SILICON VALLEY CLEAN ENERGY

Silicon Valley Clean Energy
Finance and Administration Committee Meeting

Wednesday, May 30, 2018
11:00 am

Silicon Valley Clean Energy Office
Conference Room
333 W El Camino Real, Suite 290
Sunnyvale, CA

AGENDA

Call to Order

Roll Call

Public Comment on Matters Not Listed on the Agenda

The public may provide comments on any item not on the Agenda. Speakers are limited to 3 minutes each.

Consent Calendar

1) Approve Minutes from the March 9, 2018 Audit and Finance Committee Meeting

Regular Calendar

2) Amendment to Reserves Policy (Action)
3) Establish Line of Credit (Action)
4) Building Facility Options (Action)
5) SVCE Benefits and Compensation (Action)
6) FY 2018-19 Operating Budget Preview (Discussion)
7) Second Quarter Financial Review (Discussion)
8) Popular Annual Financial Report (Discussion)

Committee/Staff Remarks

Adjourn

svcleanenergy.org

333 W El Camino Real
Suite 290
Sunnyvale, CA 94087

SILICON VALLEY CLEAN ENERGY

Silicon Valley Clean Energy
Finance and Administration Committee Meeting

Friday, March 9, 2018
10:30 am

Silicon Valley Clean Energy Office
Conference Room
333 W El Camino Real, Suite 290
Sunnyvale, CA

DRAFT MINUTES

Call to Order

CEO Girish Balachandran called the meeting to order at 10:38 a.m.; Director of Administration and Finance Don Eckert presided over the meeting.

Roll Call

Present:
Director Burton Craig, City of Monte Sereno
Director Liz Gibbons, City of Campbell
Director Howard Miller, City of Saratoga
Director Rob Rennie, Town of Los Gatos

Absent:
None.

Public Comment on Matters Not Listed on the Agenda

No speakers.

Consent Calendar

1) Approve Minutes from the January 31, 2018 Audit and Finance Committee Meeting

MOTION: Director Gibbons moved and Director Craig seconded the motion to approve the Minutes of the January 31, 2018 Audit and Finance Committee Meeting as submitted.

The motion carried unanimously.

Regular Calendar

2) Select Finance and Administration Committee Chair and Vice Chair (Action)
Director of Administration and Finance Eckert introduced the item.

svcleanenergy.org

333 W El Camino Real
Suite 290
Sunnyvale, CA 94087

SILICON VALLEY CLEAN ENERGY

MOTION: Director Rennie moved and Director Gibbons seconded the motion to nominate Director Craig as Chair of the Finance and Administration Committee.

The motion carried unanimously.

Following the nomination of Chair, the Committee considered nominations for the position of Vice Chair.

MOTION: Chair Craig moved and Director Gibbons seconded the motion to nominate Director Miller as Vice Chair of the Finance and Administration Committee.

The motion carried unanimously.

Following selection of the Chair and Vice Chair, Chair Craig presided over the remainder of the meeting.

3) Approve Quarterly Meeting Time and Date for Finance and Administration Committee (Action)

Director of Administration and Finance Eckert introduced the item. Committee members discussed availability and the proposed meeting dates and times.

MOTION: Vice Chair Miller moved and Director Gibbons seconded the motion to approve the Quarterly Meeting Time and Date for the Finance and Administration Committee as follows:

Wednesday, May 30, 11am-1pm
Wednesday, September 5, 11am-1pm
Wednesday, December 5, 11am-1pm

The motion carried unanimously.

4) FY 2017-18 Mid-Year Operating Budget Review (Action)

Director of Administration and Finance Eckert introduced the item and a PowerPoint presentation. Mike Maher of Maher Accountancy provided information on the revenue forecast model and modified projections for the remainder of the year. Staff responded to Committee questions.

Committee members discussed reserves and zero net energy; CEO Balachandran noted Staff would address both topics in the coming months.

MOTION: Vice Chair Miller moved and Director Gibbons seconded the motion to recommend Board approval of the FY 2017-18 Mid-Year Operating Budget.

The motion carried unanimously.

5) Maher Accountancy Agreement for Accounting Services (Action)

Director of Administration and Finance Eckert introduced the item and responded to Committee questions.

svcleanenergy.org
333 W El Camino Real
Suite 290
Sunnyvale, CA 94087

SILICON VALLEY CLEAN ENERGY

Committee members and staff discussed the benefits of contracting an outside firm to assist with financial operations.

Committee members recommended a verbal report of the Committee's perceptions of the contract be provided to the Board as well as included in the staff report for the item.

MOTION: Director Gibbons moved and Director Rennie seconded the motion to recommend to approve the agreement with Maher Accountancy for Accounting Services to the full Board, with the notes discussed.

The motion carried unanimously.

6) CSMFO Budget Award (Discussion)

Director of Administration and Finance Eckert introduced the item and Administrative Analyst Stephanie Gutowski provided additional information on the application process and grading of the award.

7) Year-To-Date Financial Review (Discussion)

Director of Administration and Finance Eckert introduced the item and presented a PowerPoint presentation; Director of Administration and Finance Eckert responded to Committee questions.

Committee members provided suggestions for the PowerPoint presentation.

8) Establish a Line of Credit (Discussion)

Director of Administration and Finance Eckert introduced the item and responded to Committee questions. Maher provided additional information regarding the benefits of establishing a line of credit.

Director of Administration and Finance Eckert noted Staff would continue talks with River City Bank and bring a more formalized recommendation to the group.

Committee/Staff Remarks

Board Clerk Andrea Pizano noted the County would be appointing a representative for the Finance and Administration Committee and details would be forthcoming.

Adjournment

Chair Craig adjourned the meeting at 11:38 a.m.

svcleanenergy.org

333 W El Camino Real
Suite 290
Sunnyvale, CA 94087

SILICON VALLEY CLEAN ENERGY

Staff Report – Item 2

To:	Silicon Valley Clean Energy Finance and Administration Committee
From:	Girish Balachandran, CEO
Item 2:	**Amendment to Reserves Policy**
Date:	5/30/2018

RECOMMENDATION

Staff recommends that the Finance and Administration Committee recommend Board approval of the proposed amended Financial Policy #9 – Cash Reserve Policy.

BACKGROUND

At the March 8, 2017 Board of Directors meeting, the Board adopted the Reserves Policy to codify targets with respect to projected operating surpluses; this policy recommends an annual review.

ANALYSIS & DISCUSSION

As part of the annual review of the Reserves Policy, amendments are recommended to provide more clear and concise language to address the following:

- Purpose
- Level of reserves
- Funding of reserves
- Conditions for use of reserves
- Procedures for drawing below minimum and exceeding maximum levels
- Reporting and review.

STRATEGIC PLAN

SVCE's Board-adopted Strategic Plan identifies support of fiscal management.

ALTERNATIVE

Should the Committee decide not to approve the amended policy, staff will make necessary changes based on feedback from the group and return with a revised policy.

FISCAL IMPACT

None.

ATTACHMENTS

1. Proposed Financial Policy #9 – Cash Reserve Policy (clean)
2. Current Financial Policy #9 – Reserves Policy (with proposed amendments)
3. Moody's Credit Opinion – Marin Clean Energy

SILICON VALLEY CLEAN ENERGY

FP9

Category: FINANCE

CASH RESERVE POLICY

I. PURPOSE

The Cash Reserve Policy outlines the appropriate types and target levels (minimum and maximum) of unrestricted, undesignated reserves as prescribed in the following policy.

The primary reason for a reserve policy is to be prepared for contingencies, but other reasons also exists. The five most important purposes of a reserve policy are to help:

1. **Plan for contingencies.** SVCE will maintain sufficient reserves to minimize rate increase due to market volatility (power supply shocks or maintain rate competitiveness), weather impacts on demands, economic downturns, emergencies (such as natural disasters), and regulatory changes.
2. **Maintain good standing with rating agencies.** SVCE will maintain sufficient reserves to obtain, maintain or improve credit ratings.
3. **Avoid interest expense.** Having sufficient reserves avoids interest expense to cover short-term cash shortfalls using reserves instead of debt.
4. **Ensure cash availability when revenue is unavailable.** Reserves can be used to bridge times of the year that normally see temporary low levels of cash. Maintaining adequate reserves can balance intra-period differences in cash availability.
5. **Create a better working relationship between the Board of Directors and staff.** A formal reserve policy creates a shared understanding of the proper level and use of reserves.

SILICON VALLEY CLEAN ENERGY

FP9

Category: FINANCE

II. POLICY

Reserve Target Levels

SVCE shall maintain a minimum reserve balance equal to 25% (90 days) of the following fiscal year's operating budget expenditures, with a goal of increasing the reserve or reserve-equivalent to 50% (180 days) of the following fiscal year's operating budget expenditures. The maximum reserve balance is 75% (270 days) of the following fiscal year's operating budget expenditures.

Funding the Target Amount

Funding of the reserve balance targets will generally come from excess revenues over expenditures or one-time revenues.

Conditions for Use of Reserves

SVCE will strive to avoid the appropriation of reserve balance for recurring operating expenditures.

The reserve balance may be used at the discretion of the Board of Directors to:

- Provide revenues to make up for temporarily decreased revenues or power supply shocks.
- Provide temporary resources in the event of an economic downturn while expenditure reductions and/or rate adjustments are implemented.
- Provide resources to meet emergency expenditures.

The CEO is authorized to make recommendations to the Board of Directors for use of reserves. A majority vote of the Board of Directors will be required to use reserves. Any recommendations shall be accompanied by a proposal for the replenishment of the reserves to the Board of Directors.

SILICON VALLEY CLEAN ENERGY

FP9

Category: FINANCE

Replenishment of Reserves
Reserve levels below the minimum targeted reserves would leave SVCE exposed to significant operational risks. Should SVCE draw down reserves below the minimum targeted level, SVCE will implement plans to return reserves to their minimum targeted levels within two (2) years. Such plans will be provided within six (6) months.

Excess Reserves
If reserve funds exceed the maximum level, SVCE would seek approval from the Board of Directors to use the excess to finance programs, capital improvements, pay down existing debt, offset other long-term liabilities, and reduce rates or other strategic purposes.

Reserves between Minimum and Maximum
To the extent that reserves are above target and below the maximum, the Board of Directors has the flexibility to direct staff to utilize those available funds to pay for program investments, capital projects, pay down unfunded liabilities, decease outstanding debt, or fund other strategic objectives. No other action by SVCE would be required if reserves are between the minimum and maximum level unless directed by the Board of Directors.

Periodic Review of Targets
If the risk factors behind the target are eliminated or new risk factors emerge as a result of changes in the industry, legislation, or economic conditions, the basis of the reserve will be reviewed and the funding level may be adjusted accordingly.

Reporting
Reserve levels will be monitored during the fiscal year and reported in the quarterly financial reports. Reserve target levels (minimum and maximum) will be analyzed annually and over/under reserve determination shall be made in conjunction with year-end financial

results. These results will be reports to the Board of Directors as part of the year-end financial report presentation.

SILICON VALLEY CLEAN ENERGY

FP9

Category: FINANCE

~~RESERVES POLICY~~ CASH RESERVE POLICY

I. PURPOSE

~~Adequate Reserves will enable the Authority to satisfy working capital requirements, procure energy at competitive rates, adhere to loan covenants, cover unanticipated expenditures, and support rate stability.~~

The Cash Reserve Policy outlines the appropriate types and target (minimum and maximum) levels of unrestricted, undesignated reserves as prescribed in the following policy.

The primary reason for a reserve policy is to be prepared for contingencies but other reasons also exists. The five most important purposes of a reserve policy are to help:

1. **Plan for contingencies.** SVCE will maintain sufficient reserves to minimize rate increase due to market volatility (power supply shocks or maintain rate competitiveness), weather impacts on demands, economic downturns, emergencies (such as natural disasters), and regulatory changes.
2. **Maintain good standing with rating agencies.** SVCE will maintain sufficient reserves to obtain, maintain or improve credit ratings.
3. **Avoid interest expense.** Having sufficient reserves avoids interest expense to cover short-term cash shortfalls using reserves instead of debt.
4. **Ensure cash availability when revenue is unavailable.** Reserves can be used to bridge times of the year that normally see temporary low levels of cash. Maintaining adequate reserves can balance intra-period differences in cash availability.
5. **Create a better working relationship between the Board of Directors and staff.** A formal reserve policy creates a shared understanding of the proper level and use of reserves.

II. POLICY

~~1. The Authority will retain its operating surplus in calendar years 2017 and 2018 for the purpose to:~~

~~a. Fund a Working Capital Reserve equivalent to 90 days of operating expenses, excluding power supply expenses; and~~

~~b. Retire all debt and lines of credit; and~~

~~c. Fund a Rate Stabilization/Contingency Reserve to mitigate rate increases due to volatility in the power markets, Power Charge Indifference Adjustments (PCIA), and economic downturns.~~

~~2. Authority to spend from reserves must align with Board approved Budgets.~~

~~3. Staff will review the Reserve Policy annually to ensure it meets the needs of the agency.~~

Reserve Target Levels

SVCE shall maintain a minimum reserve balance equal to 25% (90 days) of the following fiscal year's operating budget expenditures, with a goal of increasing the reserve or reserve-equivalent to 50% (180 days) of the following fiscal year's operating budget expenditures. The maximum reserve balance is 75% (270 days) of the following fiscal year's operating budget expenditures.

Funding the Target Amount

Funding of the reserve balance targets will generally come from excess revenues over expenditures or one-time revenues.

Conditions for Use of Reserves

SVCE will strive to avoid the appropriation of reserve balance for recurring operating expenditures.

The reserve balance may be used at the discretion of the Board of Directors to:

- Provide revenues to make up for temporarily decreased revenues or power supply shocks.
- Provide temporary resources in the event of an economic downturn while expenditure reductions and/or rate adjustments are implemented.
- Provide resources to meet emergency expenditures.

The CEO is authorized to make recommendations to the Board of Directors for use of reserves. A majority vote of the Board of Directors will be required to use reserves. Any recommendations shall be accompanied by a proposal for the replenishment of the reserves to the Board of Directors.

Replenishment of Reserves

Reserve levels below the minimum targeted reserves would leave SVCE exposed to significant operational risks. Should SVCE draw down reserves below the minimum targeted level, SVCE will implement plans to return reserves to their minimum targeted levels within two (2) years. Such plans will be provided within six (6) months.

Excess Reserves

If reserve funds exceed the maximum level, SVCE would seek Board of Directors approval to use the excess to finance programs, capital improvements, pay down existing debt, offset other long-term liabilities, and reduce rates or other strategic purposes.

Reserves between Minimum and Maximum

To the extent that reserves are above target and below the maximum, the Board of Directors have the flexibility to direct staff to utilize those available funds to pay for program investments, capital projects, pay down unfunded liabilities, defease outstanding debt, or fund other strategic objectives. No other action by SVCE would be required if reserves are between the minimum and maximum level unless directed by the Board of Directors.

Periodic Review of Targets

If the risk factors behind the target are eliminated or new risk factors emerge as a result of changes in the industry, legislation, or economic conditions, the basis of the reserve will be reviewed and the funding level may be adjusted accordingly.

Reporting

Reserve levels will be monitored during the fiscal year and reported in the quarterly financial reports. Reserve target (minimum) and maximum levels will be analyzed annually and over/under reserve determination shall be made in conjunction with year-end financial results. These results will be reports to the Board of Directors as part of the year-end financial report presentation.

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
18 May 2018

Rate this Research

Contacts

Dan Aschenbach +1.212.553.0880
Senior Vice President
dan.aschenbach@moodys.com

A. J. Sabatelle +1.212.553.4136
Associate Managing Director
angelo.sabatelle@moodys.com

Frieda Shalam +1.212.553.6836
Associate Analyst
frieda.shalam@moodys.com

Thomas Brigandi +1.212.553.2985
Associate Lead Analyst
thomas.brigandi@moodys.com

Marin Clean Energy, CA

Moody's assigns Baa2 Issuer Rating to Marin Clean Energy; First Community Choice Aggregator (CCA) Rating

Summary

Moody's Investors Service has assigned a first-time Baa2 Issuer Rating to Marin Clean Energy (MCE). The rating outlook is stable. MCE is a not for profit community choice aggregator (CCA) with an established operating record as a California Joint Powers Agency (JPA).

MCE's creditworthiness factors in the strength of the related sound state statutes, its self-regulated rate-setting authority, and its consistently improving financial and operational performance. MCE's credit profile recognizes the economic strength of its service territory, an adequate liquidity profile, strong regulatory and legislative support for renewables in the state, and a business model that recognizes risks related to energy procurement in an evolving industry structure.

Exhibit 1
Marin Clean Energy Service Area

Source: Marin Clean Energy

MCE's credit profile considers the strength of the California JPA statute and the MCE JPA agreement which together underpin MCE's creation and business model, and help fortify the ongoing stability of its existing customer base. The credit profile recognizes the self-regulated rate-setting authority afforded to MCE, its established track record of operations

and consistently improving financial performance, and the economic strengths within its growing service territory. MCE has an adequate liquidity profile and the credit profile considers management efforts to strengthen liquidity levels to manage risk and support customer growth. We believe that state and municipal policymakers remain supportive of the CCA model, and view it as a tool to advance the use of renewable resources throughout the state. We view MCE's current relationship with the California Public Utilities Commission (CPUC) from a policy standpoint to be favorable to MCE's credit quality.

These credit strengths are balanced against several challenges facing MCE, the most significant of which involves their ability to manage power procurement risk which is accompanied by resource production variability and uncertainties about future market structure. While MCE has been able to manage the strong customer growth experienced over the last several years reasonably well, MCE's ability to procure resources to support future growth objectives introduces incremental risk given its move to a more diversified power procurement portfolio it has to manage.

A particular challenge is the potential for MCE to procure more energy under long term contracts than is needed to serve their customers' load requiring them to sell the more expensive excess energy into the wholesale power market at lower market prices. According to MCE's financial statements, MCE has entered into forward purchase commitments for delivery of renewable energy on an as-available basis that aggregates $1.8 billion at year-end 2017. In an extreme scenario where there is a sudden decline in customer load, MCE could find itself in an under collected position should contracted power prices paid by MCE under these long-term arrangements exceed wholesale market prices for a sustained period. This scenario, for example, could emerge should a substantially higher than normal number of customers "opt-out" and return to Pacific Gas & Electric Company (PG&E A3 negative) for their generation product or through sustained technological advances which permanently limit customer load growth. To date, MCE has experienced a very modest level of customers "opting-out", with most of the migration occurring during the initial 120 day enrollment period. MCE appears to have mitigated the procurement risk by layering in contractual arrangements with differing tenors from a diverse list of energy suppliers with no dominant contract, and by maintaining a net short supply position in the mid to long term, and in an extreme case, has the ability to raise retail rates on its remaining customers if needed.

In addition to power procurement risk, additional challenges facing MCE are the newness of the CCA model within the California market, the continued evolution of the California electric market which continues to be on the cutting edge of change, the unresolved nature of the Power Cost Indifference Adjustment (PCIA) hearings with the investor-owned utilities, which could impact the cost competitiveness of MCE relative to the local investor-owned utility, and the pressure for MCE to maintain its customer value proposition as a provider of affordable renewable energy, as the business model offers customers choice.

MCE customer base now exceeds over 400,000 customers making it the third largest municipally governed electric enterprise in California, behind Los Angeles Department of Water and Power (LADWP) (Aa2 stable) and Sacramento Municipal Utility District (SMUD) (Aa3 stable). About 89% of customers have remained with MCE after the initial automatic enrollment. MCE's customer base continues to expand which has more than offsets any customer opt-outs. There is no dominant customer.

Credit strengths

» Statutory benefits of the business model

» Demonstrated evidence that the business model is working based on sound operational and financial performance

» Article 7 of the MCE-JPA agreement requires a departing municipality satisfy any pro-rata share of its power related obligations taken out on its behalf

» Customer and state policymakers support for CCAs as a vehicle for growing the state's clean energy policies

» Low customer delinquency rates and above average household income for the customer base as a whole

» Full recovery of costs through independent local rate-setting

» Local control over Integrated Resource planning

» Low "opt out" rate that continues with new customer additions

» Continued diversification of energy procurement contracts to 90 contracts from 29 suppliers

» MCE retail rates are competitive with PG&E

Credit challenges

» Very sizable long-term energy purchase commitments entered into by MCE relative to the size of the balance sheet with surplus energy remarketing risk should customers depart

» Even though MCE generates free cash flow annually, target liquidity levels approved by MCE's board will take several years to reach

» MCE has authority to charge a "cost recovery charge"; however, no experience doing so

» Energy price plus the PCIA are at times higher than the IOU's retail rate for generation services

» Evolving nature of the California's electric industry which could lead to potential regulatory changes and legislative actions might impact MCE's business model and prospective financial performance

» Ability to manage rate design including allocation of PCIA costs in a manner that is not detrimental to competitive position

Rating outlook

The rating outlook is stable incorporating a view that the CCA business model will remain intact including the statutory and municipal ordinances that permit full cost recovery, that CCAs will continue to enjoy independent local retail rate-setting authority, that MCE will be able to manage power procurement risk and reach and maintain appropriate liquidity targets that support its growth.

Factors that could lead to an upgrade

» Continued trend of sound financial operations with days liquidity on hand at a consistent 140 days and a level that mitigates at least 20% energy requirement loss

» Demonstrated track record of managing power procurement and related liquidity risks

» Narrowing of remarketing risk

» Ability to demonstrate resiliency to technological change or economic weakness

Factors that could lead to a downgrade

» Liquidity profile not keeping pace with customer growth

» Competitive position being challenged owing to lower cost options being offered by competitors and MCE's customers having to pay higher transition fees

» Liquidity profile not keeping pace with customer growth

» Change in direction on power procurement strategy to one that is more focused on ownership versus purchases which is aggressively financed and does not include protective covenants for debt or lease investors

» Sudden increase in customers opting out relative to historical levels

Key indicators

Exhibit 2
Marin Clean Energy - Financial Liquidity Trend

Marin Clean Energy	2014	2015	2016	2017
Days Cash on Hand	38	40	65	86
Adjusted Days Liquidity on Hand (incl. Bank Lines)(days)	38	40	65	86
Operating expenses ($000)	83,714	96,807	135,181	166,618

(1) Moody's estimates adjusted days liquidity on hand will be close to FY 2017 levels at year-end 2018.
Source: Audited Financial Statements

Profile

MCE was formed in 2008 pursuant to the California Joint Exercise of Powers Act. MCE provides electric service under the Community Choice Aggregation Program under California Public Utilities Code Section 366.2. Electric service is provided to customers located in Marin, Napa, Solano,Contra Costa Counties. MCE procures energy and capacity for its customers, while PG&E continues to provide transmission and distribution services. MCE charges appear on the customer's PG&E bill.

Detailed credit considerations

REVENUE GENERATING BASE

MCE is a government agency and a joint powers authority formed to reduce energy related greenhouse gas emissions and promote renewable energy sources in the PG&E's service territory. The MCE-JPA agreement is the operative document establishing a program locally. MCE supplies clean energy to over 400,000 customers in 2018 in 33 communities. MCE began its delivery operations to several communities in May 2010. MCE operates with no local tax funds nor is it required to pay taxes.

CCA Framework

Under the California CCA structure, electricity is procured by MCE primarily from commercial suppliers and delivered through PG&E's existing infrastructure with the utility continuing to provide transmission, distribution, billing and related collection services to MCE customers. Once a city ordinance is adopted for a city to join a CCA such as MCE, all customers in the city automatically become CCA customers unless the customer elects to “opt-out” and return to PG&E in this case. A customer can “opt-out” without penalty in the first 60 days but may have to pay a cost recovery charge later. MCE has not implemented a charge given the very low “opt-out” rates and its continued customer growth. MCE is responsible for the full energy requirement to serve its customers with a major component required to be renewable energy.

A critically important credit consideration are the CCA’s key governing documents including the California JPA statute requirement (Title 1, Division 7, Chapter 5, Article 1 (or Section 6500-6539) as well as MCE's JPA agreement which has been executed by each of the 33 participating municipalities after each of the municipalities passed a municipal ordinance to join the JPA. An important credit consideration in the MCE JPA is the language in Article 7 which stipulates that a municipality must pay their remaining cost obligations, including energy mark to market losses, attributed to their respective load should it choose to depart from MCE. The language outlined in Article 7 helps to mitigate MCE’s substantial exposure to future power commitments and is the mechanism by which there could be recourse to each of the participating municipalities should one elect to depart from MCE. While the ultimate legal underpinning of this municipal obligation to MCE has not been court tested as to its effectiveness, our credit assessment recognizes that all participating members acknowledged and accepted this risk prior to executing their respective MCE-JPA agreement. Any MCE municipal member that chooses to depart would have to give six-months’ notice before MCE’s fiscal year-end, fund its remaining obligations procured on their behalf; and receive a super majority (67%) vote of approval from the MCE board making such a decision a high hurdle to reach and one that if it occurred, would most likely conclude in a credit benign way.

Since each municipality are a party to their respective MCE-JPA, which collectively serves the basis for the issuer's existence, assessing the credit quality of the participants is an important data point to consider. Moreover, as described above, in an extreme scenario,

Article 7 of the MCE JPA, which provides direct recourse to obligations owed by each of the municipalities, highlights the importance of the municipalities' credit quality. In that regard, we view the weighted average credit quality of the MCE municipal pool to fall within the A rating category. That said, we recognize the strong socioeconomic factors for the majority of the communities served by MCE, including the economic strength of their customer base. Moreover, we acknowledge that the cash flow needed to satisfy MCE's operating expenses and pay debt service is derived from revenues received by the individual customers that MCE serves and that there is no specific recourse to any of the municipalities for such payments, other than those obligations arising under Article 7 of the MCE-JPA.

CCA's Advance State's Renewable Objectives

A key aspect of the value proposition offered by MCE and other California CCAs is that renewable and clean energy be a major component of the customers' power supply mix. In that regard, during 2017, renewable energy is projected to account for 62% of MCE's retail sales. We believe that state and municipal policymakers remain supportive of the CCA model as a tool to advance the use of renewable resources throughout the state, a key consideration, and we view the current relationship with the CPUC from a policy standpoint to be favorable to MCE's credit quality. MCE's electric rates continue to remain moderately lower than PG&E, and we view favorably PG&E's role as the billing servicer for MCE's customers which helps to support the strong performance of MCE's accounts receivable.

Regarding MCE's retail rates, MCE has a sound competitive position relative to PG&E. While MCE has a statutory and independent ability to change rates at any time, MCE typically set rates in April of each year for the following twelve months. Moody's recognizes that the outcome of rulemaking activities in California concerning the allocation of IOU generation costs to CCA customers, referred to as PCIA charges, will continue to impact CCA's competitiveness relative to PG&E's bundled rate, but not enough, in our opinion, to affect clean energy customer choice as it remains a high priority for California regulators, legislators, and consumers.

Independent Rate Setting

MCE's Board of Directors independently sets its rates to recover its costs and build reserves. Rate action by the board can be taken at any time. Typically, it is taken place in April of each year at the time that the budget is established but for example a mid-year decrease took place in 2016. PG&E, the investor owned utility, bills and collects MCE's revenues from the end use customer and transfers it to MCE. The amounts collected by PG&E are remitted daily to MCE's account. Accounts receivable are of high quality and consistent with the collection experience at PG&E. Should customers opt out of the MCE program, they revert to default service from PG&E and are not able to return to MCE for an entire year.

Implementation Plan

As MCE starts service in a new community, it must file an Implementation Plan (IP) with the CPUC. Pursuant to MCE's IP filed with the CPUC, MCE can enact a "customer cost recovery charge" on individual customers who choose to "opt-out" of MCE after the initial 60 day period and go back to PG&E. The charge could prospectively be used to narrow any revenue shortfall from a departing customer, should it occur. To date, MCE has not assessed this charge on any departing customer's bill, given the very low "opt-out" rates as described above, and the fact that new customer additions have significantly exceeded "opt-out" customers. The basis for this charge is a part of the current state legislative and regulatory board review concerning the allocation of generation charges (PCIA).

Integrated Resource Plan

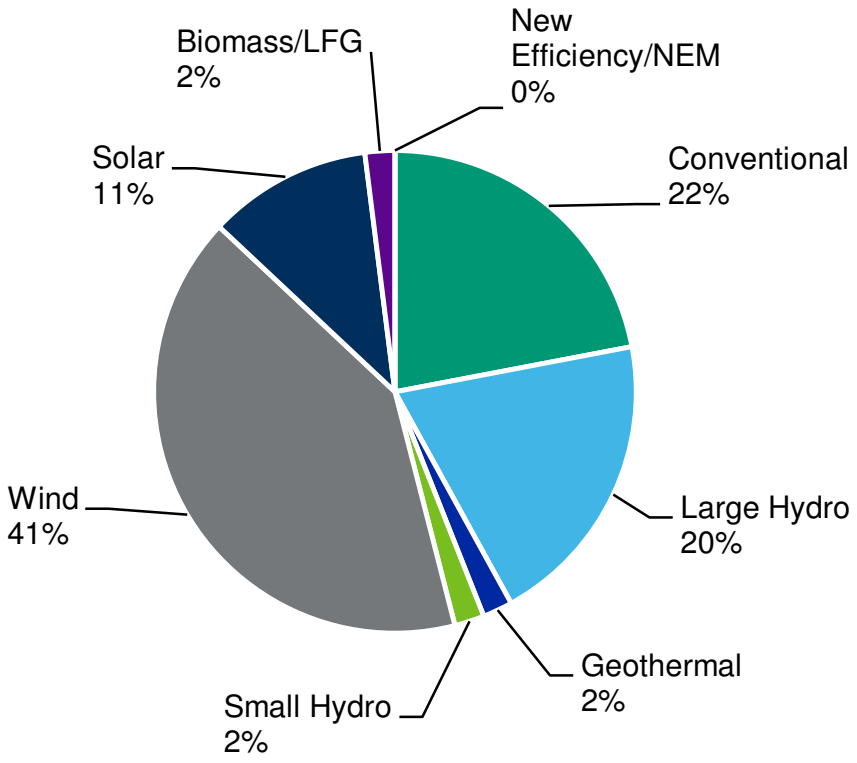
The MCE Integrated Resource Plan (IRP) for 2018-2027 has the objective of maintaining a minimum renewable energy content of 50% during the ten-year planning period with further objective to reach 100%. The IRP plan is ambitious given the objective of reaching 80% renewable energy and 100% carbon free energy by 2025 which is likely to test the depth of California's renewable energy market. The IRP objectives include a reduction in greenhouse gas emissions, an expansion of energy efficiency programs, and access to competitively priced renewable energy.

Supply Mix

As mentioned earlier, MCE passed a major milestone in transitioning from a power supply portfolio from a few suppliers to a diverse mix of 90 energy contracts sourcing energy including renewables from a geographically diverse area with 29 different suppliers. The contracts are short, medium and long term in duration. The IRP is locally decided by MCE's board which asserts local control on power supply decisions and includes several state mandates such as ensuring it meets a state required reserve capacity margin, energy storage targets, greenhouse gas standards and energy efficiency requirements.

Notwithstanding the diversity of supply in the current portfolio, an additional related procurement issue stems from MCE's ability to manage the declining costs of renewable resources. Of concern is the scenario where MCE enters into long-term arrangements that over time become less competitive relative to new renewable arrangements owing to their declining cost and technological advances that increases the efficiency of new renewable resources. While MCE's portfolio approach serves to mitigate this risk, maintaining a portfolio of competitively renewable resources is an accompanying risk when having power procurement responsibilities in a state that continues to "push the envelope" in setting renewable targets.

Exhibit 3
MCE 2018 Resource Mix

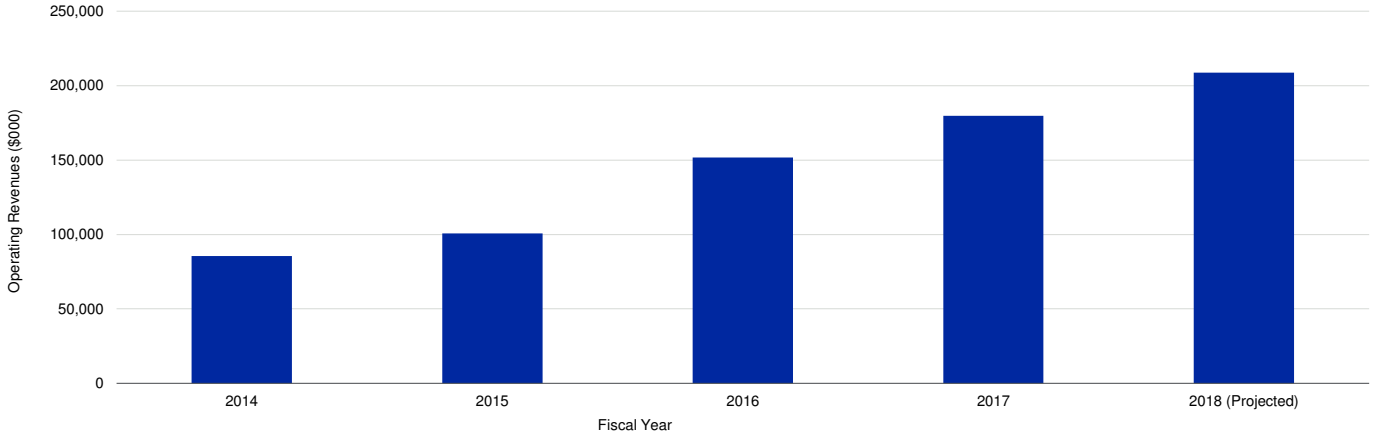


Source: Marin Clean Energy; Moody's Investors Service

Financial Operations and Position

MCE has matured as its customer base has grown and MCE's Board has established financial policies to guide its operation. For example, in recognition that power procurement risk is significantly growing, it has developed an energy risk management plan and a reserve policy to govern the expected challenges it may face. In FY 2018, MCE exceeded $200 million in expenses, primarily purchased power. Managing purchased power contracts, maintaining adequate financial liquidity, and ensuring its rate process is adequate are key tasks. The addition of numerous new customers in FY 2019 represents a challenge and MCE has implementing policies to ensure it adequately balances its commitments and revenues. New challenges MCE is focused on include continuing to diversify its power supply risk, potential ownership of new local area renewable generation, and ensuring compliance with the myriad of state policy mandates.

Exhibit 4
Growth in Operating Revenues Reflect MCE Customer Growth



Source: Audited Financial Statements; MCE; Moody's Investors Service

LIQUIDITY

Maintaining a strong liquidity profile is a critical credit consideration when procuring power for customers. Liquidity provides time for MCE to react with its rate setting and other power procurement mitigation measures. Our credit assessment assumes that MCE maintains growing levels of internal liquidity on its balance sheet as its customer base expands and also has access to sufficient levels of supplemental external liquidity appropriate for an investment grade rated issuer. In that regard, we acknowledge MCE's new Board reserve policy that is centered around MCE's continued ability to generate annual free cash flow.

In FY 2014, MCE recorded 32 days cash on hand which has grown to 86 days cash on hand at FY 2017 (or $37 million) owing to customer growth and strong financial performance. Internal liquidity is supplemented by a $25 million committed line of credit that has no conditionality for advances. For FY 2018, which ended March 31, 2018, MCE expects cash on hand close to the level of FY 2017. Because of new customer additions that became effective in April 2018, MCE projects days liquidity on hand to increase further to 140 days by FY 2020 (March 31, 2020).

MCE has a $25 million revolving credit agreement with River City Bank (RCB) which expires on August 31, 2019. RCB's line of credit is backed by a Letter of Credit issued by MUFG Union Bank, NA (A2 stable) strengthening the quality of MCE's external liquidity.

MCE's working capital needs appear to be modest as it receives cash payments from PG&E each day for its portion of the PG&E bill while paying its suppliers for purchased power at regular intermittent times over the course of the month. As such, MCE is typically able to generate positive cash flow each month, including the shoulder months of the year.

DEBT STRUCTURE

MCE has no long-term debt. It may borrow longer term to construct local area generation but has no plans to do so before 2025. Long-term debt would require a bond indenture with security provisions and bonds or notes can be issued on a tax-exempt basis.

DEBT-RELATED DERIVATIVES

none

Pensions and OPEB

Not a material credit risk for MCE.

MANAGEMENT AND GOVERNANCE

The 33 member MCE Board of Directors governs MCE which consists of representatives of the communities that are members. MCE has the authority to establish rates without state regulatory board review; has the authority to establish its integrated resource plan; and establish budgets.

RATING METHODOLOGY

The principal methodology used in this rating was US Municipal Joint Action Agencies All-Requirements published in October 2016. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The scorecard rating is notched down one to reflect the new business model MCE operates under and an additional notch down relating to the uncertainties about the evolving California power market and wholesale power market exposure.

Exhibit 5

Marin Clean Energy JPA - Methodology Grid

Factor	Subfactor/Description	Score
1. Participant Credit Quality and Cost Recovery Framework	a) Weighted Average participant credit quality. Unregulated rate setting including participants. Cost recovery structure and governance.	A3
2. Resource Risk Management	a) Resource Diversity. Asset quality and complexity. Resource supply contract terms and counterparty credit quality. Wholesale market purchase exposure	Baa
3. Competitiveness	a) Cost competitiveness relative to regional peers	A
4. Financial Strength and Liquidity	a) Adjusted days liquidity on hand (3-year avg) (days)	A
	b) Debt ratio (3-year avg) (%)	Baa
	c) Fixed obligation charge coverage ratio (3-year avg) (x)	Ba
5. Willingness to Recover Costs with Sound Financial Metrics	a) Rate Setting Record. Timeliness of rate recovery. Stability and strength of financial metrics	A
Notching Conventions		**Notch**
	1 - Contractual Structure and Legal Environment	-1
	2- Participant Diversity and Concentration	
	3 - Construction Risk	
	4 - Debt Service Reserve, Debt Structure and Financial Engineering	
	5 - Unmitigated Exposure to Wholesale Power Markets	-1
Scorecard Indicated Rating:		**Baa2**

Source: Moody's Investors Service

REPORT NUMBER 1121564

Contacts

Dan Aschenbach +1.212.553.0880
Senior Vice President
dan.aschenbach@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE

SILICON VALLEY CLEAN ENERGY

Staff Report – Item 3

To:	Silicon Valley Clean Energy Finance and Administration Committee
From:	Girish Balachandran, CEO
Item 3:	**Establish Line of Credit**
Date:	5/30/2018

RECOMMENDATION

Staff recommends that the Finance and Administration Committee recommend the Board approve SVCE to engage River City Bank in establishing a $20 million line of credit for one year.

BACKGROUND

Maintaining a strong liquidity profile is a key credit consideration when procuring power for customers. Liquidity provides time for SVCE to react with its locally controlled rate setting and to implement other power procurement mitigation measures.

ANALYSIS & DISCUSSION

Having access to incremental external liquidity to supplement SVCE's balance sheet will be advantageous for future negotiations of power supply and may help avoid SVCE having to post collateral to suppliers that are not agreeable to the lockbox credit structure. It would also provide greater flexibility in negotiating credit terms for power supply and may result in more supplier options and better pricing.

A line of credit is view positively by the credit rating agencies when evaluating a Community Choice Aggregators (CCAs) liquidity profile as referenced by Moody's Investor Services in assigning a credit rating to Marin Clean Energy (MCE). (See highlighted section of attachment 2)

STRATEGIC PLAN

SVCE's Board-adopted Strategic Plan supports the fiscal management goal.

ALTERNATIVE

SVCE does not approve a line of credit.

FISCAL IMPACT

Fees due upon closing include:

- Loan fee: 0.25% of the Line Amount or $50,000
- Documentation fee of $2,500
- Legal fees are expected to be minimal since a relationship with River City Bank already exists.

Upon maturity, 0.15% of the average unused Line Amount. If there are no draws on the line, this would result in $30,000.

ATTACHMENTS

1. Term Sheet (Provided by River City Bank)
2. Moody's Investor Services rating of MCE

River City Bank

May 21, 2018

Don Eckert
Director of Finance & Administration
Silicon Valley Clean Energy

Re: New Revolving Line of Credit Facility

Dear Don,

River City Bank ("Bank" or "Lender") is pleased to provide you this expression of interest term sheet for a $20,000,000 revolving line of credit facility, as outlined in further detail below.

Borrower:	Silicon Valley Clean Energy Authority ("SVCE")
Loan Type:	Revolving Line of Credit ("RLOC")
Line Amount:	$20,000,000
Purpose:	Provide short term working capital and optional credit enhancements in the form of Standby Letters of Credit ("SBLC") for purchases of energy .
Available Instruments:	Cash Advances and Standby Letters of Credit with a term of up to 12 months. In the event that there are outstanding SBLC's at the time of RLOC Maturity, Borrower will provide cash collateral equal to 110% of any outstanding SBLC's.
Drawings:	All requests for draws on the RLOC will be subject to Borrower submitting documentation to the Bank evidencing compliance with the permitted uses as described in the "Purpose" section of this term sheet.
Maturity:	364 days from time of loan closing
Repayment:	Interest payable monthly, with all accrued interest and unpaid principal due at maturity. In the event of SBLC draws by a beneficiary, Lender will disperse funds per the terms agreed upon and Borrower must repay Lender in full within 3 days.
Interest Rate (RLOC):	Floating at the 1 Month LIBOR (1.95% as of 5/22/18), plus 1.75% (for an all-in rate of 3.70% as of 5/22/18), with an interest rate floor of 1.75%. *The Bank calculates interest on an Actual/360 day basis.*

Letter of Credit Fees:

Issuance Fee	2.00% p.a., minimum $400
Documentation Fee (at issuance)	$250 flat
Amendment Fee to increase or extend	2.00% p.a., min. $400

**Per annum fees can be pro-rated for SBLC's with shorter than 1 year terms.*

Loan Fee: 0.25% of the Line Amount, payable upon loan closing.

Non-Utilization Fee: 0.15% of the average unused Line Amount, payable at Maturity

Documentation Fee: $2,500, payable upon loan closing

Legal Costs: Actual legal cost charged by Bank's outside legal counsel for review of loan documents.

Collateral: As a condition precedent to closing, SVCEA will be required to establish a Debt Service Reserve Account ("DSRA") at the Bank, in an amount equal to 10% of the Line Amount ($2,000,000). The Bank will have a perfected security interest in 1st lien position on the DSRA. Bank will also have a security agreement that covers right of set off to all of SVCE's accounts (not otherwise encumbered by liens).

Conditions for all Credit Facilities:

1. Interim Financials. Borrower to provide Bank with an unaudited balance sheet and income statement of Borrower for the period then ended, prepared in accordance with GAAP and in a form acceptable to lender within 45 days after the close of each month.

2. Annual Financials. Borrower to provide to Bank within 120 days after the close of each annual accounting period a copy of the audited balance sheet, income statement, retained earnings and cash flows for the period then ended, prepared in accordance with GAAP and in a form acceptable to lender.

3. Borrower to maintain a minimum Positive Change in Net Assets (profitability) of $1, measured annually at Fiscal Year End.

4. Minimum Unrestricted Net Assets. Borrower to maintain a minimum Tangible Unrestricted Net Assets at $35,000,000, measured monthly at each month end.

5. Borrower to maintain a maximum Total Liabilities to Tangible Unrestricted Net Position not at any time greater than 2.00:1.00.

6. Depository Relationship. Borrower agrees to maintain all of its deposit accounts, including the Lockbox account and Debt Service Reserve Accounts, for the duration of the contract, with the Bank. In the event that this condition is not met, as determined by Lender, the interest rate on the RLOC will immediately increase by adding an additional 2%. This margin shall apply to each succeeding interest rate change that may apply thereafter.

7. Additional Indebtedness. Borrower will be prohibited from incurring additional indebtedness during the terms of the RLOC.

Other Terms/Conditions: Please be advised final loan documents shall contain other and more detailed covenants, representations and warranties, events of default, and other conditions acceptable to Bank.

The Bank reserves the right to terminate this expression of interest at any time prior to the Bank's receipt of acknowledgment by the Borrower, but in no case shall this expression of interest be outstanding for more than 30 business days from its origination date. This expression of interest may not be transferred or assigned without prior written consent of the Bank.

Please be advised that the loan is subject to underwriting and final credit approval by the Bank. Notwithstanding any other language of agreement that may appear elsewhere in this non-binding letter of intent, it is expressly understood and agreed that this letter of intent does not and shall not constitute a binding agreement between the parties in any manner, but only reflects proposed terms of a transaction which may become acceptable to the parties when fully documented and signed by all of the appropriate parties to such documentation.

Thank you for choosing River City Bank for your financing needs. If you would like us to move forward on the basis proposed, please indicate your acknowledgment by signing below and remit to Bank.

Best regards,

Stephen A. Fleming

Stephen A. Fleming
President & CEO
(916) 567-2649

Rosa Hilmarsdottir Cucicea
VP & Relationship Manager
(925) 398-2763

Acknowledged and Accepted:

X Donald Eckert Jr
Silicon Valley Clean Energy

5-29-2018
Date

By: Donald Eckert Jr
Its: Director of Finance & Administration

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Baa2 issuer rating to Marin Clean Energy (CA) (MCE) ; stable outlook

16 May 2018

First Community Choice Aggregator (CCA) rated

New York, May 16, 2018 -- Moody's Investors Service has assigned a first-time Baa2 Issuer Rating to Marin Clean Energy (CA) (MCE). MCE is a not-for-profit community choice aggregator (CCA) with an established operating record as a California Joint Powers Authority (JPA). The rating outlook is stable.

RATINGS RATIONALE

The Baa2 Issuer Rating reflects the strength of the California Joint Power Agency (JPA) statute and the MCE JPA agreement which together underpin MCE's creation and business model, and help fortify the ongoing stability of its existing customer base. The rating further recognizes the self-regulated rate-setting authority afforded to MCE, its established track record of operations and consistently improving financial performance, and the economic strengths within its growing service territory. The Baa2 rating considers our belief that state and policymakers remain supportive of the CCA model as a tool to advance the use of renewable resources throughout the state, a key consideration, and we view the current relationship with the California Public Utilities Commission (CPUC) from a policy standpoint to be favorable to MCE's credit quality. MCE has an adequate liquidity profile driven in large part by growing internal liquidity sources. MCE's electric rates continue to remain moderately lower than investor-owned utility, Pacific Gas & Electric Company (PG&E: A3 negative), and we view favorably PG&E's role as the billing servicer for MCE's customers which help to support the strong performance of MCE's accounts receivable.

These credit strengths are balanced against several challenges facing MCE, the most significant of which relates to their ability to manage power procurement risk which can be accompanied by uncertainties concerning resource production variability and future market structure. While MCE has been able to manage the strong customer growth experienced over the last several years reasonably well, MCE's ability to procure resources to support future growth objectives introduces incremental risk.

A particular challenge is the potential for MCE to procure more energy under long term contracts than is needed to serve their customers' load requiring them to sell the more expensive excess energy into the wholesale power market at lower market prices. According to MCE's financial statements, MCE has entered into forward purchase commitments for delivery of renewable energy on an as-available basis that aggregates $1.8 billion at year-end 2017. In an extreme worst case scenario where there is a sudden decline in customer load, MCE could find itself in an under collected position should contracted power prices paid by MCE under these long-term arrangements exceed wholesale market prices for a sustained period. This scenario, for example, could emerge should a substantially higher than normal number of customers "opt-out" and return to PG&E for their generation product or through sustained technological advances which may permanently limit customer load growth. To date, MCE has experiencd a very modest level of customers opting-out, with most of the migration occurring during the intial 120 day enrollment period. MCE appears to have mitigated the procurment risk by layering in contractual arrangements with differing tenors and going from a few suppliers to a diverse list of energy suppliers with no dominant contract and by maintaining a net short position in the mid to long term, and in an extreme case, has the ability to raise retail rates on its remaining customers if needed. Importantly, as part of the MCE's newly implemented energy risk policy, MCE manages its supply portfolio in the year forward net-short position, which minimizes the likelihood of this risk occurring and targets the maintenance of higher internal liquidity sources.

In addition to power procurement risk, additional challenges facing MCE are the newness of the CCA model within the California market, the continued evolution of the California electric market which continues to be on the cutting edge of change, the unresolved nature of the Power Cost Indifference Adjustment (PCIA) hearings with the investor-owned utilities, which could impact the cost competitiveness of MCE relative to the local investor-owned uility, and the pressure for MCE to maintain its customer value propostion as a provider of affordable renewable energy, as the business model offers customers choice.

A critically important rating consideration is the CCA's key governing documents including the California JPA statute requirement (Title 1, Division 7, Chapter 5, Article 1 (or Section 6500-6539) as well as MCE's JPA agreement which has been approved by each of the 33 participating municipalities, and which stipulates under Article 7 that the municipalities must pay their remaining cost obligations to MCE should they choose to depart from MCE. Article 7 is an important credit consideration as it is helps to mitigate MCE's substanital exposure to future power commitments and is the mechanism by which there could be recourse to each of the 33 participating municipalities should one elect to depart from MCE. While the ultimate legal underpinning of this municipal obligation to MCE has not been court tested as to its effectiveness, our rating recognizes that all participating members acknowledged and accepted this risk prior to becoming parties to the MCE-JPA agreement.

Under the California CCA structure, electricity is procured by MCE primarily from commercial suppliers and delivered through PG&E 's existing infrastructure with the utility continuing to provide transmission, distribution, billing and related collection services to MCE customers. Once a municipal ordinance is adopted for a municipality to join a CCA such as MCE, all customers in the municipality automatically enroll as CCA customers unless the customer elects to "opt-out" and return to PG&E in this case. A customer can "opt-out" before scheduled enrollment or anytime thereafter. Customers can opt-out without charge durring the first 60 days of service. A $5 residential or $25 commercial one-time exit fee is applied for customers who opt out after the first 60 days of service. MCE has not implemented additional charges (but could do so) given the very low "opt-out" rates and its continued customer growth.

A key aspect of the value proposition offered by MCE and other California CCAs is the requirement that renewable and clean energy be a major component of the customers' power supply mix. This value is one of the most significant factors that provides strength to the long-term business model. In that regard, during 2017, renewable energy accounted for 62% of MCE's retail sales. MCE customer base now exceeds over 400,000 customers making it the third largest municipally governed electric enterprise in California, behind Los Angeles Department of Water and Power (LADWP) (Aa2 stable) and Sacramento Municipal Utility District (SMUD) (Aa3 stable).

LIQUIDITY PROFILE

As alluded above, maintaining a strong liquidity profile is a key credit consideration when procuring power for customers. Liquidity provides time for MCE to react with its locally controlled rate setting and to implement other power procurement mitigation measures. The Baa2 Issuer Rating incorporates our expectation the MCE will maintain growing levels of internal liquidity on its balance sheet as its customer base expands and also has ready access to incremental external liquidity to supplement its liquidity profile. In that regard, the rating acknowledges MCE's new Board reserve policy as a credit positive, and recognizes MCE's continued ability to generate annual free cash flow.

At year-end FY 2017, MCE had unrestricted cash of $37 million or about 86 days cash on hand that is supplemented by a $25 million committed line of credit that has no conditionality for advances. Because of the significant addition of new customers during 2018 and MCE's ability to generate annual free cash, MCE projects cash on hand to exceed $60 million by FY 2019 representing more than 70 days cash on hand and 100 days liquidity on hand when factoring in the $25 million line of credit. MCE's working capital needs appear to be modest as it receives cash payments from PG&E each day for its portion of the PG&E bill while paying its suppliers for purchased power at regular intermittent times over the course of the month. As such, MCE is typically able to generate positive cash flow in each month, including the shoulder months of the year.

RATING OUTLOOK

The rating outlook is stable incorporating a view that the CCA business model will remain intact including the statutory and municipal ordinances that permit full cost recovery, that CCAs will continue to enjoy independent local retail rate-setting authority, that MCE will be able to manage power procurement risk and reach and maintain appropriate liquidity targets that support its growth.

FACTORS THAT COULD LEAD TO AN UPGRADE

-Continued trend of sound financial performance, including free cash generation, enabling days cash on hand to reach at least 150 days on a consistent basis with total liquidity levels able to mitigate a 20% load loss requirement should customers depart

-Demonstrated track record of managing power procurement and related liquidity risks

-Narrowing of remarketing risk

-Ability to demonstrate resiliency to technogical change or economic weakness

FACTORS THAT COULD LEAD TO A DOWNGRADE

-Liquidity profile not keeping pace with customer growth

-Change in direction in power procurement strategy to one more focused on ownership versus purchases which is aggressively financed and does not include protective covenants for debt or lease investors

-Incurrence of losses on a sustained basis from energy remarketing that drains financial liquidity

-Competitive position being challenged owing to lower cost options being offered by competitors and MCE's customers having to pay higher transition fees.

-Sudden increase in customers "opting-out" relative to historical levels

LEGAL SECURITY

Not Applicable

USE OF PROCEEDS

Not Applicable

PROFILE

With offices in San Rafael and Concord, CA, MCE is a California JPA founded in 2008 pursuant to the Joint Exercise of Powers Act and a public agency separate from its members. MCE provides electric service to retail customers as a CCA under the California Public Utilities Code Section 366.2.

MCE's mission is to address climate change by reducing energy related greenhouse gas emissions through renewable energy supply and energy efficiency at stable and competitive rates, while promoting local economic and workforce benefits. MCE provides electric service to retail customers and has the rights and powers to set rates and charges for electricity and services it furnishes, incur indebtedness, and issue bonds or other obligations. The parties to MCE's JPA consist of 33 local governments. Pursuant to the California Public Utilities Code, when new parties join MCE, all electricity customers in its service territory automatically become default customers of MCE for electric generation, and have the right "opt out".

METHODOLOGY

The principal methodology used in this rating was US Municipal Joint Action Agencies published in October 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal

entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Daniel Aschenbach
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Kurt Krummenacker
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

MOODY'S
INVESTORS SERVICE

to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

SILICON VALLEY CLEAN ENERGY

Staff Report – Item 4

To:	Silicon Valley Clean Energy Finance and Administration Committee
From:	Girish Balachandran, CEO
Item 4:	**Building Facility Options**
Date:	5/30/2018

RECOMMENDATION

Staff recommends that the Finance and Administration Committee authorize Staff to negotiate with Biagini Properties to lease an adjacent suite in the same building as SVCE's current offices. A final agreement would be brought to the Board of Directors for approval.

BACKGROUND

When SVCE moved into its current location in November 2017, the agency was in start-up phase. As SVCE approaches a normal state, the responsibilities of the business will change to include investments in programs as part of operations as well as incorporating changes to the table of organization to meet current and anticipated future challenges.

Over the next twelve months, the table of organization is anticipated to expand from 21 to 25 full-time positions. As Staff develops the programs roadmap and implements various programs, facility space will also be needed to accommodate contractors, interns, and other part-time staff. At the May Board meeting, during discussion related to FY 18-19 Budget Priorities, the Board encouraged staff to review options to expand the current space.

SVCE's current facility space will be difficult to accommodate the resources needed for the agency to meet its goals. A constraint is the lease of the office does not expire until January 2022.

ANALYSIS & DISCUSSION

Staff has considered 3 Options:

Option 1: Take No Action

This option assumes no major modifications to the current facility.

Pros:	Cons:
• No Additional Costs • Ease of Team Communication	• Tight Fit for Projected Staffing • Inadequate Meeting Space; • Rental and Administrative Costs for Offsite Meetings • Lack of Collaborative Space for Employees & Contractors • Lack of Offices • No Storage • Small Break Area

Option 2: Capital Investment to Improve Existing Facilities

Option 2a – Build Large Conference Room in Current Suite

Pros:	Cons:
• Additional & Larger Conference Room • Less Offsite Meetings • Ease of Team Communication	• Additional Build-out, Furniture, and IT/AV Costs • Eliminates 2 Cubicles • Tight Fit for Projected Staffing • Lack of Collaborative Space for Employees & Contractors • Lack of Offices • No Storage • Small Break Area

Option 2b – Build Additional Private Offices in Current Suite

Pros:	Cons:
• 3 Additional Private Offices • Ease of Team Communication	• Additional Build-out, Furniture, and IT/AV Costs • Eliminates 3 Cubicles & 2 Intern Workstations • Tight Fit for Projected Staffing • No Additional Conference Rooms • Lack of Collaborative Space for Employees & Contractors • No Storage • Small Break Area

Option 3: Expand SVCE Office Space by Leasing Adjacent Suite

Pros:	Cons:
• More Space for Additional & Current Employees • Additional & Larger Conference Room • Less Offsite Meetings • More Customizable Space • Possible Additional Offices • Storage Space • Larger Break Area	• Additional Build-out, Furniture, and IT/AV Costs • Additional Rent ~$10,280/Month • Additional Printer Cost ~$6,500/Year • Possible Strain on Communication for Some Staff; "Out-of-Sight, Out-of-Mind"

STRATEGIC PLAN

SVCE's Board-adopted Strategic Plan identifies the following strategies under Workplace:

- Build an environment that encourages creativity and innovation
- Ensure that staff has the tools necessary to effectively do the job

Sunnyvale continues to serve as an ideal office location central to most SVCE Staff and resides in SVCE's service territory. Staff plans to maintain this location for the long term.

FISCAL IMPACT

SVCE's current lease with Sunnyvale Village Associates declares a 5-year term commencing on November 1, 2016 and ending on January 11, 2022. Initial base rent was $25,375 per month, with a ~10% annual increase for the remainder of the lease. Monthly rent as of May 2018 was $26,560.

With the challenging real estate market in Silicon Valley, commercial rental rates are expected to continue to rise. Staff recommends securing competitive rates for office space expansion as soon as possible.

The estimated fiscal impact for all options are as follows:

	OPTION 1 **Take No Action**	**OPTION 2a** **Build Conference Room**	**OPTION 2b** **Build Private Offices**	**OPTION 3** **Expand Office Space**
Capital Costs				
IT Infrastructure	$0	$3,000	$0	$15,000
Audio/Visual	$0	$15,000	$0	$30,000
Furniture	$0	$15,000	$8,000	$54,000
Construction	$0	TBD	TBD	TBD
TOTAL:	No Impact	$33,000	$8,000	$99,000
Annual Costs				
Additional Rent	$0	$0	$0	$123,360
Additional Printer	$0	$0	$0	$6,500
TOTAL:	No Impact	No Impact	No Impact	$129,860

**All costs will be confirmed and brought before the Board of Directors prior to authorization.*

ATTACHMENTS

None.

SILICON VALLEY CLEAN ENERGY

Staff Report – Item 5

To:	Silicon Valley Clean Energy Finance and Administration Committee
From:	Girish Balachandran, CEO
Item 5:	**SVCE Benefits and Compensation**
Date:	5/30/2018

This item will be addressed in the form of a presentation to the Finance and Administration Committee.

SILICON VALLEY CLEAN ENERGY

Staff Report – Item 6

To:	Silicon Valley Clean Energy Finance and Administration Committee
From:	Girish Balachandran, CEO
Item 6:	**FY 2018-19 Operating Budget Preview**
Date:	5/30/2018

This item will be addressed in the form of a presentation to the Finance and Administration Committee.

SILICON VALLEY CLEAN ENERGY

Staff Report – Item 7

To:	Silicon Valley Clean Energy Finance and Administration Committee
From:	Girish Balachandran, CEO
Item 7:	**Second Quarter Financial Review**
Date:	5/30/2018

This item will be addressed in the form of a presentation to the Finance and Administration Committee.

SILICON VALLEY CLEAN ENERGY

Staff Report – Item 8

To:	Silicon Valley Clean Energy Finance and Administration Committee
From:	Girish Balachandran, CEO
Item 8:	**Popular Annual Financial Report**
Date:	5/30/2018

RECOMMENDATION
This item is informational only.

BACKGROUND
The Government Finance Officers Association (GFOA) established the Popular Annual Financial Reporting Awards Program (PAFR Program) in 1991 to encourage and assist state and local governments to extract information from their annual financial report to produce high quality popular annual financial reports specifically designed to be readily accessible and easily understandable to the general public and other interested parties without a background in public finance and then to recognize individual governments that are successful in achieving that goal.

ANALYSIS & DISCUSSION
Staff has submitted its initial PAFR (see Attachment 1) to the GFOA for award consideration. The PAFR will also be available on SVCE's website. SVCE will be the first Community Choice Aggregator (CCA) to prepare and submit a PAFR to the GFOA.

STRATEGIC PLAN
SVCE's Board-adopted Strategic Plan identifies a commitment to manage SVCE's financial resources responsibly and setting a standard of transparency and accountability. Strategy 6.1 requires staff to develop and maintain comprehensive policies for the governance of SVCE financials.

ALTERNATIVE
N/A

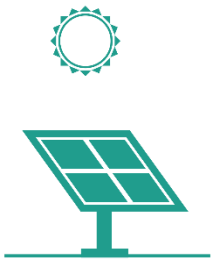
FISCAL IMPACT
None.

ATTACHMENTS
1. Popular Annual Financial Report

SILICON VALLEY CLEAN ENERGY AUTHORITY

POPULAR ANNUAL FINANCIAL REPORT

Fiscal Year Ended September 30, 2017



"Reduce dependence on fossil fuels by providing carbon free, affordable and reliable electricity and innovative programs for the SVCE community."

SILICON VALLEY CLEAN ENERGY

TABLE OF CONTENTS

SILICON VALLEY CLEAN ENERGY

LETTER TO THE RATEPAYER

March 31, 2018

To the Ratepayers of Silicon Valley Clean Energy:

We are pleased to present you with our initial Popular Annual Financial Report (PAFR), as defined by the Government Finance Officers Association (GFOA), of Silicon Valley Clean Energy (SVCE) for the fiscal year ended September 30, 2017. The following pages provide a summary of your agency's organizational structure, major initiatives, statistical data and financial condition.

The financial information presented here is summarized and does not substitute for SVCE's audited financial report. The financial report details SVCE's financial position and operating activities for each fiscal year, in conformity with Generally Accepted Accounting Principles (GAAP). SVCE completed its initial audited financial report but due to the recent formation of the agency, SVCE does not have Comprehensive Annual Financial Report (CAFR). The PAFR, by its summary nature, is not intended to conform to GAAP and associated reporting standards set forth by applicable governing bodies. The budget has received an award for outstanding financial reporting from the GFOA.

We hope this report will give you a better understanding of SVCE and its financial condition. We welcome your comments and suggestions.

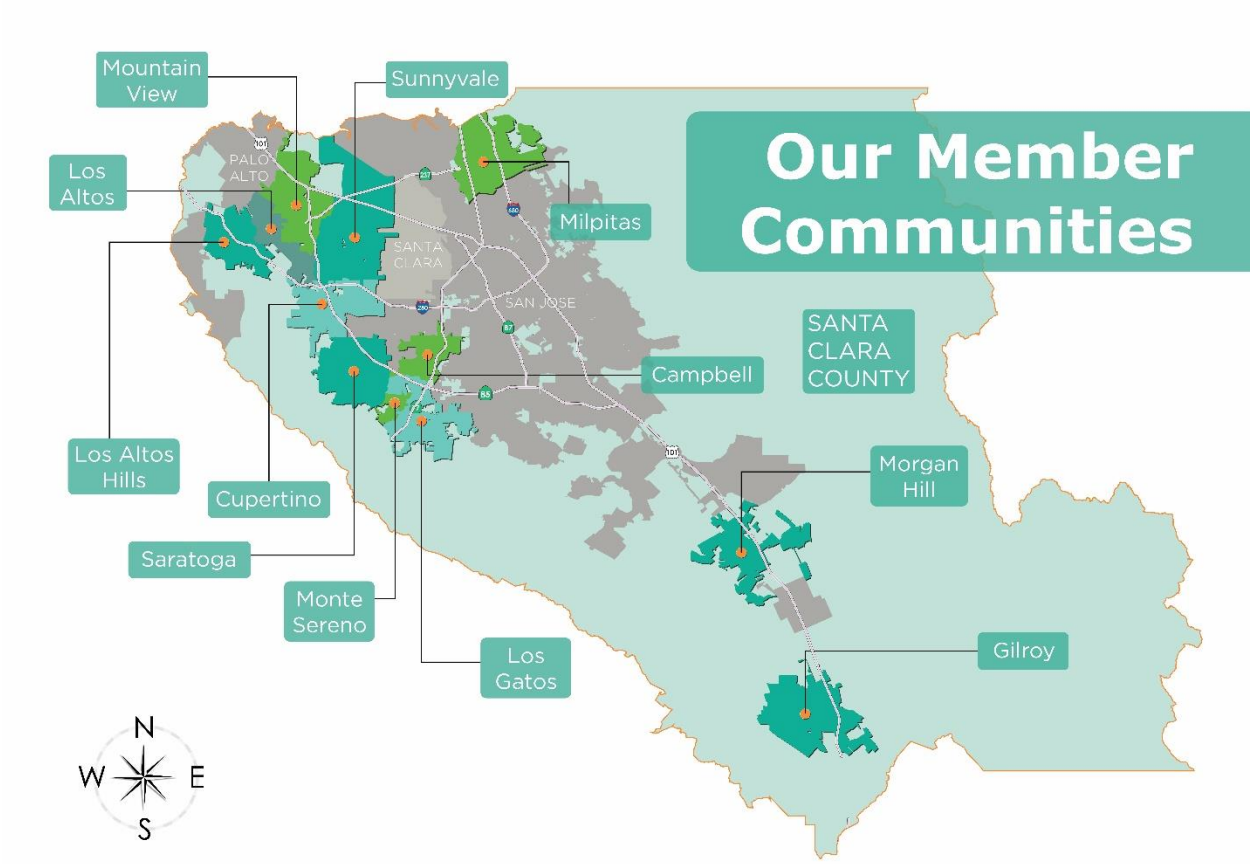
You may find other information regarding Silicon Valley Clean Energy, including the PAFR, annual budget and financial report, on the web site: *svcleanenergy.org*

Respectfully submitted,

Donald Eckert Jr.
Director of Finance & Administration

SILICON VALLEY CLEAN ENERGY

SERVICE AREA



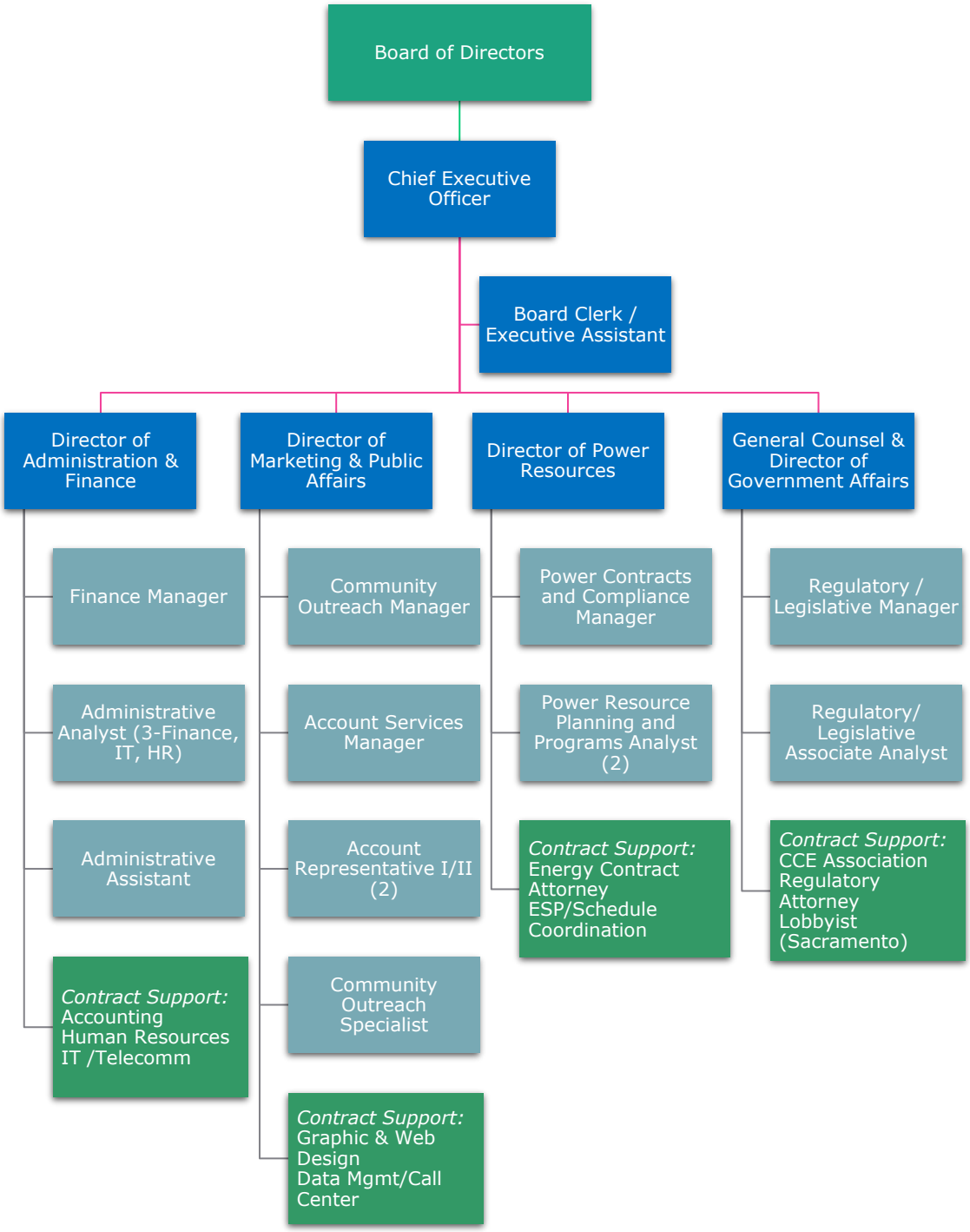
Campbell | Cupertino | Gilroy | Los Altos | Los Altos Hills

Los Gatos | Monte Sereno | Morgan Hill | Mountain View

Santa Clara County | Saratoga | Sunnyvale

SILICON VALLEY CLEAN ENERGY

ORGANIZATION CHART



SILICON VALLEY CLEAN ENERGY

BOARD OF DIRECTORS – SEPTEMBER 2017

The Authority is governed by a Board of Directors comprised of representatives from each of the participating communities. The regular director must be from the governing body of each community. The alternative is appointed by the respective governing body, but can be a member of the body itself, city staff or the public. The Board of Directors meetings are held once a month.

Chair

Rob Rennie

Vice Mayor

Town of Los Gatos

Vice Chair

Daniel Harney

Councilmember

City of Gilroy

Liz Gibbons

Mayor

City of Campbell

Rod Sinks

Councilmember

City of Cupertino

Jeannie Bruins

Councilmember

City of Los Altos

Courtenay Corrigan

Councilmember

Town of Los Altos Hills

Burton Craig

Vice Mayor

City of Monte Sereno

Steve Tate

Mayor

City of Morgan Hill

Margaret Abe-Koga

Councilmember

City of Mountain View

Howard Miller

Councilmember

City of Saratoga

Jim Griffith

Councilmember

City of Sunnyvale

Dave Cortese

Supervisor

Santa Clara County

AGENCY OVERVIEW

The Agency

The formation of SVCE was made possible by the passage, in 2002, of California Assembly Bill 117, enabling communities to purchase power on behalf of their residents and businesses and creating competition in power generation.

SVCE was created as a California Joint Powers Agency (JPA) on March 31, 2016. SVCE was established to provide electric power at competitive costs as well as to provide other benefits within Santa Clara County, including reducing energy related greenhouse gas emissions, securing energy supply and price stability, and providing energy efficiencies and local economic benefits. Governed by a board of directors (Board) consisting of elected representatives from each jurisdiction, SVCE has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. SVCE is responsible for the acquisition of electric power for its service area. SVCE serves the unincorporated areas of Santa Clara County and the cities and towns of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Monte Serano, Morgan Hill, Mountain View, Saratoga, and Sunnyvale.

In April 2017, SVCE began providing services to its first 66,000 customer accounts as part of its initial enrollment phase. SVCE completed its customer enrollment in July 2017 and as of September 30, 2017, SVCE serves approximately 238,000 customer accounts.

Economic Outlook

SVCE serves 97% of all eligible customers in Santa Clara County, and that rate of participation is expected to remain stable into the future. SVCE also filed an implementation plan with the California Public Utilities Commission (CPUC) for expansion into the City of Milpitas. The addition of the City of Milpitas results in approximately a 15% increase in generation load to serve and 25,000 customer accounts. SVCE will launch the expansion in June 2018.

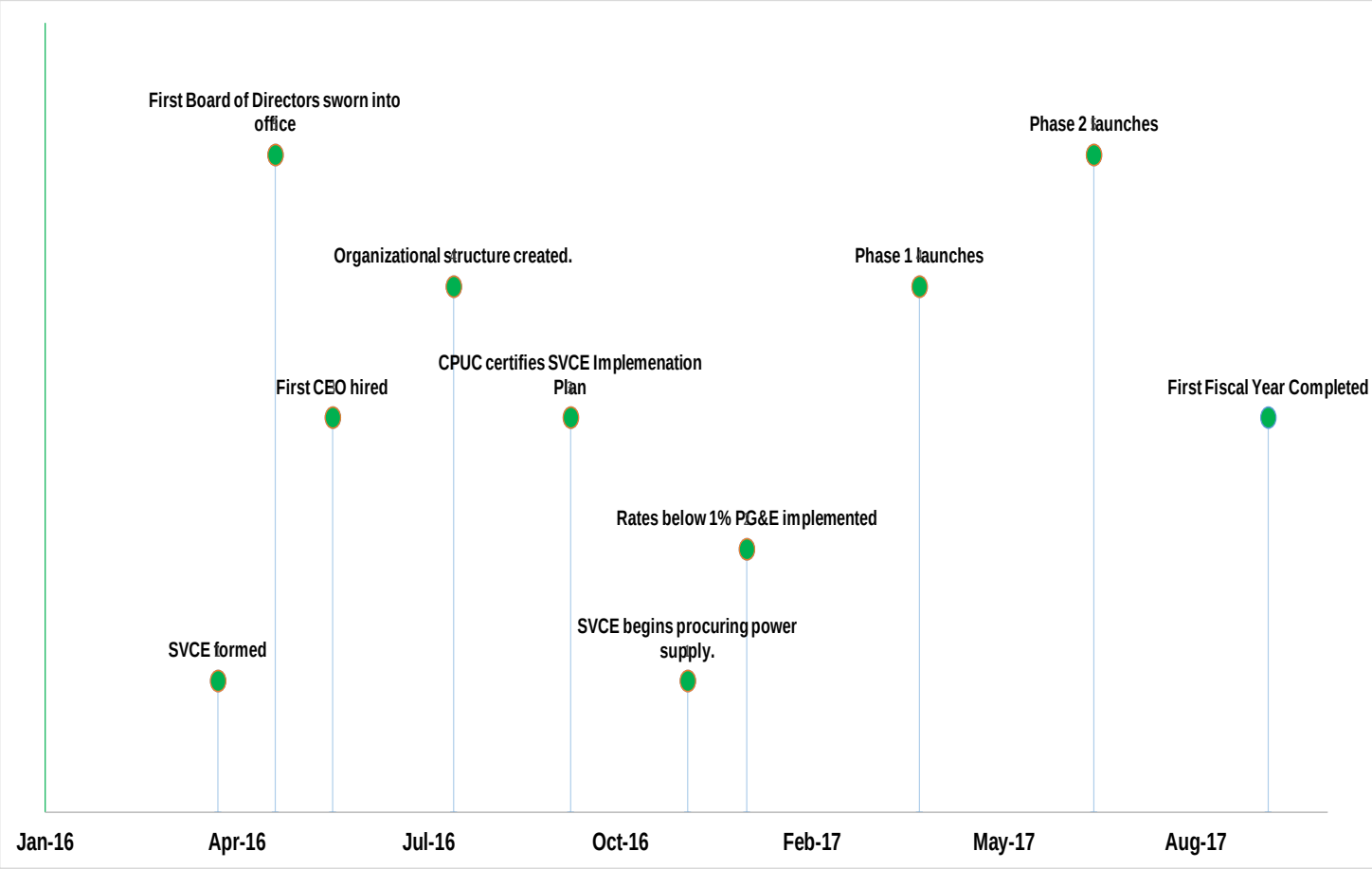
SVCE will continue to provide stable and competitive electric rates whenever possible, and has identified unpredictable and unreasonably high Pacific Gas & Electric (PG&E) customer exit fees as a key barrier to this goal. As a result, SVCE has prioritized regulatory work on customer exit fees. A CPUC proceeding on the topic should provide clarity by summer 2018.

SVCE will begin developing programs that focus on the reduction of greenhouse gas emissions. Program investments will focus on:

- **Electrification programs**, which will focus on fuel switching from fossil fuels to clean electricity, and reducing carbon emissions from segments other than electricity production, such as transportation and gas heating;
- **Demand management programs**, which will help our customers use clean electricity when availability is the highest and prices are lowest, and reduce the need to use fossil fuels to support steep daily production ramps in the late afternoon and early evening hours;
- **Fundamental programs**, which will represent ongoing programs that SVCE's customer care team will provide to advance clean electricity use and carbon reduction in our member communities, as well as education and awareness for all customers.

SILICON VALLEY CLEAN ENERGY

HISTORY TIMELINE



SILICON VALLEY CLEAN ENERGY

MISSION AND GOALS

SILICON VALLEY CLEAN ENERGY

MAJOR INITIATIVE AND ACCOMPLISHIMENTS

100% Carbon Free

Silicon Valley Clean Energy became the first Community Choice Aggregator (CCA) to offer 100% carbon-free energy to our customers which consists of 50% large-hydro and 50% from other renewable sources (mostly solar and wind). SVCE also offers customers who want to "opt-up" to the Green Prime rate the opportunity for 100% of their energy needs with renewables only, excluding large-hydro.

When SVCE was formed, the plan was to have three phases of customer implementations. SVCE worked aggressively with our vendors and PG&E to reduce the implementation to two phase-ins and bring clean renewable energy to all our customers much sooner than expected.

Price Competitiveness

SVCE's initial roll out included indexing our rates to 1% below PG&E. For the first six months of operations, this resulted in $1.8 million of savings to our customers. In March 2018, PG&E raised rates substantially. SVCE will be on average 6% below PG&E in most rate classes with a projected savings to our customers of $20 million in 2018.

Debt Free

SVCE received $2.7 million loan from our Member Agencies to provide working capital to conduct business. SVCE also obtained $20 million in lines of credit. Through fiscal management, SVCE advanced only $4.4 million of the lines of credit. September 30, 2017, SVCE had paid off $1.5 million of the line of credit balance. SVCE is positioned to pay off the remaining balance of the line of credit and return funds to our Member Agencies and be debt free by January 2018.

Expansion

SVCE has filed an implementation plan with the CPUC and will begin serving the City of Milpitas in June 2018. The City of Milpitas represents a significant expansion for the agency with an approximate increase of 15% of energy load and 25,000 customer accounts.

Community Outreach

With a focus on customer service and treating our ratepayers as shareholders, SVCE enjoys a 97% participation rate. This is one of the lowest rates amongst operating CCA's.

Reserves/Credit Rating

SVCE intends on applying for a credit rating as soon as possible. In lieu of not having a credit rating, the agency is focused on building reserves. The target is to achieve 50% of annual operating expenses in reserves.

Long-Term Power Purchase Agreements

SVCE partnered with Monterey Bay Community Power for a Request for Offer (RFO) in long-term power purchase agreements (PPA's) in 2018. The joint procurement process will allow SVCE to receive bids from larger projects and take advantage of better pricing from economies of scale. SVCE will also encourage solar projects to include storage to enhance reliability of the grid. SVCE will continue to diversify its power portfolio with projects based on location, technology, term length and size to mitigate risk and align with SVCE's risk management policy and procurement goals.

Programs

One of the strongest features of CCA's is local control. SVCE will be developing a de-carbonization roadmap in 2018 with the overall arching goal of reducing greenhouse gas emissions through electrification of segments other than electricity production such as transportation (the largest) gas heating, or other popular devices that are currently dependent on fossil fuels.

SILICON VALLEY CLEAN ENERGY

FINANCIAL PERFORMANCE

Nearly all of SVCE's revenues are derived from the sale of energy. Revenues that are not from the sale of energy are expected to be less than 2%.

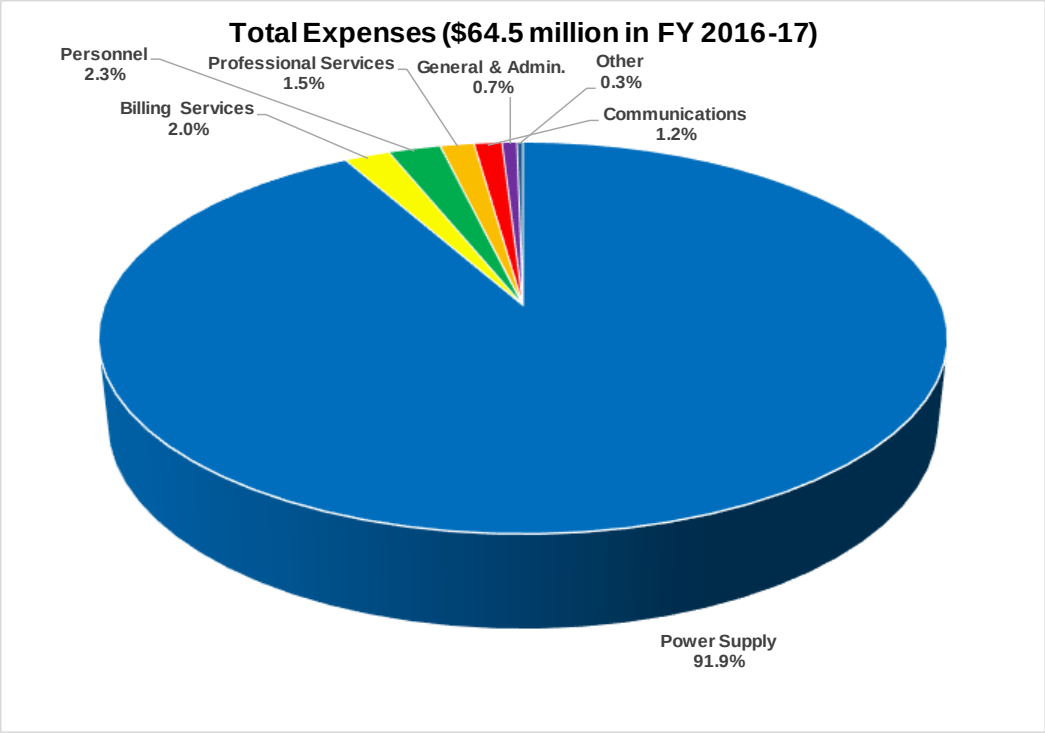
The majority of SVCE's expenses are related to power supply. Other major expenses include customer and billing services that are based on number of meters, personnel and professional services. SVCE's has low fixed costs which allows the agency to respond quickly to a changing business environment.

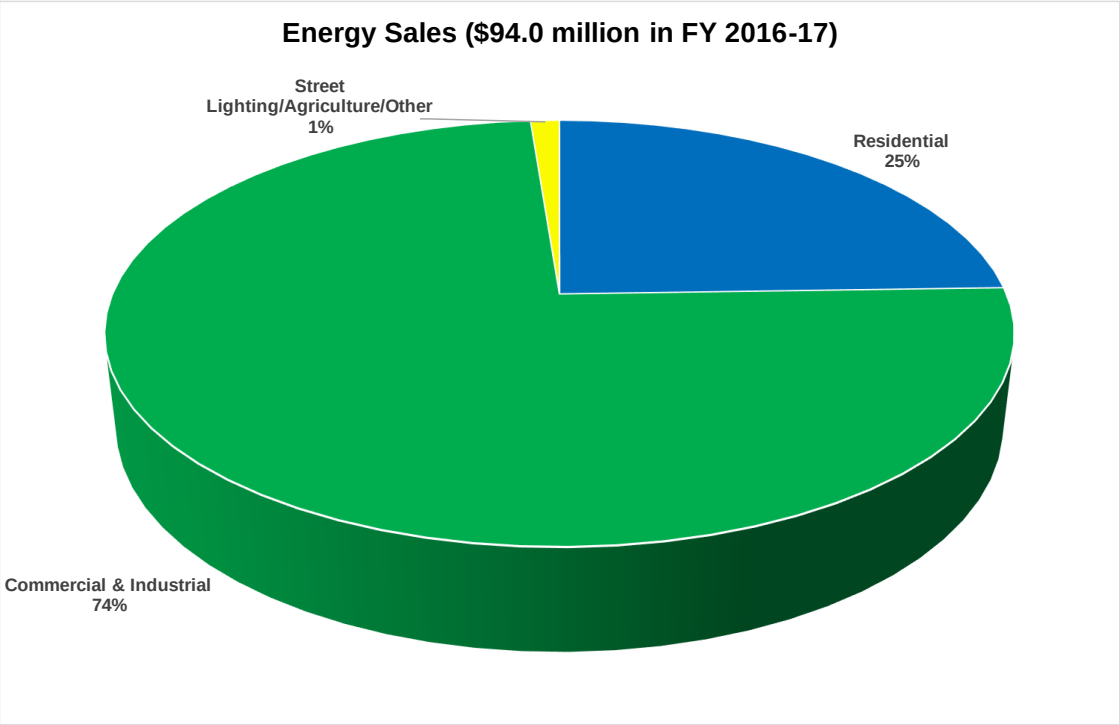
SVCE showed a positive change in net position in the first six months of operation. Performance is projected to improve dramatically with a full year of operations in FY 2017-18 and a full year of the expansion in FY 2018-19 as the table displays below:

Net Position Trend

	March 31, 2016 - June 30, 2016	July 1, 2016 - September 30, 2016	October 1, 2016 - September 30, 2017	Amended Budget October 1, 2017 - September 30, 2018	Forecast October 1, 2018 - September 30, 2019
Operating Revenues	0	0	93,940,264	254,168,991	288,809,904
Operating Expenses	781,353	329,011	64,343,148	198,296,006	225,420,466
Income (Loss) before depreciation and other non-operating revenues and expenses	(781,353)	(329,011)	29,597,116	55,872,985	63,389,439
Depreciation	0	0	23,082	36,000	36,000
Operating Gain (Loss)	(781,353)	(329,011)	29,574,034	55,836,985	63,353,439
Other non-operating revenues and expenses, net	-	-	(148,173)	67,000	861,110
Change in net position	(781,353)	(329,011)	29,425,861	55,903,985	64,214,549

	March 31, 2016 - June 30, 2016	July 1, 2016 - September 30, 2016	October 1, 2016 - September 30, 2017	Amended Budget October 1, 2017 - September 30, 2018	Forecast October 1, 2018 - September 30, 2019
Total Assets	2,151,172	1,925,652	61,712,305	128,977,842	200,837,065
Total Liabilities	2,932,525	3,036,016	33,396,808	44,751,084	50,922,492
Net Position	(781,353)	(1,110,364)	28,315,497	84,226,758	149,914,573

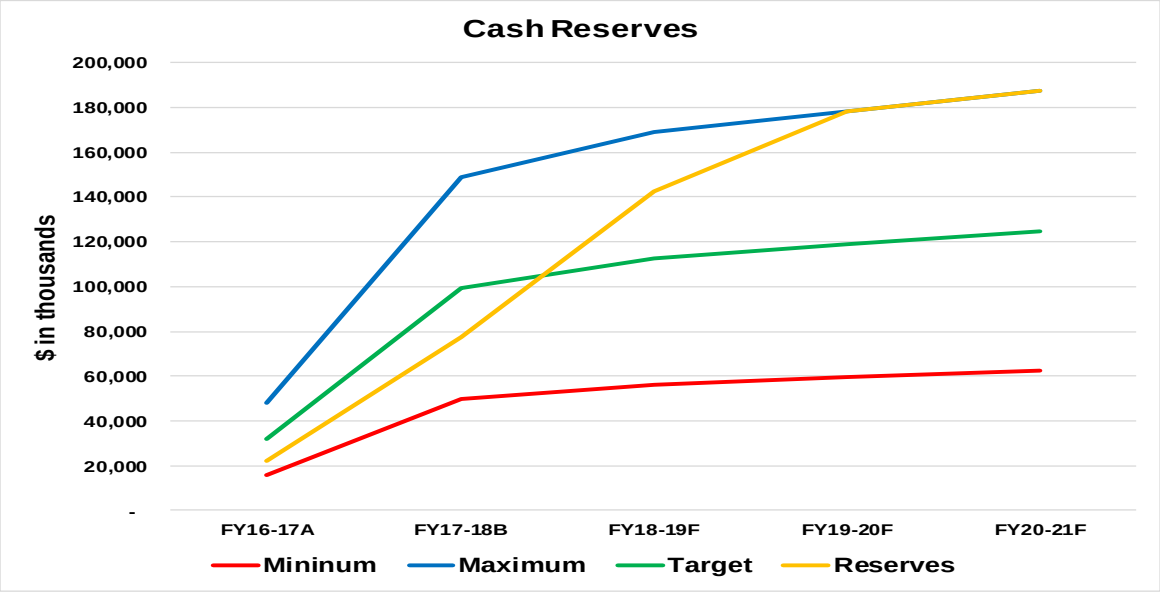

Total Expenses ($64.5 million in FY 2016-17)
Personnel 2.3%
Professional Services 1.5%
General & Admin. 0.7%
Other 0.3%
Billing Services 2.0%
Communications 1.2%
Power Supply 91.9%


Energy Sales ($94.0 million in FY 2016-17)
Street Lighting/Agriculture/Other 1%
Residential 25%
Commercial & Industrial 74%

Cash Reserves

4 Reasons Why SVCE Should Establish Appropriate Levels of Risk Reserves

1. **Become self-sufficient.** As a new agency, one of the first steps to becoming self-sufficient is to build adequate reserves. Having adequate liquidity not only stabilizes day-to-day operations but also provides leverage when negotiating with vendors and will be a significant factor when SVCE eventually applies for a credit rating.
2. **Be prepared for market-related risks**. $0.90 of every $1.00 that SVCE spends is related to power supply. Electricity is a very volatile commodity. While SVCE has implemented risk management strategies and policies, there is no way to completely eliminate risk. Having adequate reserves helps management overcome near-term power supply shocks and minimize rate increases to our customers.
3. **Avoid unplanned cost-reduction/rate-shock measures.** Should SVCE face a fiscal crisis, due to solvency and liquidity issues, management would be forced to react in a relatively "knee-jerk" manner by undertaking operating and program cuts or significant rate increases. Unfortunately, without adequate reserves, SVCE would be forced to compromise our strategic trajectory and long-term attainment of our mission for sake of near-term financial savings.
4. **Reduce the impact of industry-specific risks**. In addition to broad, systemic issues, SVCE must establish reserves to mitigate against potential risk specific to our own unique sector, mission and business activities. For example, CCA's have and will continue to face threats from the Legislative and Regulatory bodies that can increase our costs and drive down our revenues.



Target is 50% of Annual Operating Expenses
A=Actual, B=Budget, F=Forecast

CONTACT INFORMATION

SVCE Website	svcleanenergy.org
Customer Service	(844) 474-7823
Staff & Department Directory	(408) 721-5301
Board Clerk & Administration	x1005
Finance	x1003
Marketing	x1002
Power Supply	x1016
Regulatory & Legislative	x1008
General Office Address	333 W. El Camino Real, Ste 290 Sunnyvale, CA. 94087