EBCE DRAFT BUDGET FOR JULY 1, 2020 – JUNE 30, 2021

	FY 2019-20 BUDGET	FY 2020-21 BUDGET	Fiscal Year Difference
REVENUE AND OTHER SOURCES			
Electricity Sales	487,014,000	391,499,000	(95,515,000)
Investment Income	578,000	1,231,000	653,000
Other Income	-	-	-
Uncollectables	(2,447,000)	(9,787,000)	(7,340,000)
Total Revenue and Other Sources	**485,145,000**	**382,943,000**	**(102,202,000)**
EXPENSES AND OTHER USES			
ENERGY OPERATIONS			
Cost of Energy	386,905,000	349,917,000	(36,988,000)
Data Management/Customer Service	6,758,000	7,704,000	946,000
PG&E Service Fees (Billing/Metering)	2,253,000	2,396,000	143,000
Scheduling	653,000	660,000	7,000
Total Energy Operating Costs	**396,569,000**	**360,677,000**	**(35,892,000)**
OVERHEAD OPERATIONS			
Personnel	6,703,000	7,581,000	878,000
Marketing, Outreach, Communications	2,263,000	1,499,000	(764,000)
Legal, Policy, & Reglatory Affairs	1,586,000	1,297,000	(289,000)
Other Professional Services	1,214,000	1,345,000	131,000
General & Administrative	2,290,000	2,146,000	(144,000)
Local Development Funding	6,275,000	6,570,000	295,000
Depreciation	61,000	60,000	(1,000)
Total Overhead Operating Costs	**20,392,000**	**20,498,000**	**106,000**
TOTAL ENERGY & OPERATING EXPENSES	**416,961,000**	**381,175,000**	**(35,786,000)**
Earnings Before Interest & Capital	**68,184,000**	**1,768,000**	**(66,416,000)**
INTEREST PAYMENTS			
Borrowing Interest	1,229,000	804,000	(425,000)
Total Interest Payments	**1,229,000**	**804,000**	**(425,000)**
TOTAL EXPENSES & INTEREST DUE	**418,190,000**	**381,979,000**	**(36,211,000)**
NET INCREASE (DECREASE) IN POSITION	**66,955,000**	**964,000**	**(65,991,000)**

REVENUE DISCUSSION

REVENUE AND OTHER SOURCES	FY 2019-20 BUDGET	FY 2020-21 BUDGET	Fiscal Year Difference
Electricity Sales	487,014,000	391,499,000	(95,515,000)
Investment Income	578,000	1,231,000	653,000
Other Income	-	-	-
Uncollectables	(2,447,000)	(9,787,000)	(7,340,000)
Total Revenue and Other Sources	**485,145,000**	**382,943,000**	**(102,202,000)**

- Reduction in revenues from Electricity Sales due largely to increase in PCIA, effective May 1, 2020. Assumptions:
    - PUBA trigger occurs in December and PCIA increases in January 2021 to maintain undercollection at 7%
    - 2021 PCIA rate changes are assumed to occur after June 30, 2021
    - Modest increase in gen rates, effective May 1, 2020. Additional rate increase assumed to occur in Jan 2021, which partially offsets the PCIA increase, based on GRC
- Electricity Sales assume a rate change to reflect a 1.0% discount to PG&E for Bright Choice and a 3% discount for Brilliant 100 premium. This change is estimated to increase revenue by approximately $5.7MM ($2.7MM related to Bright Choice, $3MM related to Brilliant 100)
- Increase in Investment Income is due to current, higher bank account balances in interest bearing accounts (reserves and ICS) than last year but projected at slightly lower interest rate of 1.5%. Current rate is 1.79%
- Uncollectables is increased from 0.5% of sales to 2.5% in anticipation of COVID induced recessionary impacts
- Current budget does not reflect COVID related load impacts (To be discussed in Risks section)
- Current budget does not reflect the inclusion of the new communities of Tracy, Newark, and Pleasanton. New Communities are separated in order to isolate the economic impacts, which will differ based on exact enrollment timing.

NEW COMMUNITIES DISCUSSION

	FY 2020-21 BUDGET	New Communities	Fiscal Year Adjusted
REVENUE AND OTHER SOURCES			
Electricity Sales	391,499,000	13,409,359	404,908,359
Uncollectables	(9,787,000)	(201,000)	(9,988,000)
Total Revenue and Other Sources	**382,943,000**	**13,208,359**	**396,151,359**
EXPENSES AND OTHER USES			
ENERGY OPERATIONS			
Cost of Energy	349,917,000	9,065,000	358,982,000
Data Management/Customer Service	7,704,000	299,000	8,003,000
PG&E Service Fees (Billing/Metering)	2,396,000	87,000	2,483,000
Total Energy Operating Costs	**360,677,000**	**9,451,000**	**370,128,000**
OVERHEAD OPERATIONS			
Marketing, Outreach, Communications	1,499,000	274,000	1,773,000
Total Overhead Operating Costs	**20,498,000**	**274,000**	**20,772,000**
NET INCREASE (DECREASE) IN POSITION	**964,000**	**3,483,359**	**4,447,359**

- Inclusion of new communities is expected to have a positive lift on margins based on an April enrollment timeframe estimated at $3.5MM in net margin based on current market conditions.
- Positive margin is driven by a modest increase in operating overhead related to serving these customers and softer energy prices.
- Additional analysis is underway to determine the optimal timing based on different customer rates and procurement risks/opportunities

ENERGY OPERATIONS DISCUSSION

	FY 2019-20 BUDGET	FY 2020-21 BUDGET	Fiscal Year Difference
ENERGY OPERATIONS			
Cost of Energy	386,905,000	349,917,000	(36,988,000)
Data Management/Customer Service	6,758,000	7,704,000	946,000
PG&E Service Fees (Billing/Metering)	2,253,000	2,396,000	143,000
Scheduling	653,000	660,000	7,000
Total Energy Operating Costs	**396,569,000**	**360,677,000**	**(35,892,000)**

- Decrease in cost of energy due to lower market prices
    - Additional reductions due to anticipated PG&E large hydro allocation and revised power content targets
- Increase in Data Management is due to increase in contracted rates with SMUD and forecasted account growth based on pre-COVID conditions
- Increase in PG&E Service Fees are due to forecasted account growth independent of new communities.

OVERHEAD OPERATIONS DISCUSSION

	FY 2019-20 BUDGET	FY 2020-21 BUDGET	Fiscal Year Difference
OVERHEAD OPERATIONS			
Personnel	6,703,000	7,581,000	878,000
Marketing, Outreach, Communications	2,263,000	1,499,000	(764,000)
Legal, Policy, & Reglatory Affairs	1,586,000	1,297,000	(289,000)
Other Professional Services	1,214,000	1,345,000	131,000
General & Administrative	2,290,000	2,146,000	(144,000)
Local Development Funding	6,275,000	6,570,000	295,000
Depreciation	61,000	60,000	(1,000)
Total Overhead Operating Costs	**20,392,000**	**20,498,000**	**106,000**

- Personnel costs increase due to additional hires of 6 FTE and 9.5% wage increases relate to COLA, promotions, and performance based adjustments
- Marketing, Outreach, Communications costs are reduced due to:
  - Reduced mailing requirements and availability of lower cost notification processes
  - Reduced advertising and sponsorship based on cost cutting measures
  - New Community costs are not included in this estimate
  - Internal call center development is not included in the current budget, assuming a deferral of that investment to FY 2021-2022
- Legal, Policy, & Regulatory Affairs: Reduction in policy related costs based on cost cutting measures
- Other Professional Services: Increase in costs due to development of the CRM platform, which is primarily utilized for effective local program customer outreach
- General &Administrative: Reduced based on cost cutting measures
- Local Development Funding: Maintaining local development budget with a modest increase. Additional funds from the 2019-2020 fiscal year estimated at $3MM to be rolled forward to total approximately $9MM in total spend.

INTEREST PAYMENT DISCUSSION

	FY 2019-20 BUDGET	FY 2020-21 BUDGET	Fiscal Year Difference
INTEREST PAYMENTS			
Borrowing Interest	1,229,000	804,000	(425,000)
Total Interest Payments	**1,229,000**	**804,000**	**(425,000)**

Borrowing Interest accounts for commitment fees on undrawn debt and issuance fees for letters of credit. Assumes no outstanding debt.

RISKS DISCUSSION

EBCE is exposed to a variety of risks in this coming fiscal year. Below is a representative list of key risks, though it is not comprehensive in reflecting all risks.

Load Risk:
COVID impacts on load, collections, and energy market prices are being closely monitored and to date the Shelter in Place policy has been in effect for approximately two months. While this has provided meaningful data it is very difficult to extrapolate the insights to accurately forecast impacts on the next fiscal year.

Staff projects four potential scenarios for fiscal year 2020-2021:

1) Status quo: Quick reversion to a pre-COVID load. We anticipate continued county/city-based policies that will adjust work and personal interactions to account for public health and safety in light of COVID. With that said there is a scenario where electricity usage based on businesses partial reopening and moderately increased residential use that results in load that closely reflects EBCE load pre-COVID. This is the basis for the current budget.
2) Moderate COVID load decrease: Volumetric load is down 6-8% in the near-term months with a peak reduction of 10-15% and there is a gradual reversion to about 1-3% volumetric load reduction and 4-6% peak reduction, which is maintained starting in 2021.
3) Moderate COVID load increase: With the partial reopening of small businesses and large commercial space, we could see commercial load revert close to normal levels and residential load remain high based on partial families working from home. This could result in a moderate increase in volumetric load of 2-4% and a peak load similar to normal levels
4) Significant and sustained macro recession where volumetric load continues to be depressed. Volumetric load is down 6-10% and peak load is down 10-15% for next 12-24 months

- Changes in volumetric load due to ongoing COVID conditions are expected to decrease costs proportional with the projected net decline in demand. Thus, any decline in revenue due to decline in demand should be reasonably offset with a decline in costs. EBCE is projecting a margin of 8.5% of revenues over electricity costs. This means for each dollar decrease in revenue from reduced demand, EBCE can expect an approximate $0.915 reduction in costs. To date, EBCE has generally experienced a positive impact to load shape that has reduced the more expensive peak hours that help to mute this margin impact.

- Load changes can have material implications to EBCE as it relates to planning, procurement, and scheduling. Less certainty when it comes to load forecasting can increase risk. Generally speaking, an overall industry reduction in load directionally leads to softer energy prices. However, the uncertainty also leads to more significant day to day volatility, which can increase or decrease energy costs where EBCE is not hedged.

Energy Market Risk:

- EBCE currently has an estimated unhedged energy portfolio of approximately $80 million which is exposed to the market. Short term energy prices can see volatility of 10-20% on a regular basis based on typical supply/demand dynamics that are heavily influenced by weather and electricity infrastructure. The volatility may be exacerbated by COVID due to general uncertainty of load and the impacts from the macro oil industry on gas prices. We estimate that energy costs could increase reasonably as much as $16-20MM, though this could also result in a similar reduction in energy costs. EBCE could consider hedging more load to reduce this risk. However in an environment of softer energy prices, there are follow-on repercussions of an increasing PCIA the following year.

Uncollectables/Write-offs:

- While EBCE has increased our expected exposure from 0.5% to 2.5% to uncollectable accounts, the current data is limited in measuring the extent of this impact. This forecast of 2.5% is at the higher end of the range compared to other CCAs based on our regional income demographics. In researching other load serving entity uncollectables through prior recessions, we have seen data ranging from non-material impacts up to 6% write-offs. Based on the recessionary impacts of COVID and suspension of disconnects, we do anticipate an increase in uncollectables that would lead to write-offs. There is a potential for the uncollectables to exceed our current forecast based on a more severe and extended recession. To mitigate this risk, we have launched an active campaign to increase CARE enrollments as a way to lower customers bills and are continuing to create a plan to enroll customers onto longer term payment plans as necessary. While enrollment in payment plans should reduce write-offs, it would reduce near term cash inflows. EBCE has a strong cash and reserve position to support payments deferrals.

Opt-out risk:

- Customer opt-outs are generally an ongoing risk to EBCE. However, we do not anticipate an increased risk of opt-outs for the fiscal year, depending on adjustments to the value propositions. There is currently no active discussion of DA expansion that would take effect in 2021 beyond what has already been in process.

Regulatory Risk:

- The current budget assumes a deferral of approximately $16MM in costs, which is based on maintaining an undercollection (PUBA) of 7%. The most significant regulatory risk to revenues in the near term is the management of this PUBA cap. The CPUC could rule to fully collect on the undercollection, which would decrease fiscal year revenues or potentially elect for a larger undercollection, which could increase revenues.
- AB110 Power Content reporting is anticipated to be finalized in mid 2020. These regulations will include potential updates to the reporting treatment of PCC3 unbundled RECs and Asset Controlling Supply (ACS) procurement. Currently procurement of PCC3 RECs is limited and serves as a flexible tool to balance the portfolio. ACS is also currently procured largely as a source of clean large hydro energy, a cost-effective energy hedging tool, and a source of import RA from the pacific northwest. The new reporting regulation may require disclosure of all underlying energy as source specified, which could limit future procurements of this product depending on board direction.
- PCIA Working Group 3, which is focused on the disposition of PG&E's current long portfolio may benefit EBCE's energy procurement related costs. Though those benefits are not expected to be material for the fiscal year.

RISK MITIGATION

Considering the previous discussion, EBCE has the following options to further mitigate these economic risks.

- Additional changes to EBCE's value proposition:
  - Further reduction to Bright choice discount to 0.5% = $2.7MM, or 0% = $5.4MM
  - Further increase to Brilliant 100 premium to 4% = $1MM, or 5% = $2MM
- With the Board approval of the PG&E allocation and PCL restructuring, EBCE holds excess large hydro related carbon free attributes which can be resold. This is estimated to generate anywhere from $1 to $2 million, depending upon quantity sold and market conditions.
- EBCE has the opportunity to accept and resell PG&E's nuclear allocation. This could generate up to $2 million based on market demand, which is somewhat unknown. This could present some risk to EBCE's power content label, but we can likely structure an arrangement to largely mitigate this risk.