



## Silicon Valley Clean Energy Finance and Administration Committee Meeting

Friday, May 12, 2023  
12:00 pm

George Tyson, Chair  
Town of Los Altos Hills

Tina Walla, Vice Chair  
City of Saratoga

Elliot Scozzola  
City of Campbell

Sheila Mohan  
City of Cupertino

Zach Hilton  
City of Gilroy

Sally Meadows  
City of Los Altos

Rob Rennie  
Town of Los Gatos

Evelyn Chua  
City of Milpitas

Bryan Mekechuk  
City of Monte Sereno

Yvonne Martinez Beltran  
City of Morgan Hill

Margaret Abe-Koga  
City of Mountain View

Larry Klein  
City of Sunnyvale

Otto Lee  
County of Santa Clara

Silicon Valley Clean Energy Office  
333 W. El Camino Real, Suite 330  
Sunnyvale, CA

Teleconference Meeting Information:

<https://svcleanenergy-org.zoom.us/j/88530943302>

Or by Telephone (Audio only):  
US: +1 669 219-2599  
Webinar ID: 885 3094 3302

Members of the public may observe this meeting electronically by accessing the meeting via instructions above. Public Comments can be sent in advance of the meeting to Board Clerk Andrea Pizano at [Andrea.Pizano@svcleanenergy.org](mailto:Andrea.Pizano@svcleanenergy.org) and will be distributed to the Finance and Administration Committee. The public will also have an opportunity to provide comments during the meeting. Members of the public using Zoom may comment during public comment or the applicable agenda item by using the Raise Hand feature and you will be recognized by the Chair. Those using the telephone (audio only) feature should press star 9 on your phones to initiate the "Raise Hand" function in Zoom. You will then be announced, unmuted, and your time to speak will begin.

The public may provide comments on any matter listed on the Agenda. Speakers are customarily limited to 3 minutes each, however, the Committee Chair may increase or decrease the time allotted to each speaker based on the number of speakers, the length of the agenda and the complexity of the subject matter. Speaking time will not be decreased to less than one minute.

If you are an individual with a disability and need a reasonable modification or accommodation pursuant to the Americans with Disabilities Act ("ADA") please contact Board Clerk Andrea Pizano at [Andrea.Pizano@svcleanenergy.org](mailto:Andrea.Pizano@svcleanenergy.org) prior to the meeting for assistance.

### AGENDA

#### Call to Order

#### Roll Call

#### Public Comment on Matters Not Listed on the Agenda

*The public may provide comments on any matter not listed on the Agenda provided that it is within the subject matter jurisdiction of SVCE. Speakers are customarily*

**svcleanenergy.org**

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Sunnyvale, CA 94087

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#### Consent Calendar (Action)

- 1) Approve Minutes of the February 27, 2023 Finance and Administration Committee Meeting

#### Regular Calendar

- 2) CEO Update (Discussion)
- 3) Results of Stress Test Analyses for FY2024-FY2028 Planning Horizon (Discussion)
- 4) FY 2023-24 Budget Framework (Discussion)
- 5) Treasurers Report Format Changes (Presentation)

#### Committee/Staff Remarks

#### Adjourn

**svcleanenergy.org**

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**Silicon Valley Clean Energy  
Finance and Administration Committee Meeting**  
Monday, February 27, 2023  
1:00 p.m.

Pursuant to State of California Gov't Code Section 54953 (e) the meeting was conducted via teleconference.

**DRAFT MEETING MINUTES**

Prior to the Call to Order, Board Clerk Andrea Pizano announced that in the absence of the previous Committee Chair, Vice Chair Hung Wei would serve as Interim Chair until the selection of a new Chair during Item 2.

**Call to Order**

Interim Chair Wei called the meeting to order at 1:00 p.m.

**Roll Call**

**Present:**

Chair Hung Wei, Cupertino  
Vice Chair Sally Meadows, Los Altos (joined at 1:01 p.m.)  
Director Elliot Scozzola, Campbell  
Director Margaret Abe-Koga, Mountain View  
Director Walia, Saratoga

**Absent:**

None.

**Public Comment on Matters Not Listed on the Agenda**

No speakers.

**Consent Calendar**

Interim Chair Wei opened public comment.  
No speakers.  
Interim Chair Wei closed public comment.

Director Walia commented that she was not present for the October 5, 2022 meeting as mentioned in Item 1a, but would be voting to support the motion.

**MOTION: Director Abe-Koga moved and Director Scozzola seconded the motion to approve the Consent Calendar.**

**The motion carried unanimously by verbal roll call vote.**

- 1a) Approve Minutes of the October 5, 2022, Finance and Administration Committee Meeting**
- 1b) Approve Direction to Staff to Poll Committee Members for Next Meeting Date**



### **Regular Calendar**

#### **2) Selection of 2023 SVCE Finance and Administration Committee Chair and Vice Chair (Action)**

Chair Wei opened public comment.

No speakers.

Chair Wei closed public comment.

**MOTION: Director Meadows moved and Director Abe-Koga seconded the motion to nominate Director Hung Wei as Chair of the 2023 Finance and Administration Committee.**

**The motion carried unanimously by verbal roll call vote.**

Newly appointed Chair Wei continued to preside over the meeting.

**MOTION: Director Abe-Koga moved and Director Walia seconded the motion to nominate Director Sally Meadows as Vice Chair of the 2023 Finance and Administration Committee.**

**The motion carried unanimously by verbal roll call vote.**

#### **3) Recommend the SVCE Board of Directors Approve the Mid-Year 2022-23 Adjusted Operating Budget (Action)**

Amrit Singh, CFO and Director of Finance and Administration, provided a presentation to request the committee recommend that the SVCE Board of Directors adopt the mid-year 2022-2023 (MY 23) Adjusted Operating Budget. CFO and Director of Finance and Administration Singh reviewed the budget timeline, highlighted changes since the adoption of the Annual Budget, compared mid-year and annual adopted budget key line items, reviewed the updated SVCE margin from the December rate change, reviewed the updates to energy expenses, reviewed reserve projections, and provided a staffing update.

Staff responded to committee member questions regarding future meetings of the committee, SVCE's reserves, and SVCE's rate discount.

Chair Wei opened public comment.

No speakers.

Chair Wei closed public comment.

**MOTION: Director Abe-Koga moved and Vice Chair Meadows seconded the motion to recommend the SVCE Board of Directors adopt the Mid-Year 2022-23 Adjusted Operating Budget that projects contributing \$73.4 million to the reserves.**

**The motion carried by verbal roll call vote.**

#### **4) Enterprise Risk Management Framework and Stress Test Scenario Proposal (Discussion)**

CFO and Director of Finance and Administration Singh provided a presentation to the committee on the enterprise risk management (ERM) framework and requested feedback on the planned stress test scenario. The presentation included a review of last year's stress tests, the distinction between ERM and stress test, key components of ERM framework, and a review of the planned stress test scenario.



CFO and Director of Finance and Administration Singh responded to committee member questions and comments regarding the framework.

Chair Wei opened public comment.

No speakers.

Chair Wei closed public comment.

#### **5) Review of SVCE's Second Prepay Transaction (Discussion)**

CFO and Director of Finance and Administration Singh provided a presentation to the committee with a report out of the completed second prepay transaction. The presentation included a review of the goals and benefits of the prepay, board authorized execution parameters, a summary of executed transactions, and next steps.

Chair Wei opened public comment.

No speakers.

Chair Wei closed public comment.

#### **Committee/Staff Remarks**

No comments.

#### **Adjournment**

Chair Wei adjourned the meeting at 2:19 p.m.



**Staff Report – Item 2**

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**Item 2:        CEO Update**

From:            Girish Balachandran, CEO

Prepared by:    Andrea Pizano, Board Clerk/Executive Assistant

Date:            5/12/2023

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This item will be addressed in the form of an oral report to the Finance and Administration Committee.



### Staff Report – Item 3

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#### **Item 3: Results of Stress Test Analyses for FY2024- FY2028 Planning Horizon**

From: Girish Balachandran, CEO

Prepared by: Amrit Singh, CFO and Director of Administrative Services  
Karthik Rajan, Senior Risk Manager

Date: 5/12/2023

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#### **RECOMMENDATION**

Receive the results of the Stress Test analyses. This report provides background information that staff will use in developing recommendations to the Board for adjusting reserve levels for the next fiscal year (2023-2024) budget.

#### **EXECUTIVE COMMITTEE REVIEW**

Staff presented the ERM framework and the stress test analysis to the Executive Committee at its April 28, 2023, meeting. The Committee reviewed the analysis with the staff and provided feedback on the three-tier threshold, in the reserves policy, for assessing SVCE's financial liquidity. In SVCE's reserves policy, SVCE has a minimum threshold requirement of maintaining 120 days of cash on hand (DCOH), a target threshold of 285 DCOH, and a maximum of 490 DCOH. The policy requires replenishment of the reserves if they fall below the minimum threshold. The CEO must present options to the Board on the disposition of reserves should they exceed the maximum level. No action is required if the target threshold is reached. Since no action is needed once the target is reached, staff asked the Committee if the target should be removed. The Committee recommended keeping the target because it indicates the reserve levels in a three-tier instead of a two-tier level. The Committee noted that if reserves are below the target but above the minimum level, more precautions should be taken to build reserves. As explained later in the report, the target threshold is set at a level such that if the modeled stress scenario occurred, the reserve drawdown would not fall below the minimum of 120 DCOH.

#### **BACKGROUND**

At the February 27<sup>th</sup>, 2023, Finance and Administration Committee meeting, staff presented the Enterprise Risk Management (ERM) framework<sup>1</sup> for comprehensively assessing and managing the organization's risk. Staff explained that stress test is an essential component of the ERM because of the inherent weakness in standard market risk measures in assessing "black swan" or extreme but plausible events such as market disruptions caused by, for example, an economic recession.

In constructing the stress test scenarios, staff leveraged lessons and insights from the 2022 analyses.

In 2022, SVCE team prioritized five stress test scenarios that, based on the staff's professional assessment, could have the most severe consequences for SVCE. Of the five scenarios, four were impacted by market price uncertainties, which included both increase and collapse of market power prices coupled with insufficient financial liquidity, load losses, and loss or delay of resources under Power Purchase Agreements.

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<sup>1</sup> Enterprise Risk Management framework, Item 4: <https://svcleanenergy.org/wp-content/uploads/2023-0227-Finance-and-Admin-Meeting-Agenda-Packet-scrubbed-compressed-1.pdf>

The key finding from the 2022 stress test analyses is that the most significant financial risk facing SVCE is a collapse in energy prices. A collapse in energy prices will significantly reduce SVCE's revenues because of higher PCIA and lower PG&E generation rates. However, this price drop will not substantially reduce SVCE's energy purchase costs because the prices for most of the forward energy purchases are locked because of hedging over the next five years, with more hedges in the earlier years aligned with the Energy Risk Management Policy hedging targets. The hedges also include contracts for the fixed-price purchase of renewable energy. The price collapse impact overwhelms all other stress factors.

This year's analysis, described in the next section, also models a price collapse within an economic recession scenario.

## **ANALYSIS & DISCUSSION**

The 2023 stress scenario includes these assumptions.

1) Energy price drop to statistical one percentile level

To provide customers with competitive rates, SVCE sets its generation rates such that customers receive an effective discount, currently set at four percent for 2023 and 1% after that, to comparable PG&E rates. Because CCA customers must pay PCIA charges to provide the effective discount rate SVCE reduces its rate by the PCIA amount. As a result, if PCIA increases and PG&E generation rate decreases, SVCE generation rates decline.

Market prices for energy are at an all-time high level. The stress test scenario assumes that market prices beginning in April 2023 and for all forward months in the five-year study period drop to the one percentile level. This result is approximately a 44% drop in prices. In comparison, during the financial crisis, commodity prices (using natural gas as a proxy) dropped by about 70% within a short period.

2) Economic recession and resulting price drops lead to insufficient financial liquidity

The standard credit risk management practice, except for long-term Power Purchase Agreements (PPAs), is the requirement to post collateral, usually, cash or letters of credit, when the exposure to the counterparty reaches the negotiated credit limit. A price collapse would increase our counterparty's credit risk or exposure to SVCE, and per the contract, when the credit limit is reached, SVCE must post the required collateral. Because of SVCE's active management of collateral posting requirements, including placing key counterparties in a lockbox mechanism in return for not having posting requirements and long-term PPAs not being subject to this requirement, the price collapse does not have a significant impact on liquidity.

The most significant impact comes from regulatory uncertainty under potential changes to the Financial Security Requirement (FSR). Each CCA must post an FSR amount to their incumbent investor-owned utilities (IOU), PG&E for SVCE, that the utility can draw upon should the CCA fail and return its customers to the IOU. The IOUs are currently the provider of last resort (POLR). The current FSR methodology is primarily based on the difference between the IOU's retail rates and the forecast of serving the CCA load over a 6-month period, where the FSR is adjusted every six months. Under current regulatory proceedings, certain proposals from the IOUs gaining traction at the CPUC could increase the posting requirement for SVCE to two months of the energy cost of serving the customers. Under current market conditions, this requirement could be as high as \$80 million. Because under the stress case assumption, the price collapse would reduce the cost of serving the customers, the FSR is modeled at \$40 million.

In 2023, SVCE has made significant strides in an investment strategy to get better returns on the cash balance. The stress test also assessed potential losses should SVCE have to liquidate the investment portfolio to respond to the modeled scenario. The interest rate would likely fall in an economic recession, resulting in better value for the SVCE portfolio. Also, given that the holding period of these



**Agenda Item: X****Agenda Date: 5/12/2023**

investments is less than three years, the impact of potential losses is muted. SVCE can always hold the investments to maturity and potentially avoid liquidation losses during the holding period.

3) Increased bad debt and load loss due to a recession.

Economic recession often entails contraction of load and an increase in bad debt losses. The analysis assumes a 5% load loss for 20 months of the forecast. The 5% estimate is derived from the average load loss experienced during Covid. The bad debt assumption is ~1% of the revenues.

The attachments to this report provide the summary tables with financial results under the current base case scenario and the modeled stress case scenario. The base case shows a significant reserve growth from the forecast FY2023 level of \$219 million to \$390 million at the end of FY 2024 and continued strong growth in margins over the next five years<sup>2</sup>. If this stress were to occur, the DCOH in 2025 would drop to only 41 days, and by FY2026, SVCE would run out of cash.

The modeled results are based on the assumptions that the current high forward prices and other modeled assumptions, especially those around PCIA and PG&E generation rates, would prevail. PCIA and PG&E generation portfolio assumptions are based on public data as best modeled by the California Community Choice Association (CalCCA) consultant NewGen Strategies and are highly uncertain. In addition to not knowing the contents of the PCIA portfolio and PG&E's generation portfolio, PG&E's portfolio management strategy may change from those modeled, and the California Public Utilities Commission (CPUC) may moderate future PG&E generation rate increases. All these uncertainties make the absolute value of the results highly unreliable. Nevertheless, the relative differences between the base case and the modeled stress test scenario are highly pertinent to understanding our strategic risks. The focus of the analyses is on the delta of results between the base case and the stress test scenario.

Staff will present the results of the stress test analysis to the Board in June. Like last year, the stress test analysis, updated for market prices in alignment with those used to develop the next fiscal year's budget, will be used to update the reserve monitoring and reporting thresholds. The proposed methodology for updating the reserves thresholds is to build reserves such that if the modeled stress scenario were to occur, reserves do not fall below the minimum reserve threshold of holding 120 Days of Cash on Hand (DCOH) over the next two fiscal years and 90 DCOH over the remaining five fiscal years.

The table below summarizes what the update would look like if we were to do so at the current prices:

	Current	Illustrative New Targets
Minimum	120	120
Goal (Target)	285	270
Maximum (Upper Target)	490	390

### **STRATEGIC PLAN**

The analyses support SVCE Strategic Plan Goal 15 – “Commit to maintaining a strong financial position” and Goal 16 – “Avoid failures in the management of market risk, credit risk, liquidity risk, operational risks, and enterprise risks.”

### **FISCAL IMPACT**

The stress test analyses show that the key financial risk facing SVCE is a collapse in energy prices that can significantly reduce revenues and require a substantial draw of funds from the reserves. The best mitigation of this risk is to hold sufficient funds in reserves. Staff will use the results of these analyses to recommend reserve levels for the Board to consider in setting the Fiscal Year 2023-24 budget.

<sup>2</sup> SVCE's cash balance as of Feb 28<sup>th</sup>, 2023, was at about \$210 million and the corresponding days cash on hand was at 194.

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**Agenda Item: X**

**Agenda Date: 5/12/2023**

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**ATTACHMENT**

1. Summary of Base Case Results & Stress Test Results

**Agenda Item: X****Agenda Date: 5/12/2023****Attachment 1 – Summary of Base Case Results****Base Case**

Fiscal Year (BY)

	2023	2024	2025	2026	2027	2028
Revenues	\$ 251	\$ 573	\$ 574	\$ 525	\$ 498	\$ 471
Power Supply Cost	\$ 212	\$ 364	\$ 377	\$ 387	\$ 379	\$ 372
Operating Margin	\$ 39	\$ 210	\$ 196	\$ 138	\$ 119	\$ 98
Other Costs	\$ 29	\$ 39	\$ 32	\$ 32	\$ 32	\$ 33
Net Contribution to Reserves	\$ 10	\$ 170	\$ 164	\$ 106	\$ 86	\$ 66
Reserve Balance	\$ 219	\$ 390	\$ 554	\$ 660	\$ 746	\$ 812
Days Cash on Hand		353	494	575	662	732

**Stress Case**

P1

	BY 2023	2024	2025	2026	2027	2028
Revenues	\$ 242	\$ 333	\$ 228	\$ 289	\$ 294	\$ 280
Power Supply Cost	\$ 198	\$ 322	\$ 313	\$ 308	\$ 306	\$ 303
Operating Margin	\$ 44	\$ 11	\$ (85)	\$ (19)	\$ (12)	\$ (23)
Other Costs	\$ 29	\$ 39	\$ 32	\$ 32	\$ 32	\$ 33
Net Contribution to Reserves	\$ 15	\$ (29)	\$ (117)	\$ (51)	\$ (45)	\$ (55)
Reserve Balance	\$ 224	\$ 196	\$ 79	\$ 27	\$ (18)	\$ (73)
Reserve Balance after POLR Adjustment	\$ 224	\$ 156	\$ 39	\$ (13)	\$ (58)	\$ (113)
Days Cash on Hand		157	41	(14)	(62)	(123)



**Staff Report – Item 4**

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**Item 4:        FY 2023-24 Budget Framework**

From:            Girish Balachandran, CEO

Prepared by:    Andrea Pizano, Board Clerk/Executive Assistant

Date:            5/12/2023

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This item will be addressed in the form of a presentation to the Finance and Administration Committee regarding the preliminary framework for the FY 2023-24 operating budget.

**ATTACHMENT**

The presentation for this item is posted to SVCE's website.



**Staff Report – Item 5**

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**Item 5:        Treasurers Report Format Changes**

From:            Girish Balachandran, CEO

Prepared by:    Andrea Pizano, Board Clerk/Executive Assistant

Date:            5/12/2023

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This item will be addressed in the form of a presentation to the Finance and Administration Committee regarding an update to the monthly Treasurer Report.

**ATTACHMENT**

The presentation for this item is posted to SVCE's website.