%
OPERATING EXPENSES				
Total Operating Expenses	\$ 167,576,601	\$ 158,698,970	\$ (8,877,632)	105.59%
Operating Income (Loss)	\$ 47,605,116	\$ 61,866,581	\$ (14,261,465)	76.95%
NON-OPERATING REVENUES (EXP.)				
Total Nonoperating Income/(Expense)	\$ (548,347)	\$ 300,000	\$ (848,347)	-182.78%
CHANGE IN NET POSITION	\$ 47,056,769	\$ 62,166,581	\$ (15,109,812)	75.69%

Cash Position

	Actual December 31, 2022
Total Cash/Investments Balance	\$ 176,921,299
Restricted by Term/Covenant	
Unrestricted Cash (per Approved Reserve Policy)	\$176,921,299
Days Cash on Hand (per Approved Reserve Policy)	219
<u>Approved Reserve Policy (Days Cash on Hand)</u>	180
Unrestricted Operating Reserve Requirement (180 Days)	\$ 145,198,104
Unrestricted Cash in Excess of Current Reserve Policy	\$31,723,195
Note: Days Cash on Hand based on full-year forecast of Operating Expenses	



5. Projected Impact of 2.1.2023 PCE Rate Change
on FY 2022-2023 Year End Results

Projected Impact of 2.1.2023 PCE Rate Change on FY 2022-2023 Performance

- The PCE rate change that went into effect 2.1.2023 is projected to generate a \$56.9 million positive variance in revenue when compared to the adopted budget
- The rate change underpins the projected change in net position at the end of FY 2022-23 of \$114 million, or \$40 million more than the original budget change in net position of \$74 million
- Also included in the FY 2022-2023 year-end financial projection
 - Actual financial performance year-to-date through December 2022
 - Load forecast adjustment in second half of fiscal year to reflect actual load performance vs. budget in first half of year; commercial and industrial loads at budget and residential loads down 4% compared to budget
 - Cost of energy expenses forecasted to be 8% above budget for the second half of the fiscal year, reflecting energy expenses in excess of budget in first half of year
 - Remaining expenses projected at monthly budget forecast for the second half of the fiscal year

Projected Impact of 2.1.2023 PCE Rate Change on FY 2022-2023 Performance

	FY 2022-2023	FY 2022-2023	Variance
	Budget (FY)	Forecast (FY)	Forecast vs. Budget Favorable/(Unfavorable)
OPERATING REVENUES			
Electricity Sales, net	\$ 364,961,141	\$ 421,696,236	\$ 56,735,095
Green electricity premium	\$ 2,822,550	\$ 2,939,324	\$ 116,774
	\$ 367,783,691	\$ 424,635,560	\$ 56,851,869
OPERATING EXPENSES			
Cost of energy	\$ 264,208,440	\$ 287,763,345	\$ (23,554,905)
Staff compensation	\$ 8,583,221	\$ 6,866,267	\$ 1,716,954
Data Manager	\$ 3,600,000	\$ 3,473,451	\$ 126,549
Service Fees - PG&E	\$ 1,350,000	\$ 1,290,550	\$ 59,450
Consultants & Professional Services	\$ 1,431,813	\$ 1,121,522	\$ 310,291
Legal	\$ 1,474,000	\$ 1,516,623	\$ (42,623)
Communications and Noticing	\$ 2,686,208	\$ 1,541,761	\$ 1,144,447
General and Administrative	\$ 2,359,806	\$ 2,277,867	\$ 81,939
Community Energy Programs	\$ 8,640,000	\$ 4,198,590	\$ 4,441,410
Depreciation	\$ 96,000	\$ 86,147	\$ 9,853
Total Operating Expenses	\$ 294,429,488	\$ 310,136,125	\$ (15,706,637)
Operating Income (Loss)	\$ 73,354,203	\$ 114,499,435	\$ 41,145,232
NON-OPERATING REVENUES (EXP.)			
Total Nonoperating Income/(Expense)	\$ 600,000	\$ (98,347)	\$ (698,347)
CHANGE IN NET POSITION	\$ 73,954,203	\$ 114,401,088	\$ 40,446,885



5. Discussion Framework for Budget Variances

Budget Variances – Framework to Discuss Budget Variances

- Key Considerations when viewing and discussing budget variances
 - **Timing** - of budget and projection development, adoption, and comparing actual performance vs. budget or projections
 - **Nature of the variance** - positive or negative, one-time or structural
 - **Tools to address variances** - What tools do we currently use and what else can we develop and use to address such variances

Budget Variances – Timing

Framework to Discuss Budget Variances

- Annual Budget and four additional years of financial projections are adopted by the PCE Board in June of each year
 - Provides a snapshot in time of our projected revenues and expenses for the next 12 months – and a projection of our full financial picture over an additional four-year period
 - The basis for these revenue projections are grounded in our assumptions on forecasted loads and rates, and the fundamental basis for our expenditure projections is driven by cost of energy – a point in time view, that is assessed at quarterly variance reporting periods

Budget Variances – Nature of Variances

Framework to Discuss Budget Variances

- Nature of Variances – Revenues or Expenses; Favorable or Unfavorable
 - Revenue Side –
 - Rates - PG&E Generation Rate assumptions, PCIA rate assumptions
 - Load Forecast – assumptions
 - Expenditure Side –
 - Cost of Energy – Significant market price fluctuations that may be seasonally or weather driven, or other external factors that swing significantly
 - Ability to expend budget at a pace that was projected
- Nature of Variances - One-time vs. Structural
 - Are these variances one time – or are they ongoing and structural? Do we shift our underlying assumptions, if so, when and how?

Budget Variances – Tools to Address Variances

Framework to Discuss Budget Variances

- Tools to address variances
 - Regular variance reporting
 - Cash position
 - Budget contingencies
 - Mid-year budget adjustments
 - Multi-year financial forecasts, adjustments to, sensitivity scenario planning
 - Rate changes
 - Rate Stabilization Funds, Rate Setting Framework that may be different from what is in place today
- Further Discussion and use of these tools in PCE's budget development process – Next Audit and Finance Committee Meeting May 8, 2023

6. Committee Members' Reports