

**ORANGE COUNTY POWER AUTHORITY**  
**Staff Report – Item 8.1**

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To: Orange County Power Authority Board of Directors

From: Tiffany Law, Chief Financial Officer

Approved By: Joe Mosca, Chief Executive Officer

Subject: APPROVE FISCAL YEAR 2025-26 MID-YEAR BUDGET AMENDMENT

Date: March 9, 2026

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**STRATEGIC GOALS**

- Enrich & Grow the OCPA Community: \_\_\_\_\_
- Prioritize Fiscal Sustainability & Affordability: Ensure affordable rates for OCPA customers while covering all expenses and advancing equitable renewable energy initiatives.
- Design & Deploy Community-Aligned Customer Programs: \_\_\_\_\_
- Energize Our Community with Renewable Energy: \_\_\_\_\_
- Raise Awareness of Community Energy & Advocate for Our Customers: \_\_\_\_\_
- Not Applicable: \_\_\_\_\_

**RECOMMENDED ACTION**

Approve Fiscal Year 2025-26 Mid-Year Operating Budget Amendment, as proposed in Attachment 1.

**BACKGROUND**

On June 9, 2025, the Board approved the FY 2025-26 Operating Budget, marking the third full year of OCPA operations. The approved budget was balanced and projected approximately \$286 million in total net revenues and \$285.6 million in total expenditures, resulting in a modest net surplus of \$450,000.

Since budget approval, several developments have materially affected OCPA’s revenue and cost outlook, requiring a mid-year update to align the Operating Budget with Board policy and current market conditions. On January 12, 2026, the Board approved OCPA’s 2026 rate design, maintaining the October 2025 generation rates through calendar year 2026 to provide predictability for customers during a period of heightened market volatility. Consistent with that Board direction, the mid-year amendment updates revenue projections to reflect the approved rates and incorporates updated power supply forecasts that reflect the most current cost mitigation assumptions.

In parallel, staff implemented disciplined non-energy spending controls to preserve financial strength, maintain essential operations, and support prudent operating reserves. The amendment also refines key assumptions to reflect confirmed investment income, utility service fees, and contracted services, including out-of-pocket technical consultancy costs associated with the green prepayment bonds initiative. These updates reflect routine budget stewardship and reinforce OCPA’s ability to manage market volatility while continuing to provide stable, affordable service to customers.

## FY 2025-26 MID-YEAR OPERATING BUDGET OVERVIEW

The table below summarizes the approved revenue and expense budgets for FY 2025-26 compared to the proposed mid-year amendments.

(\$ in thousands)	Approved Budget FY 2025/26	% of Rev	Mid-Year Budget FY 2025/26	% of Rev	Change \$	Change %
<b>Period Ending Jun 30</b>						
<b>REVENUE AND OTHER SOURCES</b>						
Revenue - Electricity Base	246,322		242,389			
Revenue - Smart Choice Premium	7,430		7,525			
Revenue - 100% Renewable Premium	3,252		262			
Less: Uncollectible Accounts	(3,855)		(3,753)		(6,724)	(2.7%)
Revenue deferral	29,888		30,000		112	0.4%
Net Revenue - Electricity	283,037	99.0%	276,425	99.4%	(6,612)	(2.3%)
Investment and Miscellaneous Income	3,000	1.0%	1,535	0.6%	(1,465)	(48.8%)
<b>Total Net Revenue and Other Sources</b>	<b>286,037</b>	<b>100.0%</b>	<b>277,960</b>	<b>100.0%</b>	<b>(8,077)</b>	<b>(2.8%)</b>
<b>EXPENDITURES AND OTHER USES</b>						
<b>CURRENT EXPENDITURES</b>						
Cost of Energy	269,368	94.2%	267,287	96.2%	(2,082)	(0.8%)
Data Manager	2,237	0.8%	2,217	0.8%	(20)	(0.9%)
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Contract Services	1,562	0.5%	1,808	0.7%	247	15.8%
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Other G&A	1,787	0.6%	1,316	0.5%	(471)	(26.3%)
Energy Programs	1,221	0.4%	1,199	0.4%	(22)	(1.8%)
	285,272	99.7%	281,675	101.3%	(3,597)	(1.3%)
<b>OTHER USES</b>						
Capital Outlay	0	0.0%	0	0.0%	0	0.0%
Total Other Uses	0	0.0%	0	0.0%	0	0.0%
<b>DEBT SERVICE</b>						
Interest costs - nonoperating	314	0.1%	317	0.1%	2	0.8%
Finance costs - Principal	0	0.0%	0	0.0%	0	0.0%
<b>Total Expenditures and Other Uses</b>	<b>285,587</b>	<b>99.8%</b>	<b>281,992</b>	<b>101.5%</b>	<b>(3,594)</b>	<b>(1.3%)</b>
<b>Net Income (Surplus/Deficit)</b>	<b>450</b>	<b>0.2%</b>	<b>(4,032)</b>	<b>(1.5%)</b>	<b>(4,483)</b>	<b>(995.3%)</b>

## FY 2025-26 MID-YEAR OPERATING BUDGET ANALYSIS

The FY 2025-26 Mid-Year Budget aligns revenue projections with the Board-approved 2026 rate design and incorporates updated power supply projections. The sections below summarize the mid-year budget adjustments and the key assumptions driving these updates.

### *Net Revenue – Electricity (-\$6.6 million)*

OCPA's primary source of revenue is retail electricity sales. OCPA's generation rates are benchmarked to Southern California Edison (SCE) and adjusted for applicable surcharges, including the Power Charge Indifference Adjustment (PCIA). The FY 2025-26 Recommended Budget assumed a full year of service to approximately 24,000 commercial and 155,000 residential customer accounts across OCPA's member jurisdictions within SCE's service territory.

For the first half of the fiscal year (July – December 2025), net electricity revenue reflects the 2025 rate design<sup>1</sup> approved in January 2025, which set OCPA's base generation rates at a 3% discount to SCE's equivalent generation rates. While OCPA's base generation rates were set below SCE's equivalent generation rates, revenue in the first half of the year was lower than it would have been under SCE-equivalent pricing; the impact was partially offset by recognition of the \$30 million revenue deferral consistent with the approved financial plan.

For the second half of the fiscal year (January – June 2026), net electricity revenue reflects the Board-approved 2026 rate design adopted on January 12, 2026, which maintains the October 2025 OCPA generation rates and product differentials for Basic Choice, Smart Choice, and 100% Renewable Choice throughout calendar year 2026. This approach provides predictability and stability for customers during a period of heightened market volatility. Consistent with the Board's affordability direction, holding rates flat while the power supply cost environment<sup>2</sup> was higher than assumed at budget adoption reduces near-term operating margin and the net revenue available to recover power supply costs and support operating reserve levels (notwithstanding the mid-year cost mitigation measures reflected elsewhere in this report, including a \$2.1 million decrease in projected cost of energy versus the approved budget). Accordingly, net electricity revenue is projected to be \$6.6 million lower than the original budget as of June 30, 2026. This budget-to-budget variance reflects the Board-approved rate strategy and updated forecasting assumptions, not a reduction in OCPA's service footprint.

### *Investment and Miscellaneous Income (-\$1.5 million)*

Projected investment and miscellaneous income for FY 2025-26 is generated from OCPA's diversified portfolio of interest-bearing assets, including FDIC-insured IntraFi Cash Services (ICS) money market accounts, negotiable certificates of deposit (CDs), and U.S. Treasury bills.

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<sup>1</sup> **Basic Choice** offers a 3% discount compared to SCE's equivalent generation rates and includes 47% renewable energy content. **Smart Choice** is priced at 1.0 cent per kWh above Basic Choice rates and provides 55% renewable and 40% carbon-free energy in 2025, increasing to 60% renewable and 40% carbon-free energy in 2026. For customers seeking a fully renewable option, **100% Renewable Choice** is available at 1.5 cents per kWh above Basic Choice rates.

<sup>2</sup> For clarity, references to a higher "power supply cost environment" describe conditions relative to assumptions used at budget adoption; the mid-year cost of energy forecast reflects updated inputs and mitigation actions, resulting in a \$2.1 million decrease versus the approved budget.

This strategy is designed to maintain liquidity, comply with OCPA's Investment Policy, and achieve prudent, risk-adjusted returns.

Investment and miscellaneous income is projected to be \$1.5 million below the original budget, primarily due to (1) lower average investable cash balances than assumed at budget adoption, reflecting updated timing of cash needs for power supply and CAISO settlements, and (2) reinvestment yields that were modestly lower than assumed in the approved budget, and a reduced average invested principal balance during the fiscal year.

### ***Cost of Energy (-\$2.1 million)***

Total cost of energy includes system energy, renewable energy (including carbon-free attributes), California Independent System Operator (CAISO) fees, and Resource Adequacy (RA).

The projected \$2.1 million decrease in cost of energy is primarily driven by updated assumptions for the 2026 Renewables Portfolio Standard (RPS) Market Price Benchmark (MPB), which is used to calculate renewable energy (REC) costs under SCE's Voluntary Allocation Market Offer (VAMO). As part of OCPA's cost mitigation efforts, the mid-year budget updates the 2026 RPS MPB assumptions based on a blended price forecast using the most recent available forecasts from S&P Global and the CPUC. In addition, the CPUC's PCIA OIR may evaluate the MPB methodology and related market inputs; the mid-year budget reflects the most current available forecasts and observed market pricing trends for REC and RA.

Additional savings are supported by recent declines in REC market prices and revenues generated through portfolio optimization, including sales of surplus RA, carbon-free resources, and RECs, where available and economical.

Despite ongoing market volatility, OCPA remains financially resilient. Through proactive procurement, disciplined forecasting, strategic monetization of surplus resources, and continuous cost optimization, OCPA continues to provide reliable and affordable energy service to the communities it serves.

### ***Non-Energy Operating Expenses***

OCPA's non-energy operating expenses support essential business functions, including data management and utility service fees, staffing, contract services, legal services, marketing and outreach, general and administrative costs, and energy programs. To maintain financial stability and help mitigate rate impacts, OCPA has proactively identified efficiencies and implemented cost-saving measures while sustaining operational effectiveness. These reductions reflect deliberate prioritization of reliability, compliance, customer service, and member support functions, while scaling back or deferring discretionary spending where feasible.

The FY 2025-26 mid-year budget reflects an overall reduction of approximately \$1.5 million (9.5%) in non-energy operating expenses. The sections below summarize key expense areas and the associated budget adjustments.

### ***Data Manager and Utility Service Fees (-\$102,000)***

OCPA contracts with Calpine Community Energy (Calpine) for essential services such as billing data management and call center operations, with fees primarily determined by the number of customer meters served. In addition, SCE assesses utility service fees for meter reading, data processing, and bill coordination, as required and regulated by the California Public Utilities Commission (CPUC).

OCPA projects \$102,000 in savings by June 30, 2026, driven primarily by careful review and validation of SCE billings to identify and minimize billing errors, and true-ups to actual expenditures based on updated meter counts and confirmed service fee charges.

### ***Staffing Costs (-\$1 million)***

As part of OCPA's ongoing cost mitigation efforts, staffing adjustments have been implemented to support financial stability while maintaining operational effectiveness.

In June 2025, the Board approved a staffing plan of 29 full-time positions and two intern positions for FY 2025-26. Staffing costs include salaries, payroll taxes, benefits, cost-of-living adjustments (COLA), and stipends for Board and Community Advisory Committee (CAC) members.

To help offset rising operating costs and reduce near-term budget pressure, OCPA strategically adjusted the timing of filling vacant full-time positions, resulting in approximately \$1 million in savings. Essential operational, compliance, and customer-facing functions continue to be supported through existing staff capacity and targeted contract support where appropriate.

Total staffing costs are projected at approximately \$5.2 million by June 30, 2026, representing about 1.9% of total revenues.

### ***Contract Services (+\$247,000)***

OCPA follows industry best practices by using external consultants to supplement internal operations while building internal capacity over time for non-technical functions. This approach supports operational efficiency, cost-effectiveness, and long-term organizational resilience as OCPA transitions toward greater self-sufficiency.

Contract services provide specialized expertise and support across the following areas:

#### **Energy Procurement and Portfolio Management**

Includes short- and long-term energy procurement and contracting, power supply portfolio and risk management, load forecasting, integrated resource planning, scheduling coordination, Congestion Revenue Rights (CRR) transactions, and CAISO settlements and compliance reporting.

#### **Financial and Administrative Services**

Includes accounting and annual financial audits, rate strategy development, analysis of SCE General Rate Case (GRC) filings and Energy Resource Recovery Account (ERRA) forecasts, as well as IT support, cybersecurity services, human resources consulting, credit rating development, and banking services.

### Green Prepayment Bonds

Includes fees for the green bond second-party opinion and credit rating agency assessments, totaling approximately \$345,000.

Through disciplined planning and cost controls, OCPA has largely maintained contract service expenditures in line with the original FY 2025-26 budget. The proposed mid-year increase is primarily driven by green prepayment bond-related fees that were not fully reflected at the time of budget approval and became known as the transaction advanced.

### ***Legal Services (-\$49,000)***

Legal services support OCPA's general counsel needs, power supply procurement, regulatory compliance, employment matters, governance, and legislative advocacy. To strengthen engagement in state-level policy, OCPA plans to retain a Sacramento-based lobbyist in Q1 2026.

OCPA projects \$49,000 in savings in the legal services budget by June 30, 2026, primarily due to lower-than-budgeted costs for labor counsel, clerk support, and advocacy-related services.

### ***Marketing and Outreach (-\$104,000)***

As a community-focused public agency, OCPA prioritizes meaningful engagement with customers to build trust, strengthen relationships, and advance its mission of delivering clean, affordable energy. Through a mix of communication channels and community presence, OCPA raises awareness of its services, educates residents and businesses about community choice energy, and promotes local sustainability initiatives.

Through strategic cost management and internal efficiencies, OCPA projects \$104,000 in savings in the Marketing and Outreach budget by June 30, 2026, while maintaining a strong commitment to community engagement.

Savings are primarily attributable to lower-than-budgeted spending in paid media, reduced costs under the marketing and communications consultancy contract, and lower translation services expenses during the fiscal year. These reductions reflect timing, campaign planning efficiencies, and careful vendor and scope management, while preserving OCPA's ability to maintain consistent communications and outreach.

Sponsorships, memberships, and promotional materials remain important tools for community presence and engagement. Accordingly, the projected savings are not driven by structural reductions in those ongoing line items, and OCPA expects these costs to remain necessary to support community engagement needs, including anticipated outreach to prospective members such as Fountain Valley.

### ***General & Administrative (-\$471,000)***

General and Administrative (G&A) expenses support core business operations, including office lease costs, IT equipment and software, business insurance, bank fees, office supplies, and industry membership dues (including California Community Choice Association, CalCCA, and California Community Choice Financing Authority, CCCFA). G&A also includes discretionary spending

such as conferences, professional development, travel, and business meals, all of which have been closely managed to control costs.

As of June 30, 2026, OCPA achieved \$471,000 in savings through targeted cost mitigation efforts, primarily by reducing discretionary expenses while maintaining essential business functions. Key savings were driven by lower travel and professional development spending, tighter controls on office-related purchases, and more cost-effective business meal practices. Additional reductions were achieved through a review of industry memberships and subscriptions to eliminate or defer non-essential items.

In the IT category, implementation of a new energy portfolio risk management system will be deferred. This system would enhance market intelligence, portfolio optimization, risk management, and regulatory compliance; however, the renewal of OCPA's existing power portfolio management service provider will provide comparable functionality within the existing scope of services and flat monthly fees, eliminating the need for a separate near-term investment.

***OCPA Energy Programs Development Progress (Total FY 2025/26 Projected Spending: \$1.2 million)***

OCPA is committed to reinvesting in its communities through energy programs that deliver direct customer benefits while advancing the transition to clean energy. Programs are designed to reflect the diverse needs of households and businesses across OCPA's member jurisdictions and to prioritize equity, affordability, and measurable outcomes.

A key milestone in this work is the launch of the Board-approved Community Power Plan (CPP), a strategic framework to identify local priorities and guide the development of future offerings. To support CPP implementation, OCPA invested in consulting and administrative support, including a comprehensive Community Needs Assessment and three additional evaluations focused on existing program performance, internal operational alignment, and potential future funding opportunities.

OCPA also continues to operate its Incentive Finder platform, which helps customers identify applicable local, state, and federal rebates and energy efficiency incentives tailored to their specific needs.

To support sustainable transportation, OCPA advanced development of an EV charging program for member cities and partnered with the Orange County Transportation Authority (OCTA) to offer e-bike safety training that promotes safe and low-emission transportation alternatives. In addition, OCPA's annual Bright Futures Grant provides funding to community organizations advancing clean energy and sustainability initiatives.

In Q3 2025, OCPA launched its first state-funded program, the Equitable Building Decarbonization Direct Install (EBD-DI) initiative, funded by the California Energy Commission (CEC). The program provides no-cost energy-efficient upgrades to low- and middle-income households in communities of concern. OCPA has been awarded \$771,000 to implement the program and anticipates receiving approximately \$33,800 in grant revenue by June 30, 2026, to

reimburse labor, fringe benefit, and travel costs associated with program development and outreach.

### **Other Uses and Non-Operating Expenses**

#### ***Interest and Finance Costs (+\$2,000)***

Interest expenses include approximately \$266,000 in accrued interest on the \$7.5 million loan from the City of Irvine and an imputed interest expense of approximately \$51,000 related to OCPA's office rental lease. The lease interest is calculated in accordance with Governmental Accounting Standards Board (GASB) 87 Leases accounting rules, which require the net present value of lease obligations to be capitalized and amortized over the lease term.

### **FISCAL IMPACT**

In its third full year of operations, the proposed FY 2025-26 Mid-Year Operating Budget Amendment reflects OCPA's commitment to limiting customer rate impacts while navigating rising energy costs. The mid-year update balances affordability and financial stewardship, maintains operational stability, and demonstrates disciplined budget governance and proactive management of market volatility.

The amended budget projects approximately \$278 million in net revenues and \$282 million in total operating and non-operating expenses, resulting in an estimated \$4 million shortfall as of June 30, 2026. This near-term shortfall is expected to be mitigated by savings associated with the green prepayment bonds transaction by December 31, 2026. The June 30, 2026 timing shortfall is driven primarily by lower net electricity revenue associated with holding rates flat for predictability, and is partially offset by cost mitigation measures reflected in the mid-year forecast, including a \$2.1 million decrease in cost of energy versus the approved budget. Even with this budget pressure, OCPA maintains a positive operating reserve and sufficient liquidity to support power supply procurement, CAISO settlement obligations, and ongoing operations.

Based on the mid-year budget presentation in Attachment 1, the operating reserve is projected to be approximately \$41 million, or 14% of total budgeted operating expenditures, as of June 30, 2026. This estimate reflects the conservative budget basis used for the Operating Budget amendment. Consistent with the 2026 Rate Design financial forecast, OCPA's reserve outlook is projected to be approximately \$52 million, or 21%, by December 31, 2026, reflecting updated planning assumptions and timing differences between the operating budget presentation and the rate design pro forma forecast. Together, these views support the conclusion that OCPA remains financially stable while prioritizing customer affordability during market volatility.

Despite near-term budget pressure, OCPA remains financially resilient. Through prudent financial oversight, targeted cost mitigation, disciplined planning, and active portfolio management, OCPA continues to provide reliable and cost-effective energy service to the communities it serves while maintaining a focus on long-term sustainability.

### **ATTACHMENT**

1. Proposed Fiscal Year 2025-26 Mid-Year Operating Budget Amendment

## Proposed FY 2025/26 Mid-Year Operating Budget Amendment

(\$ in thousands)	Approved Budget		Mid-Year Budget			
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