March 17, 2016

TO: Marin Clean Energy Board

FROM: David McNeil, Project and Finance Manager
Mike Maher, Maher Accountancy

RE: Proposed Budgets FY 2016/17 (Agenda Item #05)

ATTACHMENT: Proposed Budgets for FY 2016/17

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, Renewable Energy Reserve Fund and the Local Renewable Energy Reserve Fund for the upcoming fiscal year. These Budgets authorize the Staff to earn revenue and spend funds within the limits set forth in each budget line item. The attached Budgets reflect MCE's anticipated revenue and expenditures for the 12 months ending March 31, 2017. Anticipated results for the year ending March 31, 2016 have been provided for information and comparative purposes.

The attached Proposed Budgets for the Fiscal Year Ending March 31, 2017 set forth the following line items:

OPERATING FUND

- Revenue: The proposed revenue reflects rates for energy that are unchanged from the previous year. Lower revenue in FY 2016/17 reflects higher than expected usage in FY 2015/16 and conservative estimates of usage in the upcoming year.
- PG&E Service Fees: PG&E service fees, which are primarily charged on a per customer basis, will increase in FY 2016/17 due to an expected increase in the number of customers and full year charges resulting from the expansion of MCE's service territory in 2016.
- Data Manager: Data management costs are charged on a per meter basis. MCE's service territory expanded during FY 2015/16. Recording these costs over the full year has the effect of pushing the overall cost upward.
- Cost of Energy: MCE's cost of energy is expected to increase in FY 2016/17. The increase in projected power costs is primarily the result of higher anticipated sales volumes as well as changes in the composition of MCE's renewable energy portfolio associated with policies adopted in the 2015 Integrated Resource Plan update aimed at greater utilization of bundled renewable energy power purchase contracts and fewer purchases of unbundled renewable energy certificates. The average cost of the supply portfolio is projected to increase by approximately 1.6%, to $71.8 per MWh in the coming fiscal year from $70.7 per MWh estimated for the prior fiscal year.
- Personnel: Increased Staff costs reflect anticipated hiring for new positions in FY 2016/17, the full year impact of staff hired during FY 2015/16, increased salaries associated with new pay

ranges approved by the Board in late 2015, cost of living increases for all staff and performance based increases for individual staff members.

- Technical Consultants: MCE's technical consultant costs are expected to decrease in FY 2016/17 due to contract restructuring.
- Legal Counsel: MCE's legal costs are expected to increase in FY 2016/17. Increased costs are caused by a shifting of expenses from "Other Services" to "Legal Counsel" (see below) and increased costs associated with an increased number of Power Purchase Agreements expected to be negotiated and executed in FY 2016/17. Legal Counsel costs are also expected to increase due to increased support for energy efficiency, regulatory and public request activity.
- Communications: The communications budget is not expected to increase in FY 2016/17.
- Other Services: The other services line item includes costs associated with audit, accounting, information technology, among several other services.
- General and Administration: The general and administration line includes: data and office telephone service, insurance, equipment rentals, subscriptions, travel, business meals, other services, conferences, professional education, special events sponsorship, office supplies and postage, and small equipment. G&A costs are expected to increase to accommodate new staff, full year expenses associated with the expansion of MCE's customer territory in 2015 and various expenditures for MCE's new office facility.
- Occupancy: Occupancy costs include lease payments, utilities, and maintenance costs. MCE moved into its current location during FY 2015/16. FY 2016/17 occupancy costs are expected to increase reflecting a full 12 months of lease payments at the new location.
- Integrated demand side pilot programs: This budget category will assist MCE with achieving its strategic energy goals for integrated demand side management.
- Marin County Green Business Program: Contribution to the Marin County Green Business Program.
- Low income solar programs: MCE plans to continue its efforts to encourage solar installations in low income areas by alleviating some of the costs.
- Interest and Financing Costs: Financing costs are expected to increase to support the needs of the organization.
- Local Renewable Energy Development Fund: MCE transfers 50% of the premium from Deep Green energy sales to fund local renewable projects.
- Capital Outlay: MCE anticipates the need for capital outlay related to the new office facility and equipment for its staff.
- Depreciation: Depreciation expense is a non-cash outlay related to capital equipment and leasehold improvements. This is provided for informational purposes only, as the separate Capital Outlay line represents the actual outflow required to acquire these resources. The net effect of depreciation on the Operating Fund balance is zero.

ENERGY EFFICIENCY PROGRAM FUND

- The Energy Efficiency Program is financed through the CPUC and distributes funds through its multi-family, small commercial, single family, and financing sub-programs. The program is a reimbursable type program, where eligible expenses are reimbursed by the CPUC. Accordingly, the revenue and expenses for this program are intended to offset each other.

LOCAL RENEWABLE ENERGY DEVELOPMENT FUND

- This Fund is financed by 50% of the premium from deep green customer sales. These resources are used to plan, create and develop local energy efficient projects.

RENEWABLE ENERGY FUND

- This 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 and be expended as management determines.

Changes to the Operating Fund Budget:

Staff recommends the following changes to the Operating Fund Budget submitted at the February 18, 2016 Board Meeting:

- Increase Personnel costs by $122,000 to $4,489,000. Increased Personnel costs are offset by a $122,000 decrease in the Change in Net Position, which is now forecast to be $5,880,000.

The increase in Personnel costs will facilitate the staffing of a new position in the Energy Efficiency department, accommodate a reduced estimate of the amount of Energy Efficiency salaries that will be funded by the CPUC and fund the movement of an administrative position in the Procurement team from part time to full time.

Staff also recommends that the Board provide Staff with the authority to transfer funds from the following budget line items to the Personnel line item as needed:

Budget Line Item	Maximum Allowable Transfer to Personnel
Other Services	110,000
Communications consultants and related	80,000
Legal counsel	200,000

As the Board is aware, MCE continues to evaluate bringing in-house various activities currently performed by contractors in order to reduce costs and improve the quality of services. The recommendation to approve inter-budget line item transfers is intended to allow Staff the discretion to hire additional staff who would replace work currently performed by contractors. A transfer from each of the Budget line items, should it occur, would decrease the approved maximum spending limit for that line item and increase in the Personnel line item by the same amount. No increase in total operating costs would result from these transfers.

Recommendations:

1. Approve Proposed Revenues and Expenditures for the Operating Fund, Energy Efficiency Program Fund, Renewable Energy Reserve Fund and the Local Renewable Energy Reserve Fund for Fiscal Year Ending March 31, 2017.

2. Authorize Staff to direct the following transfers at Staff's discretion: Transfer from Other Services to Personnel an amount not to exceed $110,000; Transfer from Communications Consultants and Related to Personnel an amount not to exceed $80,000; Transfer from Legal Counsel to Personnel an amount not to exceed $200,000 during FY2016/17.