



Board of Directors Special Meeting

November 25, 2024



AGENDA ITEM 2

ROLL CALL

 November 25, 2024



AGENDA ITEM 3

PUBLIC COMMENTS ON AGENDA ITEMS

 November 25, 2024



AGENDA ITEM 4.1

REPORT FROM THE AD HOC PROCUREMENT

 COMMITTEE AND OCPA STAFF

November 25, 2024



Background

- The OCPA Risk Oversight Committee holds quarterly meetings.
- On September 17, 2024, OCPA formed an Ad Hoc Committee of the Board to evaluate its power procurement strategies.
- In collaboration with OCPA staff, this Committee is tasked with reporting recommended changes to the Board by the end of 2024, aimed at optimizing OCPA's future power procurement strategies.
- On November 5, 2024, OCPA staff discussed the financial outlook with the Committee, highlighting challenges from the uncontrollable energy market and SCE rate changes, as well as identifying opportunities to mitigate energy costs.



Energy Market Challenges and Rising Costs

- Unprecedented Cost Increases:
 - Since 2022, the cost of eligible renewable energy (PCC1) has surged by nearly 400%, while Resource Adequacy (RA) prices have more than tripled within just three years.
- Escalating Energy Costs:
 - Volatile market conditions have driven actual energy costs from \$99/MWh in FY22/23 to \$121/MWh in FY23/24, with projections indicating a further increase to \$134/MWh in 2025.
- Impact on Future Fiscal Years:
 - These significant cost increases will directly affect OCPA's procurement budget that must be addressed through strategic procurement adjustments and mitigation measures to ensure compliance and maintain financial stability.



SCE Generation Rate Reductions

- SCE Generation Rate Reductions to Date:
 - In June 2024, SCE reduced its generation rates by 7%.
 - In October 2024, SCE implemented an additional 10% reduction in generation rates.
- Projected SCE Rate Changes for 2025:
 - Based on the 10/21 Alternate Update filing, SCE is expected to reduce generation rates by 0.6 cents/kWh (or 5.9%) while simultaneously increasing the PCIA by 0.5 cents/kWh (or 34%).
- These changes are expected to place significant financial pressure on OCPA's revenues, making it essential to adjust strategies to mitigate the impact.



Financial Projections

Scenario Summary

Scenario	Status Quo	Base	Least Desirable	Ideal	Suboptimal
Rate Design	No Change	No Change	No Change	No Change	Smart: Basic + 2c 100%: Basic + 3c
Procurement Strategy	No Change	Opt-Down Irvine and Buena Park to Smart for 2025 & 2026	Opt-Down ALL Customers to Basic for 2025 & 2026	Opt-Down Irvine and Buena Park to Smart for 2025 & 2026 Reduce Smart to 55% and 60% RE for 2025 & 2026 + 40% CF	
\$ in thousands Period Ending June 30	FY24/25	FY24/25	FY24/25	FY24/25	FY24/25
Revenues	\$260,812	\$255,468	\$239,366	\$255,468	\$266,468
FY23/24 Deferred Revenues	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000
Costs of Energy	\$(287,664)	\$(270,818)	\$(251,163)	\$(257,098)	\$(257,098)
Other Expenses	\$(16,592)	\$(16,592)	\$(16,592)	\$(16,592)	\$(16,592)
Net Position (bottom line)	\$1,557	\$13,059	\$16,612	\$26,779	\$37,779
Operating Reserve	\$46,423	\$57,925	\$61,478	\$71,645	\$82,645
Operating Reserve %	15%	20%	23%	26%	30%

- Status Quo: Maintains the current course but results in a substantial reduction in the operating reserve (the board target was set at least 30%).
- Base: Implements procurement adjustments to Smart Choice, improving the net position but still leaving the operating reserve 10% below the board target level.
- Least Desirable: Implements procurement adjustments to Basic Choice, further improving the net position but significantly reducing renewable energy content, which jeopardizes OCPA's clean energy goals.
- Ideal: Significantly enhances the net position without increasing customer rates, thereby preventing rate shocks through strategic procurement adjustments.
- Suboptimal: Increases rates to further improve the net position, potentially setting OCPA on a path to achieve an investment-grade credit rating by 2027.



Ideal Scenario

1. No Change in OCPA Rate Design

- Basic Choice: 3% discount
- Smart Choice: Basic Choice + 1 cent/kWh
- 100% Renewable Choice: Basic Choice + 1.5 cents/kWh

2. Temporary Opt-Down: For 2025 and 2026, Smart Choice will be the default rate product for Irvine and Buena Park customers. Individual customers may opt-up to 100% Renewable Choice or opt-down to Basic Choice at any time.

3. Renewable Energy Content Adjustment: Temporarily reduce the renewable energy content in Smart Choice to 55% for 2025 and 60% for 2026, supplemented with 40% carbon-free energy content.

4. Local Generation Projects: The OCPA team will collaborate with member agencies to develop local generation projects, including the creation of a special rate structure contract.

5. Comparison with SCE's Offering: The proposed OCPA Smart Choice product plan will continue offering significantly higher amount of renewable energy compared to SCE's default product.

- OCPA Smart Choice: 55%-60% renewable energy plus 40% carbon-free energy
- SCE default product: 37.6%* renewable energy



Conclusion

- This Ideal Scenario will significantly improve OCPA’s net position without increasing rates, thereby preventing customer rate shocks.
- OCPA will maintain a healthy operating reserve, projected at approximately \$72 million as of FY2024/25.
 - This ensures a balance between fiscal sustainability and the achievement of OCPA’s and member agencies’ climate action goals.

\$ in thousands Period Ending June 30	FY24/25 (Projection)
Net Position	\$26,779
Operating Reserve	\$71,645
Operating Reserve %	26%



Questions?

Recommended Action

1. Receive report from the Ad Hoc Procurement Committee and OCPA staff related to options for optimizing OCPA's power procurement and rate product strategy for future years.
2. Provide direction to staff.



AGENDA ITEM 5

ADJOURNMENT

 November 25, 2024