March 16, 2017

TO:	MCE Board of Directors
FROM:	David McNeil, Finance and Project Manager Michael Maher, Maher Accountancy
RE:	Proposed Budgets for Fiscal Year 2017/18 (Agenda Item #06)
ATTACHMENT:	Proposed FY 2017/18 Operating Fund, Energy Efficiency Program Fund, Local Renewable Energy Development Fund, and Renewable Energy Reserve Fund Budgets

Dear Board Members:

SUMMARY:

Before the end of every fiscal year, MCE's Board has the responsibility to set forth Budgets for MCE's Operating Fund, Energy Efficiency Program Fund, Local Renewable Energy Development Fund, and Renewable Energy Reserve Fund for the upcoming fiscal year (FY). These Budgets authorize Staff to spend funds within the limits set forth in each budget line item and collect revenue. The attached proposed Budgets reflect MCE's anticipated revenue, expenditures, and contingencies for FY 2017/18. FY 2016/17 Budgets and projected results for the FY 2016/17 Operating Fund have been provided for information and comparative purposes.

Pursuant to MCE's Implementation Plan, the proposed Budgets were submitted to your Board in February along with proposed rates for the upcoming year. Proposed rates were made available to the public for a thirty-day review period. Staff requests your Board approve the proposed FY 2017/18 Budgets.

Operating Fund Budget

The attached Proposed FY 2017/18 Operating Fund Budget sets forth the following budget line items:

Revenue – electricity (+$20,361,000, 11% increase): Budgeted electricity revenues are based on estimates of customer electricity usage and proposed rates. The increase in revenue results from the inclusion of new communities in September 2016. Budgeted revenues incorporate an average decrease in rates of 9% that took effect in September 2016 and an additional proposed average rate decrease of 3.7% that would take effect in April 2017. Electricity revenues also include revenues associated with MCE's Deep Green program and an allowance for uncollectable accounts.

Other revenue (-$115,000, 92% decrease): Other revenue includes operating revenue that does not represent sales of electricity and includes such items as insurance claims and cost recovery. Other revenue frequently relates to unanticipated events that occur during the year.

Cost of energy (+$21,463,000, 13% increase): Cost of energy includes expenses associated with purchase of energy products, charges by the California Independent Systems Operator (CAISO) for scheduled load, and services performed by the CAISO. Credits for energy generation scheduled into the CAISO market are netted from the Cost of energy. Increased energy costs reflect the cost of purchasing additional energy products to serve new customers enrolled in September 2016.

Service fees – PG&E (+$232,000, 18% increase): Service fees are based on the number of meters served by MCE and per meter rates charged by PG&E and are expected to increase as a result of the inclusion of new communities in September 2016.

Personnel (+$1,498,000, 29% increase): Increased budgeted personnel costs result from the full year impact of staff added during FY 2016/17 pursuant to the Board-approved FY 2016/17 Operating Fund Budget, new hires planned for FY 2017/18, the application of Cost of Living Adjustments (COLA) effective January 1st of each year, and performance-based increases to current staff salaries consistent with MCE's Board-approved Employee Handbook.

Data manager (+$120,000, 3% increase): Data manager costs are based on the number of meters served by MCE and per meter rates charged by MCE's data manager. Increased data manager costs incorporate the effect of including new communities in September 2016 and reduced rates offered by the data manager which went into effect at that time.

Technical and scheduling services (+$44,000, 6% increase): Technical services costs are based on a fixed charge per MWh of electricity usage. Technical services costs are expected to increase as a result of the inclusion of new communities in September 2016 and the scheduled rollout of new services provided by MCE's scheduling coordinator.

Legal and regulatory services (-$73,000, 9% decrease): Legal counsel expenses support MCE's contracting and regulatory activities. Legal counsel expenses are expected to decrease as a result of staff performing more contracting work in-house and reduced long term procurement activity anticipated in FY 2017/18.

Communications and related services (+$147,000, 15% increase): Communications and related services include the costs associated with print, online, and other advertising, printing and mailing customer notices, events, and sponsorships. Increased costs are expected as a result of the inclusion of new communities in September 2016, which increased the number of customers served by MCE by approximately 50%.

Other services (+$273,000, 58% increase): Other services encompass expenses which are not captured in other budget categories, and include accounting, auditing, information technology, and other services. Increased other services result from the growth of the agency and from costs that may be incurred in connection with MCE's recent request for offers for data management and other services.

General and administration (+$124,000, 28% increase): General and administration costs include office, data, travel, dues and subscriptions, and other related expenses. Increased costs are associated with support for California Community Choice Association (CalCCA) and the increased number of employees.

Occupancy (+$122,000, 30% increase): Occupancy costs include the costs of leasing MCE's office, utilities, and building maintenance. Increased occupancy costs result in part from contracted increases in building lease expenses.

Local pilot programs (+$165,000, 330% increase): Local pilot programs support residential demand side management pilot programs offered in MCE's service territory including the My Energy Insight program, Richmond Advanced Energy Communities, and transportation electrification. Increased costs are intended in part to fund new programs launched during FY 2017/18.

Marin County green business program (no change): Marin County's green business program is a voluntary partnership among business leaders, government agencies, and non-profit organizations which promotes environmental responsibility, good business practices, and community concern among local businesses. MCE sponsors Marin County's green business program via a $10,000 annual grant.

Low income solar programs (+$5,000, 14% increase): Low income solar programs support residential rooftop solar for low income participants. Increased costs are intended to fund increased activity in this area.

Grant and other income (+$65,000, 87% increase): Grants are provided by government and non-government organizations to support activities connected to MCE's mission. FY 2017/18 grant income represents grants provided by the Bay Area Air Quality Management District (BAAQMD) and the Transportation Authority of Marin (TAM) in connection to the construction of a solar carport and electric vehicle charging stations in MCE's parking lot. Other income represents income for administrative services performed by MCE Staff for California Community Choice Association (CalCCA).

Interest income (+$45,000, 92% increase): Increased interest income is expected to result from an increase in interest rates and higher balances in savings accounts at River City Bank.

Interest expense and financing costs (+$136,000, 39% increase): These costs are associated with renewal fees on MCE's line of credit, the costs associated with obtaining a credit rating, and a contingency that would support the issuance of letters of credit.

Capital outlay (-$16,000, 4% decrease: Expenditures associated with capital outlay include various leasehold improvements made at MCE's facilities.

Energy Efficiency Program Fund

The Energy Efficiency Program Fund uses funding authorized by the California Public Utilities Commission (CPUC) to support multifamily, small commercial, single family, and financing sub-programs. The Energy Efficiency Program Fund supports the activities of the Energy Efficiency Program and the Low Income Families and Tenants (LIFT) Pilot Program. Both programs are reimbursable type programs and eligible expenses are reimbursed by the CPUC. Accordingly, the revenue and expenses for these programs offset each other.

Energy Efficiency Program
Energy efficiency has always been an integral component of the MCE vision. In July 2012, MCE submitted an application for funding under the 2013 -2014 Energy Efficiency Funding Cycle (A. 12-11-007). The application was based on the initial Energy Efficiency Plan, and included the following proposed sub-programs:

1. Multifamily
2. Single family utility demand reduction pilot program
3. Small commercial
4. Four financing pilot programs: On Bill Repayment for single family,[1] multifamily, small commercial, and a standard offer pilot.

This application was approved on November 9, 2012, allocating over $4 million to MCE for the implementation of energy efficiency programs. In November 2014, the CPUC voted to extend the funding at annual levels through 2025, or until the CPUC moves otherwise.

In May 2016, the CPUC authorized an additional $366,090 to support the inclusion of new communities in MCE's service area. MCE is proposing to use these funds to support existing rebate programs and will initially target the east bay communities of San Pablo, El Cerrito, and Benicia. The CPUC authorized additional funding to support Evaluation, Monitoring, and Verification (EM&V) for the

[1] The on-bill repayment pilot for single family customers was subsequently closed in fall of 2015 after the financial institution withdrew. Funds have since been re-directed to the multifamily energy efficiency program.

purposes of conducting studies on the efficacy of CPUC-funded program process and program impacts (i.e. did the lightbulb reduce energy savings as expected). $96,342 is allocated for EM&V in FY 2017/18.

FY 2017/18 Energy Efficiency Program Budget

Programs	**Budget ($)**
Single Family	233,000
Multifamily	668,000
Small Commercial	659,000
Financing	27,000
Program Subtotal	**1,586,000**
Evaluation Measurement and Verification (EM&V)	96,000
Total	**1,691,000**

Low Income Families and Tenants (LIFT) Pilot Program
In November 2016, the CPUC authorized MCE to administer $3.5 million in low income program funding over a two-year period in support of its proposed Low Income Families and Tenants (LIFT) Pilot Program (Decision 16-11-022.). This pilot will provide funding to deepen the impact of MCE's multifamily energy efficiency program for income-qualified properties, specifically by providing full cost coverage for improvements that directly benefit tenants (for example, in-unit upgrades and common area measures that provide services to tenants, such as central hot water systems). The pilot also proposes to test the implementation of heat pumps – high efficiency electric heating equipment – which can facilitate switching a building off of carbon-based fuels and enabling deeper greenhouse gas reductions. MCE will also test the ability of working with local community based organizations to engage community members who are not participating in the program due to real or perceived barriers.

The pilot also includes a residential energy education component for single-family residential customers. This program will provide income-qualified customers with access to a mobile phone based energy education platform that will help them identify and act on low or no-cost energy savings opportunities within their homes. To encourage further and sustained improvements, MCE will pilot a Matched Energy Savings Account (MESA), which will match customer bill savings on a dollar per dollar basis. Funds from the MESA will be available to the customer for further investment in their home.

Two Year LIFT Pilot Program Budget

Sector	**Budget ($)**	**Target Savings (KWh)**	**Target Savings (Therms)**	**Target Housing Units**
Multifamily	2,941,283	340,863	16,302	1,482
Single-family	558,717	23,831	2,371	300
Total	**3,500,000**	**357,165**	**26,202**	**1,782**

The LIFT program is scheduled for launch in April 2017 and would be funded the CPUC's Energy Savings Assistance Programs (ESAP) funds. Of the $3.5 million authorized by the CPUC over a two-year period, Staff proposes to budget revenues and expenditures equal to $1.75 million in FY2017/18.

Proposed revenues and expenditures for the Energy Efficiency Program Fund total $3,441,000, which is equal to an increase of $1,855,000 from the previous year.

Local Renewable Energy Development Fund

This Local Renewable Energy Development Fund is financed by a transfer from the Operating Fund equal to 50% of the premium for Deep Green service. These resources are used to plan, create, and develop local energy efficient projects. The transfer from the Operating Fund is expected to equal expenditures from this fund. In FY 2014/15, FY 2015/16, and FY 2016/17 expenditures from the Local Renewable Energy Development Fund expenditures supported the development of MCE Solar One. In

FY 2017/18 expenditures from this fund are intended to support costs related to the construction of a solar carport and electric vehicle charging stations at the MCE office.

Renewable Energy Reserve Fund

This Renewable Energy Reserve Fund is intended for the procurement or development of renewable energy not planned for in the Operating Fund. Resources may accumulate from year to year. In FY 2015/16 your Board approved the transfer of $1 million from the Operating Fund to the Renewable Energy Reserve Fund. In May 2016 your Board approved expenditures from the Renewable Energy Reserve Fund to support MCE Solar One development costs not expended in the Local Renewable Energy Development Fund and revenues associated with the transfer of MCE Solar One to a new developer.

Staff propose to budget revenue in FY 2017/18 to support the transfer of MCE Solar One to sPower under the terms of the proposed Purchase and Sale Agreement presented to your Board at its March 2017 meeting. Under this Agreement MCE would receive proceeds from the sale of MCE Solar One assets totaling $800,000. The Agreement includes a number of terms which must be fulfilled ("conditions precedent") before the Agreement becomes effective. These terms may be fulfilled before or after MCE's March 31, 2017 year end. Under these circumstances, it is appropriate to budget revenues associated with the MCE Solar One Purchase and Sale Agreement in both FY 2016/17 and FY 2017/18. Proposed FY 2017/18 expenditures are intended to fund predevelopment work for new local renewable energy projects that support MCE's mission.

FISCAL IMPACT: The net impact of increasing the Proposed Operating Fund Budget is an $8,356,000 contribution to MCE's net position during FY 2017/18. The budgeted contribution to the net position is equal to 4% of revenues, consistent with MCE's Rate Setting Guidelines. If approved, budgeted revenues would entirely offset expenditures in the Energy Efficiency Program Fund, Local Renewable Energy Development Fund, and Renewable Energy Reserve Fund, and these funds will not impact MCE's net position.

RECOMMENDATION: Approve the FY 2017/18 Operating Fund, Energy Efficiency Program Fund, Local Renewable Energy Development Fund, and Renewable Energy Reserve Fund Budgets.