



PISENTI & BRINKER LLP

Certified Public Accountants & Advisors

Silicon Valley Clean Energy Authority
Report to the Board of Directors
March 8, 2023

Introduction

- Kellin Gilbert, CPA
 - Audit Partner
 - 14 years in public accounting and performing audits of government entities
 - Currently working with several CCA's throughout California
- Aliandra Schaffer
 - Engagement Supervisor
 - 3 years in public accounting and performing audits of governments (CCA's)

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Results of current year audit:

- The audit is complete. We have reported the following:
 - Unmodified opinion – Based on our audit, the financial statements are materially accurate.
 - No significant deficiencies in internal control have been noted.

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Audit of the years ended September 30, 2022 and 2021 Financial Statements

Item 2
PRESENTATION

Relative Roles & Responsibilities

- **Management** is responsible for preparing the Financial Statements and establishing a system of internal control
- **Auditor** is responsible for auditing the Financial Statements
 - Considering risks of material misstatement in the Financial Statements
 - Considering internal controls relevant to the Financial Statements
 - Performing tests of year-end balances based on risk assessment
 - Evaluating adequacy of disclosures

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Risk Assessment for the years ended September 30, 2022 and 2021

Our audit is a risk-based audit. Risk assessment procedures include:

- Gain understanding of the entity's operating characteristics, practices, and procedures.
- Compare to our knowledge of similar entities, industry and professional guidance.
- Review procedures and controls surrounding significant transaction cycles and business processes.

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Audit Procedures

Significant areas of focus

- Review policies and procedures for various types of financial transactions
- Revenue recognition
 - Accounts receivable and revenue
 - Test a sample of customer billings
 - Relate total cash received during the year to revenue
 - Look at cash received subsequent to year-end and relate to A/R
 - Review revenue recognition through year-end and the method for determining (accrued revenue)

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Audit Procedures

Significant areas of focus

- Cash
 - Confirmations sent to financial institutions
- Accrued Cost of Electricity
 - Review subsequent bills from electricity providers and cash payments
- Other Liabilities
 - Reviewed contracts and other support to determine completeness of amounts recorded
- Financial Statement Note Disclosures – Complete and without bias

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Audit Procedures – Single Audit

- Single Audit – New for FY 22
 - Subject to Single Audit due to expending over \$750k of federal funds
- CAPP Program
 - 21.027 Coronavirus State and Local Fiscal Recovery Funds
 - This grant is for the public health emergency, COVID-19 or its negative economic impacts, including providing assistance to households, small businesses, nonprofits, and impacted industries...
- Schedule of Expenditures of Federal Awards (SEFA) included in the financial statements
- Additional testing of controls and review of compliance requirements as determined by the Uniform Grant Guidance (Uniform Guidance)

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Required Board Communications

- During 2022 SVCE implemented Government Accounting Standards Board (GASB) statement # 87, Leases.
- This standard required items previously treated as “operating leases” to be recorded on the statement of net position.
- Adoption of this standard created a noncurrent asset for the “right to use” the leased asset and a corresponding lease liability of approximately \$1.3 million at September 30, 2022.

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Required Board Communications (continued)

Other required communications with those charged with governance:

- We did not propose any adjustments to the financial statements.
- We did not identify any significant or unusual transactions, alternative treatments or applications of accounting principles where a lack of authoritative guidance exists.

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Required Board Communications (continued)

Other required communications with those charged with governance:

- There were no disagreements with management concerning the scope of our audit, the application of accounting principles, or the basis for management's judgements on any significant matters.
- We did not encounter any difficulties in dealing with management during the performance of our audit.

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Questions?

Kellin Gilbert: 707-577-1511

Aliandra Schaffer: 707-577-1535



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MY 22-23 Adjusted Operating Budget

Amrit Singh
Board of Directors Meeting
March 8, 2023

Purpose

Action: Adopt Resolution
Approving Mid-Year 2022-2023
(MY 23) Adjusted Operating Budget

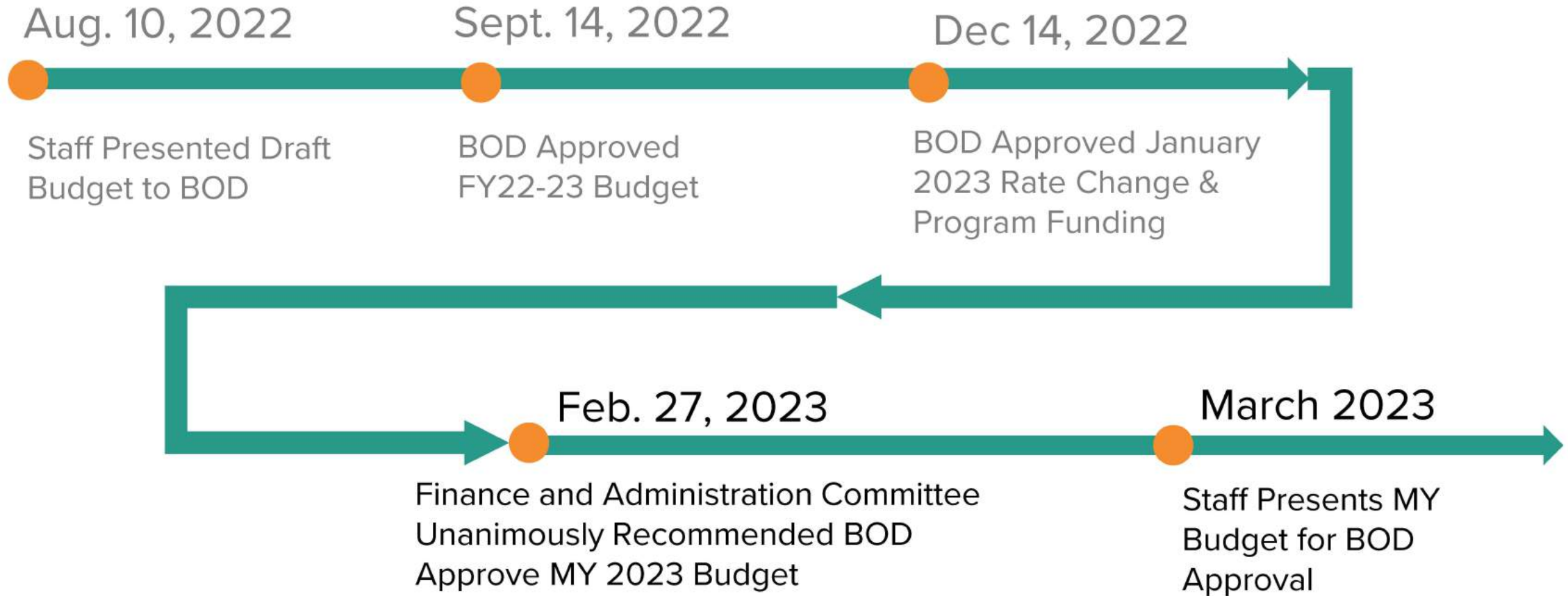
Main Areas of Discussion

- Review the Budget Timeline
- Highlight Changes Since the Adoption of the Annual Budget
- Compare Mid-year and Annual Adopted Budget Key Line Items
- Review Updated SVCE Margin From December Rate Change
- Review of Updates to Energy Expenses
- Review Reserve Projections
- Provide Staffing Update
- Adopt Resolution





Mid Year FY22-23 Budget Approval Timeline



Good Financial Year

- Healthy contribution to reserves of **\$73.4 million**
- Reduction of ~ \$42 Million from \$115.5 Million at budget
- Key Drivers of Reduction:
 - December 2022 Board Approvals:
 - Additional 2% Customer Discounts
 - Increased Program Spending
 - Increased Energy Expenses
- Reductions Partially Offset by:
 - Increase in Revenues from Improved Margins
 - Increase in Investment Income
 - Slight Reduction in Other Operating Expenses

Reduction of ~\$42 Million:

| | | |
|---------------------------------------|---------------------------------|-------------|
| December Board Approvals | | |
| | Additional 2% Customer Discount | \$10 |
| | Increased Program Spending | \$19 |
| Increased Energy Expenses | | \$67 |
| Increase Revenues | | -\$50 |
| Increase Investment Income | | -\$3 |
| Reduction in Other Operating Expenses | | -\$1 |
| | | \$42 |



Annual Budget vs. Mid-Year Adjusted Budget

- Supports Overall Customer Discount of 4%
- Additional Monthly Bill Credits to Low-Income Customers of ~\$12.50 per month for ~8 months.
- Total Transfer of \$30.7 Million to Decarbonization Programs

SILICON VALLEY CLEAN ENERGY MY 2022-23 OPERATING BUDGET (\$ in thousands)

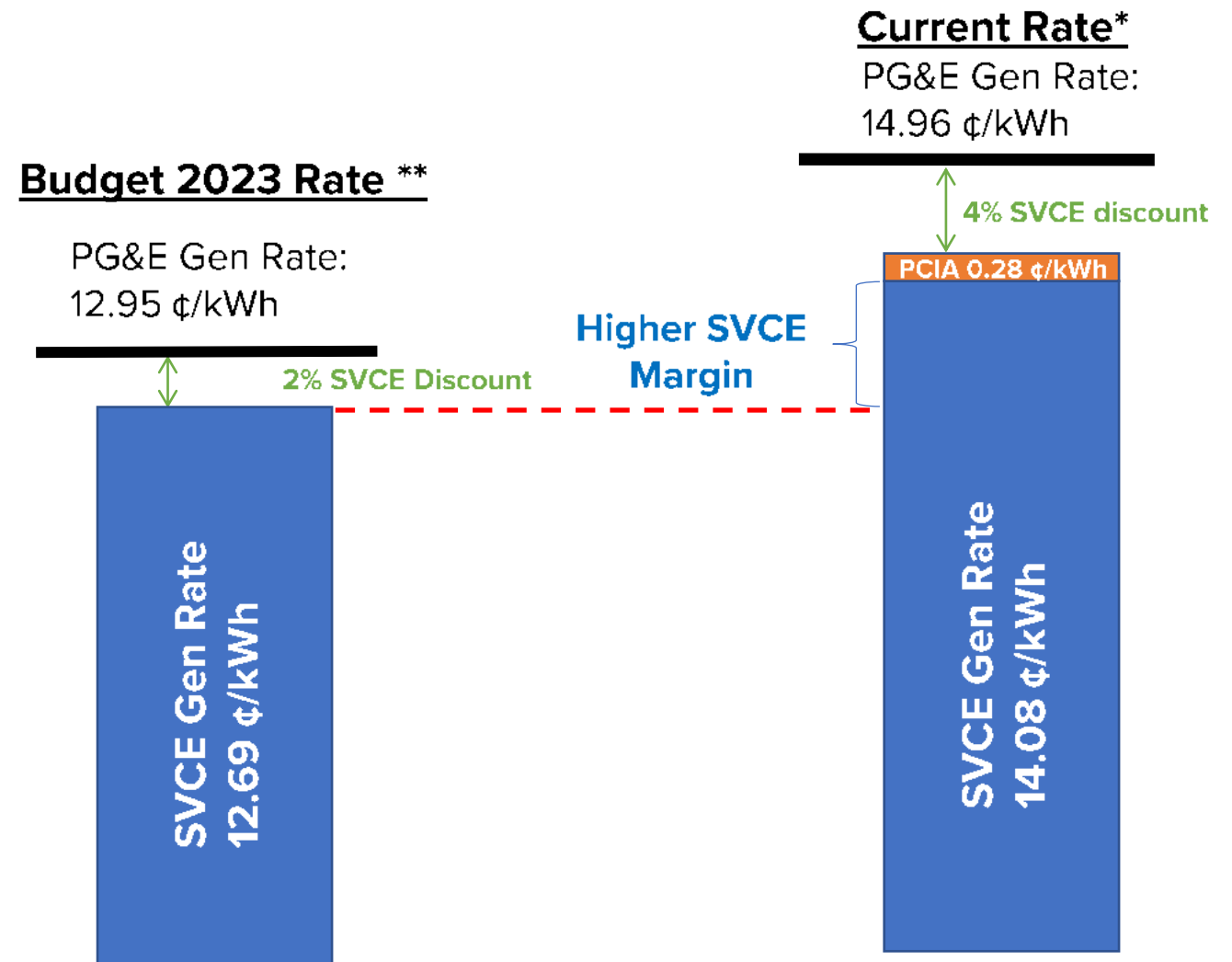
| DESCRIPTION | FY 2022-23 APPROVED BUDGET | MY 2022-23 ADJUSTED BUDGET | Adjustment / Change | |
|--|----------------------------------|----------------------------------|------------------------|--------|
| | | | \$ | % |
| Energy Revenues | 483,910 | 523,958 | 40,048 | 8.3% |
| Energy Expenses | 325,296 | 392,436 | 67,140 | 20.6% |
| Operating Margin | 158,564 | 131,522 | (27,042) | -17.1% |
| Operating Expenses | 28,299 | 27,559 | (740) | -2.6% |
| Non-Operating Revenue (Expense) | 589 | 3,867 | 3,278 | 553.8% |
| Balance Available for Reserves (before Transfers) | 130,904 | 107,830 | (23,074) | -17.6% |
| Annual Transfers and Other Expenses | 9,965 | 9,965 | 0 | 0.0% |
| Nuclear Allocation | 1,900 | 1,900 | 0 | 0.0% |
| Multi Family Direct Install Program | 0 | 9,500 | 9,500 | - |
| Electrification Discount Program | 0 | 9,500 | 9,500 | - |
| Customer Bill Relief | 3,600 | 3,600 | 0 | 0.0% |
| Final Reserve Contribution Balance | 115,439 | 73,365 | (42,074) | -36.4% |

(\$ in thousands)

Actual PG&E Gen and PCIA Rates Result in Higher Margin than FY 23 Budget Assumptions

Item 4
PRESENTATION

- Relative to Assumptions in the Annual FY 23 Budget:
 - PG&E's 2023 generation rate increased by about 15.5%
 - PCIA increased from 0¢/kWh to 0.28¢/kWh
- Relative to Budget, SVCE's margin improve by about 11%
- The rate changes were effective Jan 1, 2023.



* Source: PG&E 2023 Average Rate, effective January 1, 2023 (Weighted for SVCE Portfolio Load)

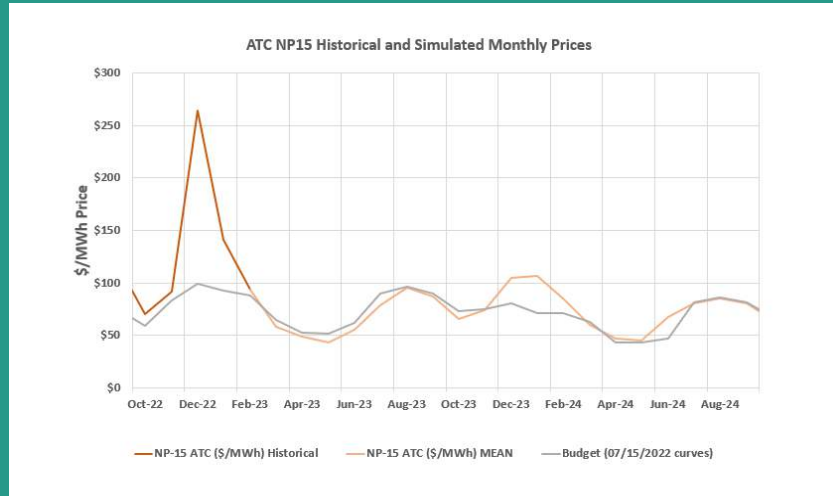
***Using NewGen Model with 7/16/2022 Forward Curves and 10% haircut (Weighted for SVCE Portfolio Load)

Above margin analyses ignores minor reductions for franchise fees (0.09 ¢/kWh)

Power Supply Variance

Item 4
PRESENTATION

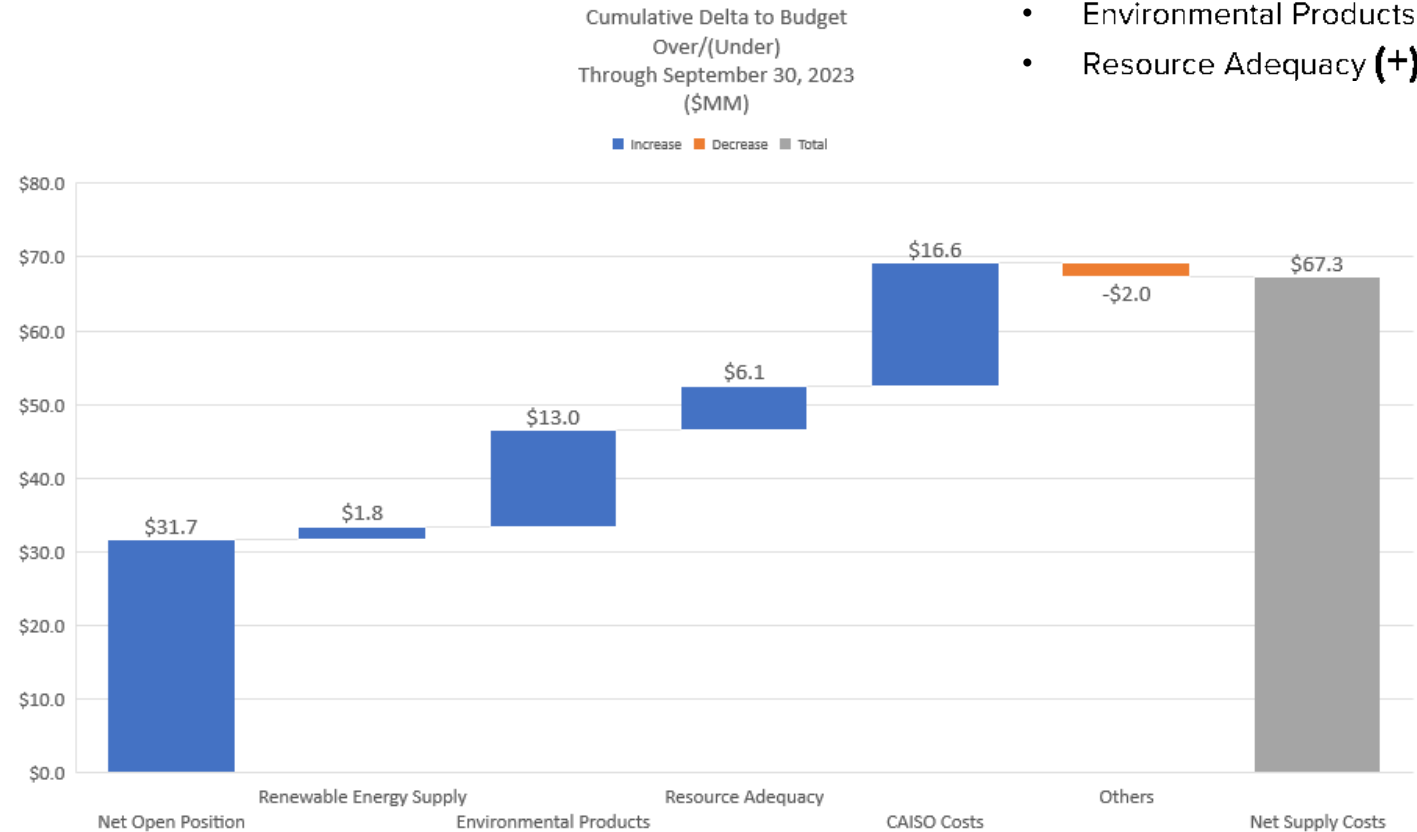
- Energy Prices are Extremely Volatile (expanded slide in appendix)



- Currently ~86% Hedged for FY 2023
- Sharp Increase in Prices for Renewable and Carbon Free Environmental Products
- Sharp Increase in Resource Adequacy (RA) Market and Compliance Costs

Increase of \$67.3 M since budget

- Net Open Position (+)
- CAISO non-energy costs (+)
- Environmental Products (+)
- Resource Adequacy (+)





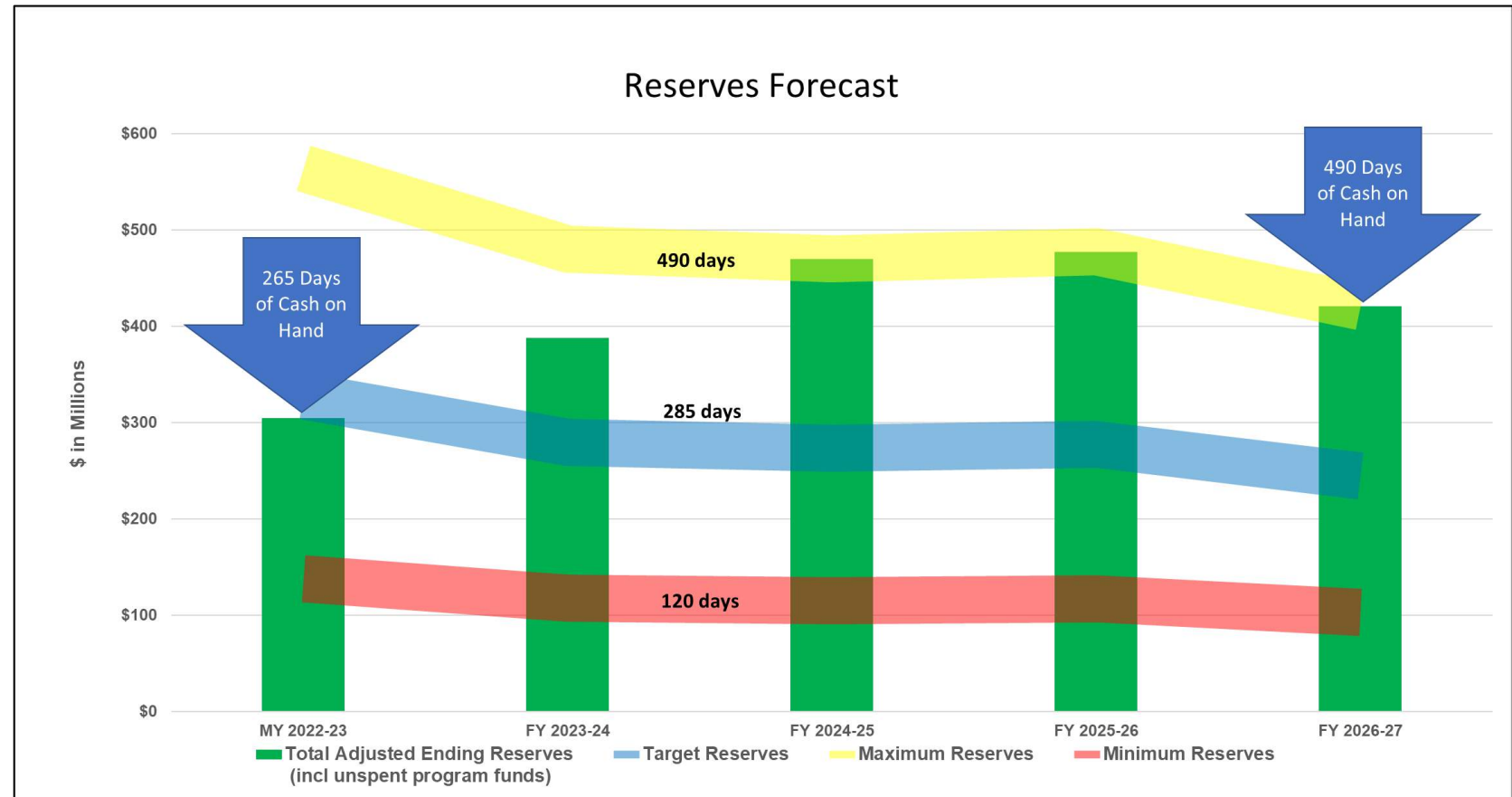
Reserve Projection

Projected End of FY Reserves:

- \$305 Million
- 265 Days of Cash on Hand
- Includes Unspent Program Fund allocations

If all Approved Programs Dollars were Spent :

- \$252 Million in Reserves
- 219 days cash on hand





Personnel Update

Budgeted Staff

- 49 FTEs
- 7 PTEs

Current Staff

- 35 FTEs
- 5 PTEs

No New FTE Headcount Additions in MY Budget

Recruiting Progress:

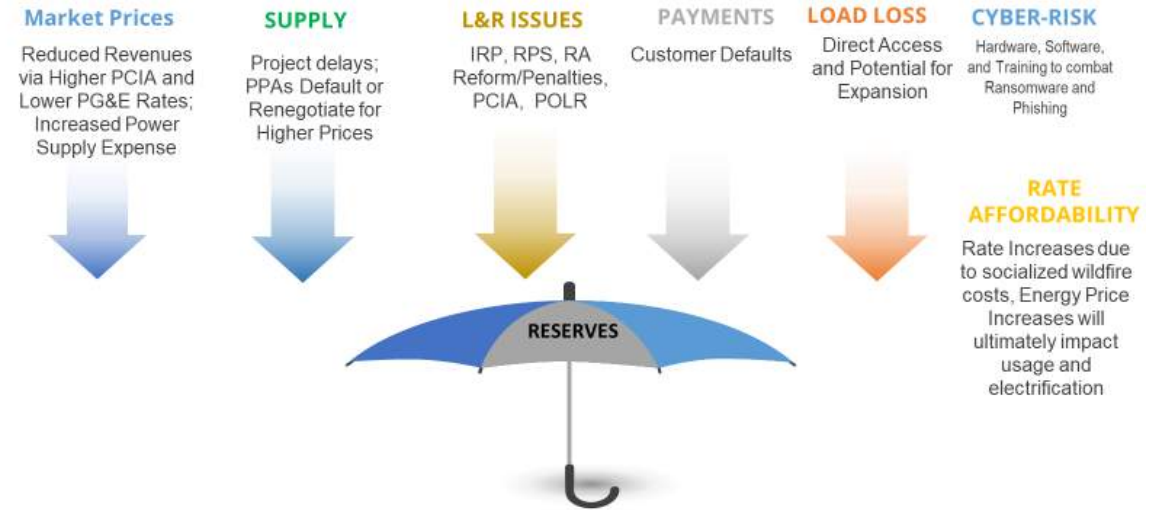
- Staff engaged multiple outside recruitment firms
 - 2 staff hired in late 2022
 - 5 new staff hired – starting in March / April
 - 9 FTE vacancies remain

DPP anticipates additional hiring later in 2023, once new hires are fully integrated, and gaps identified

Summary - Despite ongoing uncertainty, the overall financial picture looks good for FY22-23

- Despite uncertainties, good operating margin and contribution to reserves
- Taking favorable conditions to:
 1. Build reserves to withstand future adverse events
 2. Further serve our mission with an additional \$19 million in funding for decarbonization programs
 3. Encourage all-electric rate adoption by residential customers with additional discounts
 4. Provide additional bill relief for lower-income customers
 5. Increase overall customer discount to 4%
- Staff will conduct additional stress tests as part of next year's budget to prepare for adverse events and assess the adequacy of reserves.

Many Risks can Deplete Reserves





Recommendation

Adopt Resolution 2023-04, Approving the Mid-year (MY) 2022-23 Adjusted Operating Budget that projects contributing \$73.4 million to the reserves.

Thank you! / Questions?

2022-2023 Mid-Year Adjusted Operating Budget

SILICON VALLEY CLEAN ENERGY MY 2022-23 OPERATING BUDGET (\$ in thousands)

Item 4
PRESENTATION

| | FY 2022-23 ADJUSTED BUDGET |
|--|----------------------------------|
| DESCRIPTION | |
| ENERGY REVENUES | |
| Energy Sales | 522,853 |
| Green Prime | 1,055 |
| Other Income | 50 |
| TOTAL ENERGY REVENUES | 523,958 |
| ENERGY EXPENSES | |
| Power Supply | 392,436 |
| OPERATING MARGIN | 131,522 |
| OPERATING EXPENSES | |
| Data Management | 3,413 |
| PG&E Fees | 1,470 |
| Salaries and Retirement | 11,285 |
| Professional Services | 8,016 |
| Marketing & Promotions | 862 |
| Notifications | 131 |
| Lease | 525 |
| General & Administrative | 1,857 |
| TOTAL OPERATING EXPENSES | 27,559 |
| OPERATING INCOME (LOSS) | 103,963 |
| NON-OPERATING REVENUES | |
| Interest Income | 3,870 |
| Grant Income | 0 |
| TOTAL NON-OPERATING REVENUES | 3,870 |
| NON-OPERATING EXPENSES | |
| Financing | 3 |
| Interest | 0 |
| TOTAL NON-OPERATING EXPENSES | 3 |
| TOTAL NON-OPERATING INCOME (EXPENSES) | 3,867 |
| CHANGE IN NET POSITION | 107,830 |
| CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER | |
| Capital Outlay | 200 |
| Transfer to CRCR Fund | 0 |
| Transfer to Program Fund | 9,765 |
| Nuclear Allocation | 1,900 |
| Multi Family Direct Install Program | 9,500 |
| Electrification Discount Program | 9,500 |
| Customer Bill Relief | 3,600 |
| Other | 0 |
| TOTAL CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER | \$34,465 |
| BALANCE AVAILABLE FOR RESERVES | \$73,365 |



Operating Expenses

| | FY Budget | MY Budget Changes | Notes |
|---------------|--|---|--|
| Updated Costs | <ul style="list-style-type: none">• Data Management (Calpine)<ul style="list-style-type: none">• \$3.25MM• Billing (PG&E)<ul style="list-style-type: none">• \$1.4MM• G&A / Lease<ul style="list-style-type: none">• \$2.4MM• Staffing<ul style="list-style-type: none">• \$12.02MM• Professional Services<ul style="list-style-type: none">• \$8MM• Communications / Noticing<ul style="list-style-type: none">• \$1MM | <ul style="list-style-type: none">• Unchanged• Unchanged• Unchanged• Reduced by ~\$740k due to vacancies• Unchanged• Unchanged | <ul style="list-style-type: none">• Actual expenditures (Oct – Dec) tracking within Budgets across most operating expense categories• No major shifts in program / project priorities• No new FTE headcount at MY• Staffing costs reduced due to lengthy recruitment processes• Anticipate additional DPP staffing later in 2023 |



5-year forecast

| (\$ in Thousands) | | | | | |
|---|----------------|----------------|----------------|----------------|-----------------|
| | 2023 | 2024 | 2025 | 2026 | 2027 |
| Operating Revenue | (Budget) | (Forecast) | (Forecast) | (Forecast) | (Forecast) |
| GWh Sales | 3,784 | 3,749 | 3,769 | 3,917 | 3,792 |
| Electricity Sales, Net | \$ 522,853 | \$ 458,368 | \$ 482,080 | \$ 493,546 | \$ 478,176 |
| Available for PCIA/Gen Rate/Power Supply Cost Changes | - | - | (40,000) | (129,000) | (221,000) |
| Other Income | 50 | 51 | 51 | 52 | 52 |
| GreenPrime Electricity Premium | 1,055 | 862 | 853 | 858 | 863 |
| Total Operating Revenues | 523,958 | 459,280 | 442,984 | 365,455 | 258,092 |
| Operating Expense | | | | | |
| Power Supply | \$ 392,436 | \$ 328,263 | \$ 319,711 | \$ 323,460 | \$ 279,812 |
| Operating Margin | 131,522 | 131,017 | 123,274 | 41,996 | (21,720) |
| Data Management | 3,413 | 3,413 | 3,583 | 3,762 | 3,950 |
| PG&E Service Fees | 1,470 | 1,544 | 1,621 | 1,702 | 1,787 |
| Staff Compensation | 11,285 | 12,447 | 12,852 | 13,269 | 13,701 |
| Consultants and other Professional Fees | 8,016 | 8,417 | 8,838 | 9,280 | 9,744 |
| Communications and Noticing | 993 | 1,043 | 1,095 | 1,150 | 1,207 |
| General and Administration | 2,382 | 2,501 | 2,626 | 2,758 | 2,895 |
| Programs | 34,265 | 9,185 | 9,659 | 9,888 | 9,581 |
| Total Operating Expenses | 454,260 | 366,812 | 359,984 | 365,269 | 322,677 |
| Operating Income | 69,698 | 92,468 | 83,000 | 187 | (64,586) |
| Nonoperating Revenue (Expense) | | | | | |
| Investment Income | 3,870 | 5,609 | 8,306 | 10,059 | 10,214 |
| Capital Outlay & Financing Costs | (203) | (53) | (53) | (53) | (53) |
| Grant Income | - | - | - | - | - |
| Total Non-Operating Revenue (Expense) | 3,667 | 5,556 | 8,253 | 10,006 | 10,161 |
| Change in Net Position/Available for Reserves | 73,365 | 98,024 | 91,253 | 10,192 | (54,424) |
| Begin, Net Position | 212,684 | 286,049 | 384,073 | 475,326 | 485,518 |
| End, Net Position | \$ 286,049 | \$ 384,073 | \$ 475,326 | \$ 485,518 | \$ 431,094 |

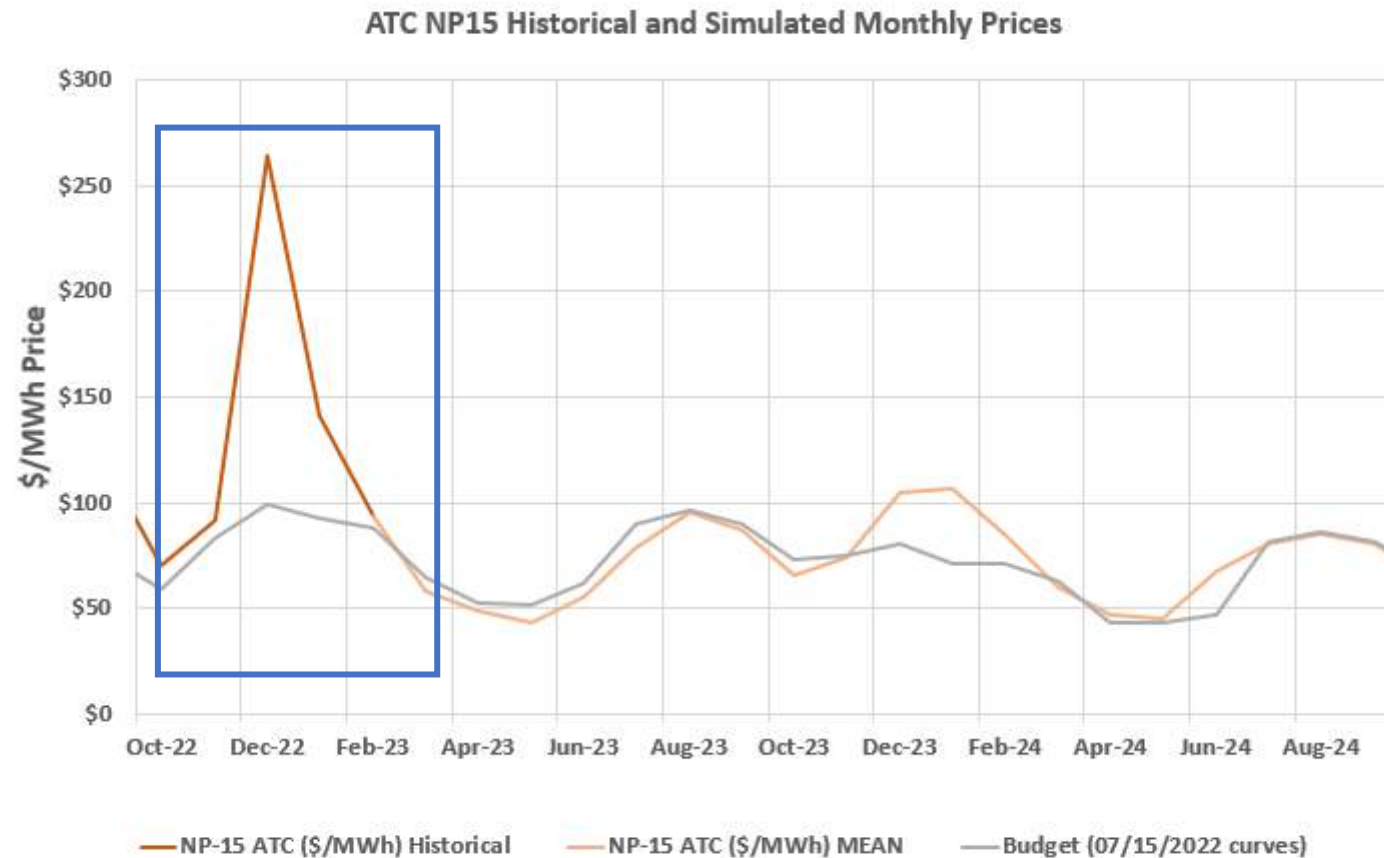
For forecast years FY23-24 onward:

- Revenues are based on GWh Sales from the CEC IEPR load forecast and CalCCA NewGen Model for SVCE margin analysis using latest market data
- Power Supply Costs are based on updated portfolio positions and latest market data
- Operating Expenses are assumed to grow 5% / year
- Staffing Headcount is unchanged from proposed FY22-23 level



Power Market Price Volatility

Prices in recent months have settled much higher than normal



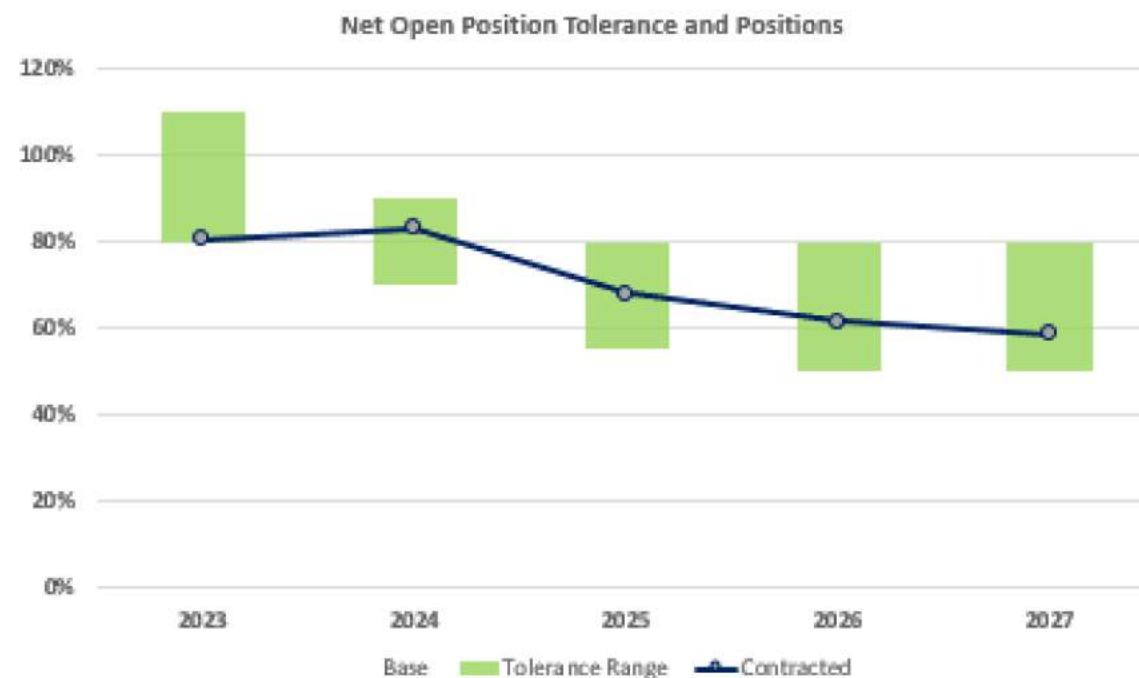
| NP15 ATC \$/Mwhr | FY2023 | FY2024 |
|------------------|---------|---------|
| Budget | \$ 79.4 | \$ 68.1 |
| MY Budget | \$ 94.0 | \$ 75.0 |



Energy Risk Management Min/Max Bands

We hedge to manage market price risk. 86% of Fiscal Year 23 load is hedged; 80% of Calendar Year 23 is hedged.

| Period | Year | ERM Min Tolerance – LRB % | ERM Max Tolerance LRB % | SVCE Total Hedge % |
|--------------------|------|---------------------------------|-------------------------------|-----------------------|
| Balance of Year | 2023 | 80% | 110% | 80% |
| Year 2 - 2023 | 2024 | 70% | 90% | 83% |
| Year 3 - 2024 | 2025 | 55% | 80% | 69% |
| Year 4 - 2025 | 2026 | 50% | 80% | 63% |
| Year 5 - 2026 | 2027 | 50% | 80% | 60% |





Decarb Programs and Policy Staffing

Current Staff

- Director
- Programs-focused team (3 staff)
- Policy and government support team (3 staff)
- Data team (2 staff)

Starting Spring 2023

- Portfolio Management Analyst
- Senior Programs Specialist (Community Programs)
- Programs Lead (Policy)

Ongoing Program Expansion:

- Need to go from ~\$2M/year to ~20M/year for next three years
- Need to go from hundreds of rebates to thousands
- Need to meet more with local agencies to explore options and provide support

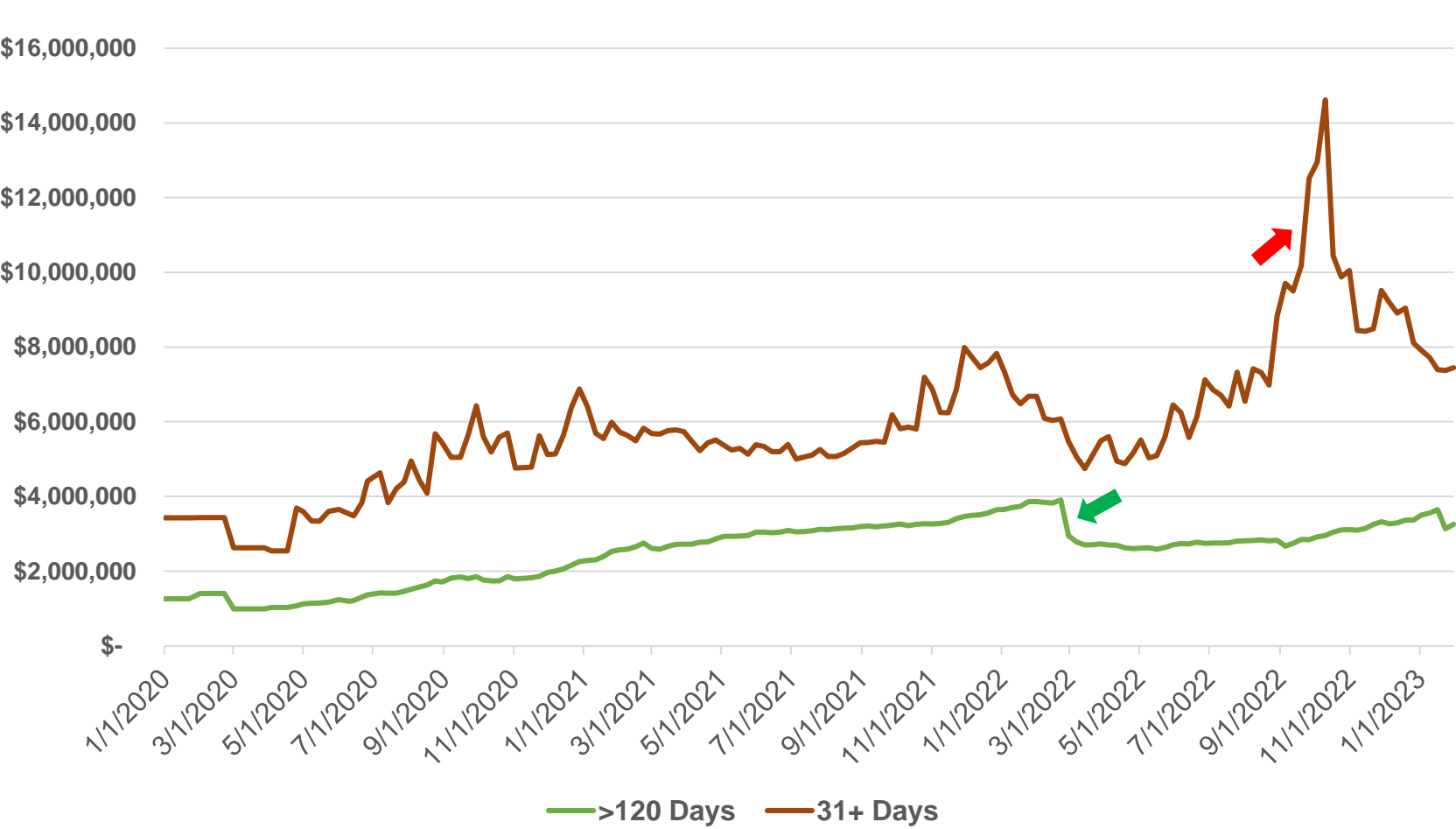
More Staff Required; New Tools Required

- DPP anticipates additional hiring later in 2023, once new hires are fully integrated
- New positions likely focused on financing, program expansion
- Search for / evaluate new tool to manage program portfolio



Since March 2020, the overall arrearage amounts have grown roughly 3x.

SVCEs Arrearage Total for customers 31+ days late, 120+ days late

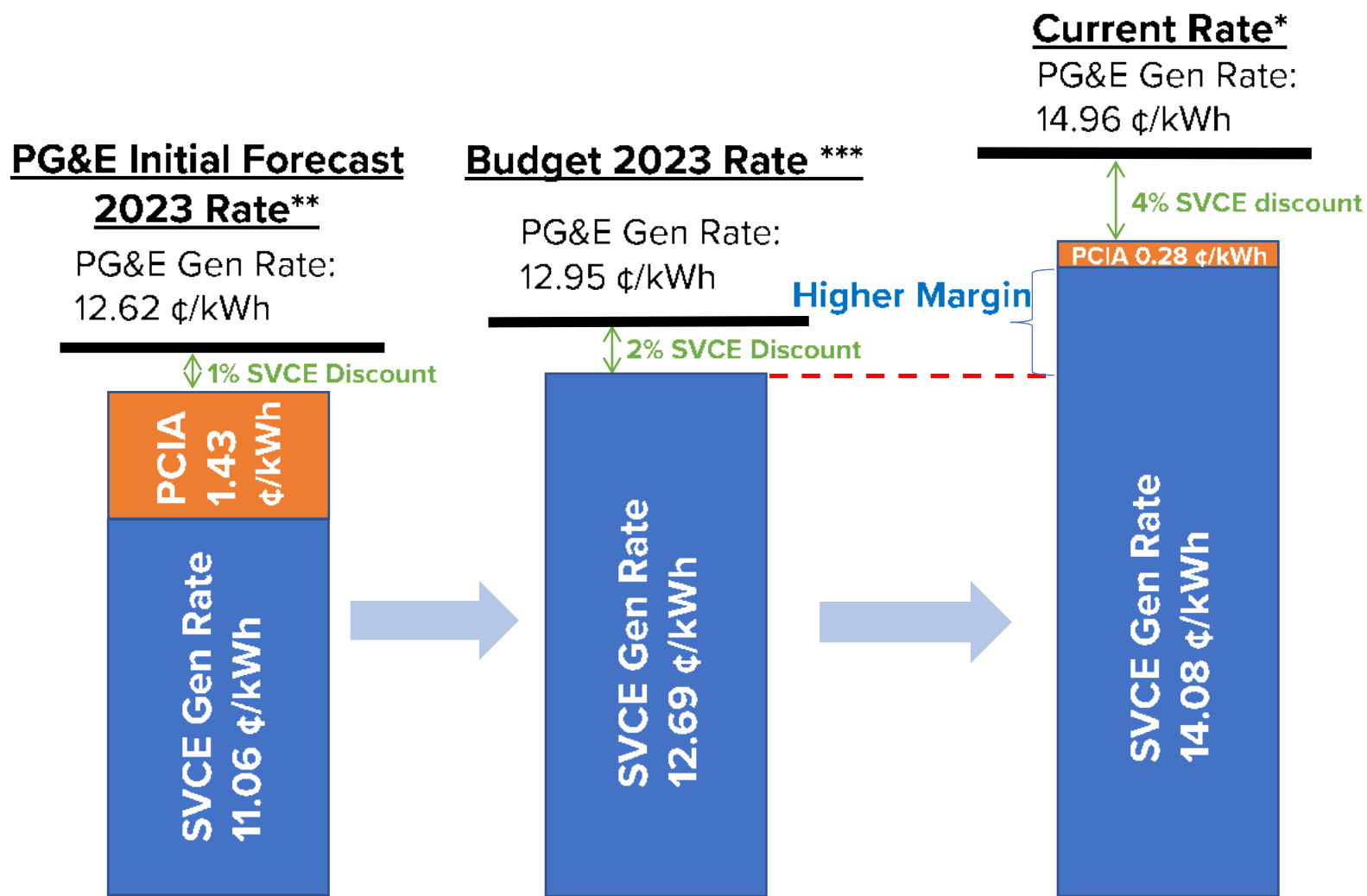


| | Date | Amount |
|---------|------------|---------|
| High | 11/29/2021 | \$7.99M |
| Low | 4/17/2020 | \$2.54M |
| Current | 1/30/2023 | \$7.45M |

- Green arrow indicates receipt of \$1.3M in Federal CAPP funds
- An additional \$750k in CAPP funding provided winter '23
- Growth at red arrow indicates short-term PG&E billing-hold issue in fall '22 that was quickly resolved.

Progression of the SVCE Margin

- PG&E Published the Initial 2023 ERRA forecast in May 2022 projecting 2023 Gen Rates at 12.62 ¢/kWh (Weighted for SVCE Portfolio Load)
- SVCE set annual budget in July 2022, projecting 2023 Gen Rates at 12.95 ¢/kWh (Weighted for SVCE Portfolio Load)
- PG&E Released the official rates in December 2022, effective January 1st, 2023



* Source: PG&E 2023 Average Rate, effective January 1, 2023 (Weighted for SVCE Portfolio Load)

** Source: PG&E Initial ERRA Forecast (Weighted for SVCE Portfolio Load)

*** Using NewGen Model with 7/16/2022 Forward Curves and 10% haircut (Weighted for SVCE Portfolio Load)
Above margin analyses ignores minor reductions for franchise fees (0.09 ¢/kWh)