
Strategic Plan Update

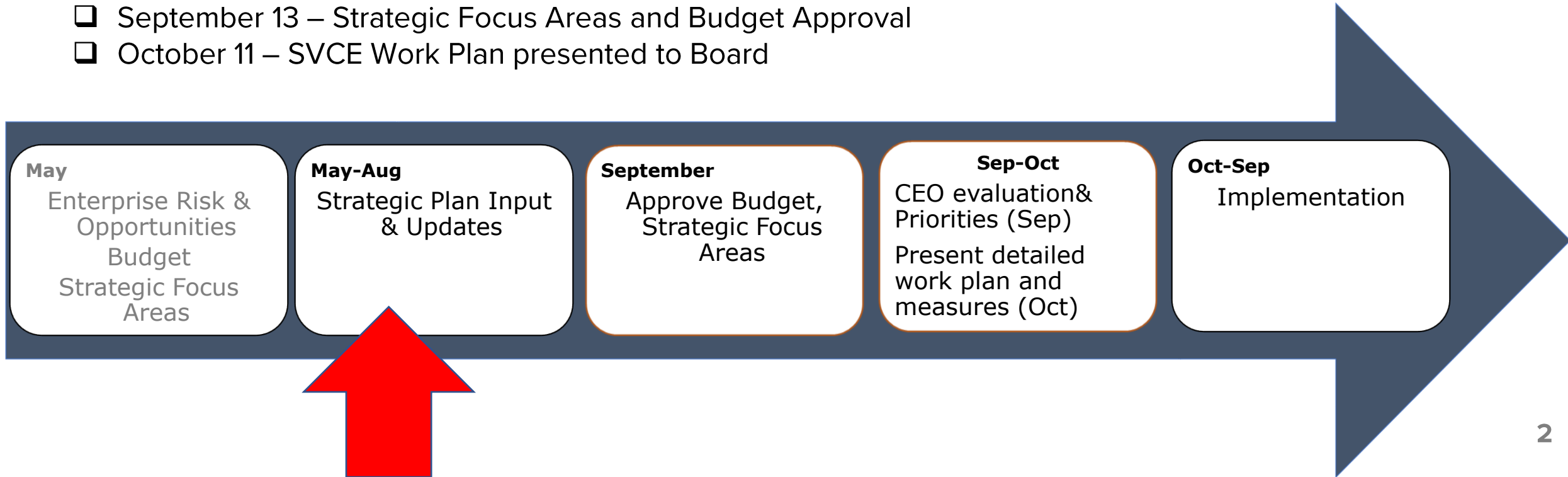
June 14, 2023

SVCE Board of Directors




Strategic Plan & Budget Timeline

- ✓ April & May & Q3 - Staff input
- ✓ May 26 - Executive Committee (strategic plan & budget)
- ❑ June 14 - Board (strategic plan)
- ❑ June 23 - Executive Committee (strategic plan & budget)
- ❑ August 1 - Finance Committee (budget)
- ❑ August 9 - Board (budget)
- ❑ September 13 – Strategic Focus Areas and Budget Approval
- ❑ October 11 – SVCE Work Plan presented to Board





SVCE Planning & Budgeting Process



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

Budget

Funding in alignment with achieving the strategic focus areas

Strategic Focus Areas

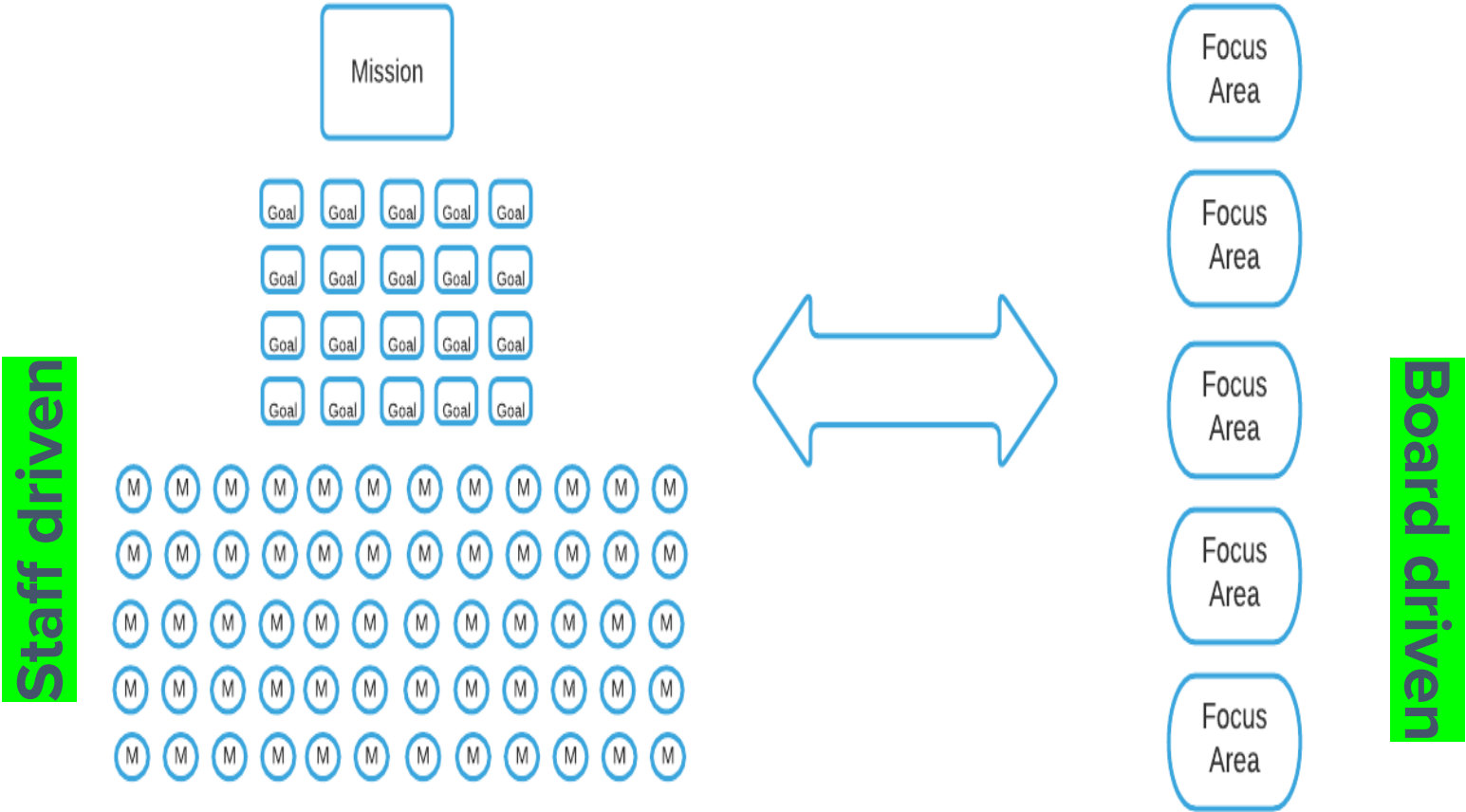
Organization-wide priorities and alignment toward achieving the mission

Enterprise Risk Management

Comprehensive assessment of risks and opportunities to optimally achieve mission



Strategic Work Plan & Focus Areas





No Changes to Mission & Measure

MISSION:

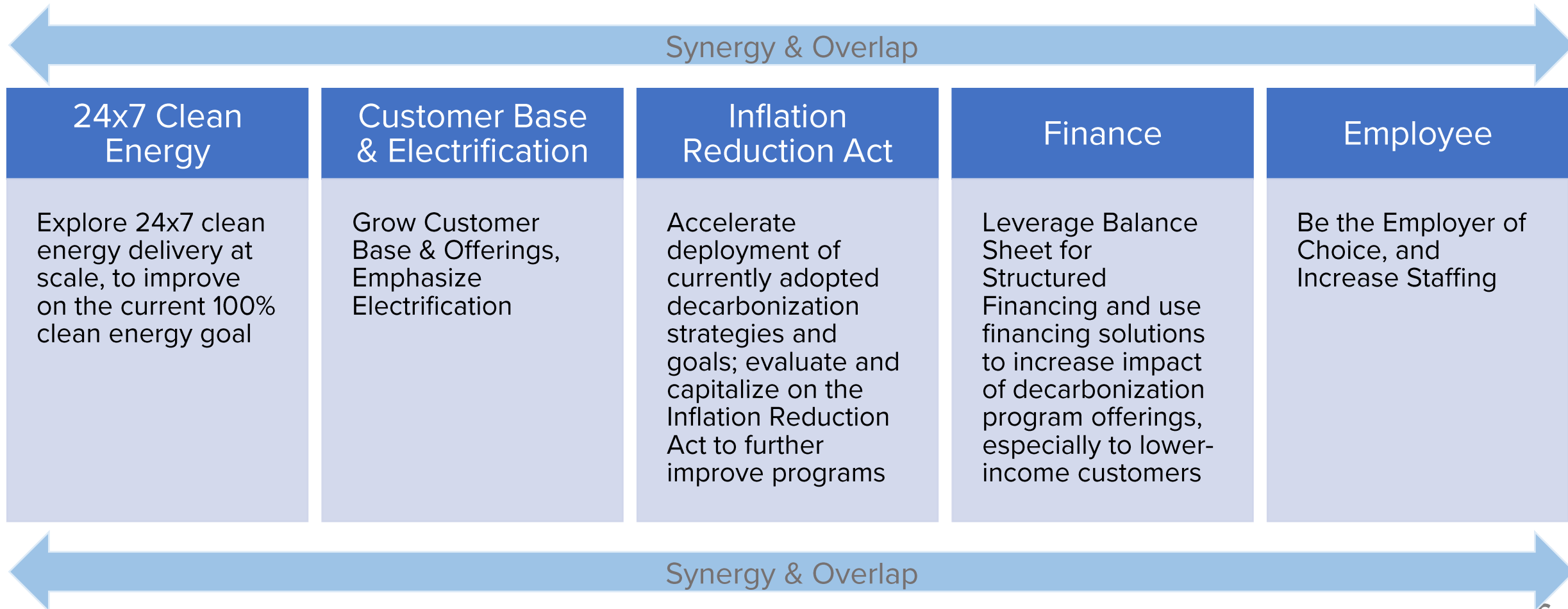
Reduce dependence on fossil fuels by providing carbon free, affordable, and reliable electricity and innovative programs for the SVCE community

MEASURE:

SVCE, working with SVCE member agencies, aspires to achieve energy and transportation GHG reductions of 30% from the 2015 baseline by 2021, 40% by 2025, and 50% by 2030



Last Year's 5 Strategic Focus Areas – FY 23



FY 24 Focus Areas

FY 23

1. 24x7 Clean Energy
2. Customer Base and Electrification
3. Inflation Reduction Act
4. Finance
5. Employee

FY 24

1. Expand Clean and Reliable Grid Actions
2. Expand Customer Base & Interaction
3. Accelerate Building & Transportation Electrification
4. Implement Innovative Financing Solutions
5. Attract & Retain Employees

Supporting Work:

Risk and Opportunities being updated
Strategies (21), Measures (80) being updated
Utilize Monday.com to track during the year
Update details under each Strategic Focus Area



5 Strategic Focus Areas – FY 24

Synergy & Overlap

Clean Reliable Grid

Explore 24x7 clean energy delivery at scale; evaluate SVCE role in enhancing distribution and transmission reliability

Expand Customer Base & Interaction

Grow non-residential customer base; Expand Offerings & emphasize electrification to all customers

Accelerate Building & Transportation Electrification

Accelerate deployment of currently adopted decarbonization strategies and goals; evaluate and capitalize on federal and state funding opportunities

Innovative Financing Solutions

Implement innovative financing solutions to increase impact of decarbonization program offerings, especially to lower-income customers

Attract & Retain Employees

Be the Employer of Choice, and Increase Staffing



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APPENDIX





1. EXPAND CLEAN & RELIABLE GRID ACTIONS

**Explore 24x7
clean energy
delivery at scale,
evaluate SVCE
role in enhancing
distribution and
transmission
reliability**

- Explore pathways to measure & achieve carbon free 24x7 for the entire portfolio and aligned with SVCE's mission
- Implement Google's Carbon Free Energy (CFE) framework and explore opportunities to offer expanded clean offerings to other customers
- Explore VPP opportunities and how we can demonstrate the "grid of the future"
- Explore targeted SVCE role to enhance distribution and transmission reliability



2. EXPAND CUSTOMER BASE & INTERACTION

Grow non-residential customer base; Expand Offerings & emphasize electrification to all customers

- Be the Supplier of Choice; attract and retain DA customers
- Maintain competitive rates; increase customer offerings and demand side programs
- Expand value proposition emphasizing electrification



3. ACCELERATE BUILDING AND TRANSPORTATION DECARBONIZATION

Accelerate deployment of currently adopted decarbonization strategies and goals; evaluate and capitalize on federal and state funding opportunities to further improve programs

- Grow our capacity and deploy programs at a much larger scale
- Operationalize equity into programs
- Assist member agencies evaluating federal and state decarbonization policies and program impacts
- Explore opportunities to influence and partner with other organizations on supporting a clean energy workforce."



4. IMPLEMENT INNOVATIVE FINANCE SOLUTIONS

Leverage Balance Sheet for Structured Financing and use financing solutions to increase impact of decarbonization program offerings, especially to lower-income customers

- Continue building strong financial reserves
- Attract and retain DA customers
- Implement innovative innovative financing solutions to customers, particularly to reach those with barriers to conventional programs (e.g., low income, renters)



5. EMPLOYEES

Be The Employer of Choice, & Increase Staffing

- Attract and Hire New Employees, passionate about our mission and with excellent job knowledge
- Build and maintain a high-performance agency; preserve start-up culture of employee innovation, engagement, and collaboration
- Continue enhancing remote, hybrid and in-person work



WORKPLAN - 21 Goals and 75 Measures

(to be updated & presented to Board in October 2022)



STRATEGIC PLAN GOALS

1. Build and maintain a high-performing team
2. Maintain an enjoyable and rewarding workplace
3. Get great at prioritizing, and rebalancing to align work plan with higher level goals
4. Plan for resources to meet SVCE's mission while balancing multiple stakeholder objectives
5. Acquire clean and reliable electricity in a cost effective, equitable and sustainable manner
6. Manage and optimize power supply resources to meet affordability, GHG reduction and reliability objectives
7. Work with the community to plan and track achieving energy and transportation GHG reductions of 30% from the 2015 baseline by 2021, 40% by 2025, and 50% by 2030
8. Coordinate development of decarbonization and resilience strategy, lead design of local policy and programs, and support program deployment
9. Use DAISY to enable data-driven decision-making across the organization
10. Empower customers with the awareness, knowledge and resources needed to make effective clean energy choices
11. Engage a full range of public, private, and non-profit stakeholders to leverage our decarbonization efforts
12. Enact competitive service offerings and programs that deliver measurable environmental and economic benefits
13. Commit to maintaining a strong financial position
14. Avoid failures in management of market, credit, liquidity, operational and enterprise risks
15. Advocate for policies that protect CCA customer investments and furthers decarbonization, grid reliability, affordability, and social equity with federal and state elected officials and regulators
16. Engage regulators, legislators, and local elected officials in representing SVCE priorities
17. Develop and enhance internal processes related to Supplier Diversity, Staffing and Compliance
18. Encourage the development of regulations that proactively support the changing, evolving energy market and facilitate grid innovation
19. Drive SVCE's local policy objectives by leveraging key stakeholders
20. Ensure SVCE's Information Technology infrastructure is secure, reliable, and disaster resilient to provide 24/7/365 online access
21. Enable data-driven decision-making across the organization; automate, integrate, and streamline business processes to minimize operational risk and move organization toward industry best practices from its startup phase

Each Goal associated with Measures


B. POWER SUPPLY

SVCE's Power Resource Team is responsible for planning, acquiring, and managing power supply resources to meet the community's clean energy goals and state-mandated power and reliability requirements. This is done through a balanced approach which considers cost, risk, long-term value, and best fit in meeting community goals. This requires sustainable planning, innovative thinking, prudent risk management and the constant search for the best solutions. Going forward, to be successful SVCE must adapt to new climate and social challenges; customer specific needs; support region-wide decarbonization and electrification goals; integrate distributed energy resources; collaborate and leverage opportunities for joint procurement; and become technology and data driven.

GOAL	MEASURES
 4. Plan for resources to meet SVCE's mission while balancing multiple stakeholder objectives	<p>1. Integrated Resource affordable, reliable, and 2030 and beyond (204</p> <p>2. Develop a platform t distributed energy reso operations</p> <p>3. Implement process a and policy integration t Policy Teams</p>
 5. Acquire clean and reliable electricity in a cost effective, equitable and sustainable manner	<p>1. Achieve SVCE 100% (RPS mandate of 65%; n procurement mandates</p> <p>2. Meet SVCE's standar (i.e., GreenPrime and G development of sustain GreenPrime Direct and custom product offerin</p> <p>3. Pursue joint procure resource adequacy and through CC Power and power partners</p>

"The successful planning and acquisition of clean and reliable energy serves as the foundation of SVCE's mission. Moving forward, we aspire to strengthen and diversify our portfolio with new cost-effective and innovative resources such as long-duration storage."



GOAL	MEASURES
 6. Manage and optimize power supply resources to meet affordability, GHG reduction and reliability objectives	<p>1. Manage Power Supply Portfolio and Energy Risk</p> <p>2. Implement and Operate Power Purchase Agreements to enhance value to SVCE</p> <p>3. Ensure SVCE adopts the appropriate tools, systems, and resources to support portfolio optimization, risk management, load forecasting, compliance, and settlements</p>





1. 24x7 CLEAN (FY23)

Explore 24x7 clean energy delivery at scale, to improve on the current 100% clean energy goal

- Explore pathways to measure & achieve carbon free 24x7 for the entire portfolio
- Implement 24/7 service with Google and explore with other customers
- Explore VPP opportunities and how we can demonstrate the “grid of the future”



2. CUSTOMER BASE & ELECTRIFICATION (FY23)

Item 3
PRESENTATION

Grow Customer Base, Offerings, & Emphasize Electrification

- Be the Supplier of Choice; attract and retain DA customers
- Maintain competitive rates; increase customer offerings and demand side programs
- Expand value proposition emphasizing electrification



3. INFLATION REDUCTION ACT (FY23)

Accelerate deployment of currently adopted decarbonization strategies and goals; evaluate and capitalize on the Inflation Reduction Act to further improve programs

- Evaluate clean energy asset ownership to structurally lower costs and lower risk
- Grow our capacity and deploy programs at a much larger scale
- Operationalize equity into programs; utilize SEVI framework in double-down programs
- Assist member agencies evaluating IRA decarbonization policies and program impacts
- Evaluate policies related to the utilization of organized labor in utility-scale projects and decarbonization programs and present options to the Board



4. FINANCE (FY23)

Leverage Balance Sheet for Structured Financing and use financing solutions to increase impact of decarbonization program offerings, especially to lower-income customers

- Continue building strong financial reserves
- Attract and retain DA customers
- Strategically use balance sheet to advance our mission; providing innovative financing solutions to customers, particularly to reach those with barriers to conventional programs (e.g., low income, renters)



5. EMPLOYEES (FY23)

Be The Employer of Choice, & Increase Staffing

- Attract and Hire New Employees, passionate about our mission and with excellent job knowledge
- Build and maintain a high-performance agency; preserve start-up culture of employee innovation, engagement, and collaboration
- Develop plans for remote, hybrid and in-person work

Stress Test Analyses

Amrit Singh
Board of Directors
June 14, 2023

Purpose

Present findings of the stress test analyses

Presentation Highlights

- Overview of Enterprise Risk Management (ERM) Framework
- Construction of Stress Test Scenario
- Overview of Modeled Price Collapse
- Results and Implied Reserve Targets
- Next Steps





Overview of the ERM Framework

Comprehensive organization-wide assessment of risks

Optimally manage enterprise risks to achieve the organization's mission and goals.

1. Risk Register

- Record of organization's risks/opportunities
- Lists current and additional risk mitigations
- Identifies a risk owner

2. Risk Matrix

- Assess the likelihood and consequence of risk
- Calibrate risks
- Identify risk tolerance levels

3. Stress

- An essential component of ERM
- Model scenarios of interrelated risks that can be extreme but plausible
- Important for commodity trading portfolios because of the inherent weakness of market risk measures in assessing black swans, such as disruptions in markets

		Impact/Consequence				
		Insignificant	Minor	Moderate	Major	Catastrophic
Draft and Illustrative		Risk Easily Mitigated through Day-to-Day Operations	Risk is Manageable/Low Impact on Mission	Moderate Erosion of Reserves/Impact on Mission	Significant Erosion of Reserves/Impact on Mission	Risk of Existence
Frequency/Likelihood						
Certain	>90% chance	High (1)	High (2)	Extreme (3)	Extreme (4)	Extreme (5)
Likely	50%- 90% Chance	Moderate (6)	High (7)	High (8)	Extreme (9)	Extreme (10)
Moderate	10%- 50% Chance	Low (11)	Moderate (12)	High (13)	Extreme (14)	Extreme (15)
Unlikely but Plausible	5%-10% Chance	Low (16)	Low (17)	Moderate (18)	High (19)	Extreme (20)
Rare	<=5% Chance	Low (21)	Low (22)	Moderate (23)	High (24)	High (25)



Stress Test

Extreme but plausible scenarios that can deplete reserves and make SVCE uncompetitive.



Stress Test Scenarios

Extreme but plausible scenarios that can deplete reserves and make SVCE uncompetitive.

Stress Scenarios for CY 2023 to CY2027 (five-year horizon):

- Last year, SVCE conducted five stress test scenarios – four of them were impacted by market price uncertainties
- Among them, the price collapse scenario was the most consequential
- Price collapse scenario under an economic recession remains as one of the most significant risks

- Ensure adequacy of reserves and organizational resiliency
- Guide development of strategic plan
- Shape FY 22-23 budget and reserve targets
- Price uncertainty Drives the first 4 scenarios

1. Significant drop in energy prices including REC
 - Higher PCIA and lower PG&E Gen Rate
2. Insufficient financial liquidity
 - Price collapse triggers credit downgrade
 - Collateral calls from counterparties and CAISO
 - Increase in POLR (Provider of Last Resort) funding (called FSR – Financial Security Requirement)
3. PPAs default, renegotiate for higher prices, and/or delay start
 - RPS non-compliance penalty
 - Replacement at higher prices
4. Load loss due to direct access and distributed load
5. Threat to Public Services or Facilities



2023 Stress Test Scenario Description

Economic Recession

- Forward Energy Prices Collapse to the one percentile level
- Economic Recession Creates Load Loss
- Customer Uncollectables Increase
- Additional Financial Liquidity Stress
 - Increase in POLR (Provider of Last Resort) funding (called FSR – Financial Security Requirement)
 - Large Counterparty Collateral Postings
 - MTM Losses on Investments



Past, Current, and Stress Case Modeled Commodity Prices

- Forward prices* are at all time high.
 - Extreme case of runup in prices
- Can't predict future but price trends could reverse, and prices could drop equally or more.
- Prices were trading closer to the modeled stress test levels as recently as 15 to 18 months ago.



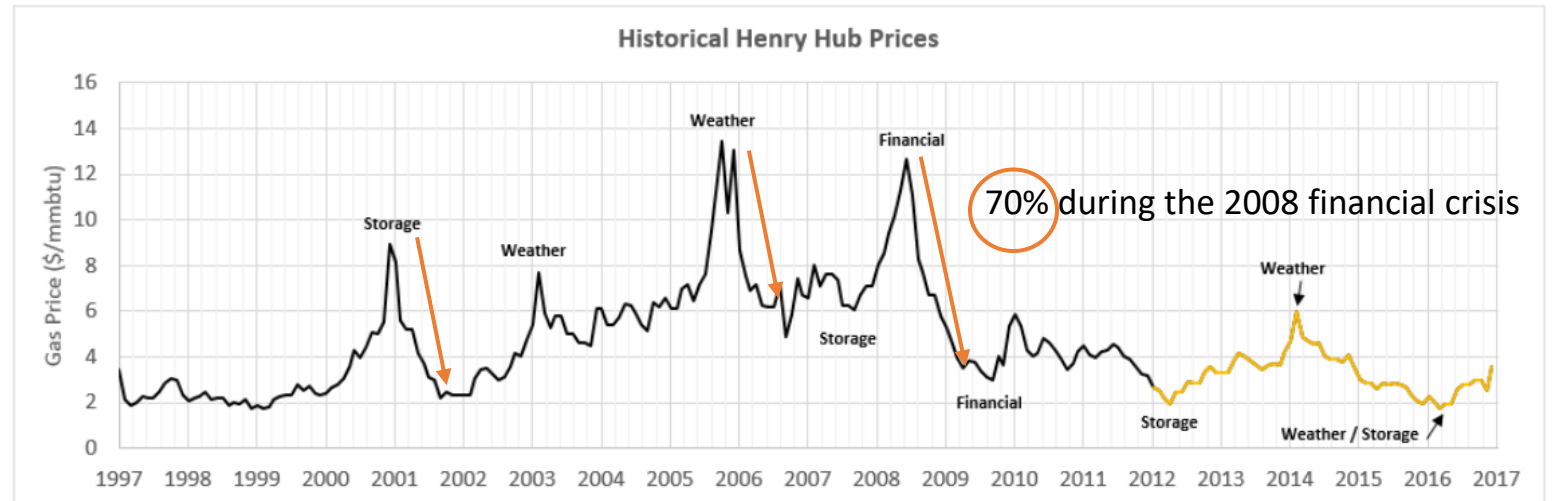
* Energy forward prices used in the analyses are as of 3/25/2023.



Modeled Price Collapse Comparison to Past Prices

Volatility in Natural Gas Markets Translates to Volatility in Electricity Markets

- 2008 financial crisis natural gas prices dropped ~70% with a corresponding drop in power prices
- Stress test modeled price drop from base case to the one percentile level is about a 44%
 - Depended on assessment of current market volatility



Source: <http://epis.com/powermarketinsights/index.php/2017/05/18/how-good-is-the-eia-at-predicting-henry-hub/>



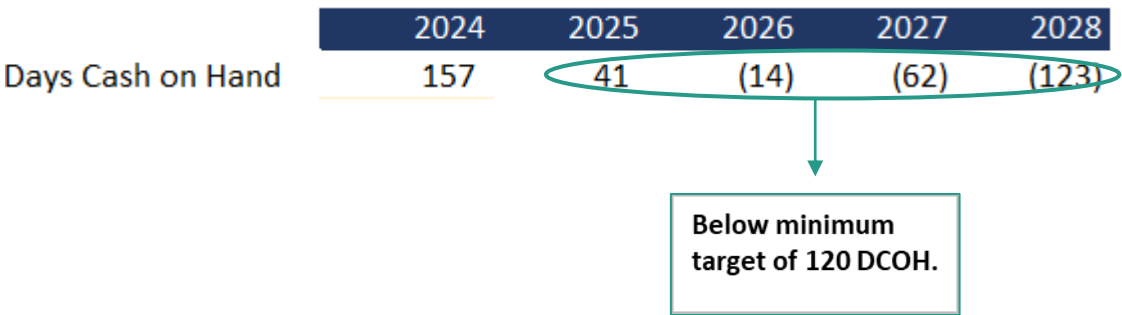
Base Case versus Stress Scenario

Base Case

- High forward prices result in low PCIA and high PG&E Gen rates resulting in healthy SVCE Margins
- If current forward prices are realized, and other model assumptions prevail:
 - Significant growth in reserves from FY2023 level of \$219 million to \$390 million at the end of FY2024
 - Continued strong growth in margins over the next 5 years
- Caveats:
 - PCIA and PG&E Gen Rate portfolio assumptions based on public data as best modeled by NewGen Consultants
 - PG&E's portfolio management strategy and portfolio contents may change from those modeled
 - CPUC may moderate rate impacts
 - Uncertainty increases further out in time
- Focus on the delta of the base case to the stress test results

Stress Case

- If the modeled stress scenario were to occur, reserves would drop from a forecast level of \$224 million at the end of FY2023 to only \$39 million at the end of FY2025 (A drawdown of \$185 Million from our reserves)
- Projected Days Cash on hand will also be below the minimum target of 120 DCH





Risk Mitigations

- Best Mitigation
 - Hold Sufficient Reserves
- Other Mitigations
 - Revisit the current energy hedging strategy
 - Allow for loss in revenues from price collapse to be mitigated by a reduction in power supply costs
 - Challenge: Determining the level of hedging given the uncertainty in modeling PCIA and PG&E Generation Rates
 - SVCE is spearheading analysis jointly with CalCCA consultant, NewGen Strategies

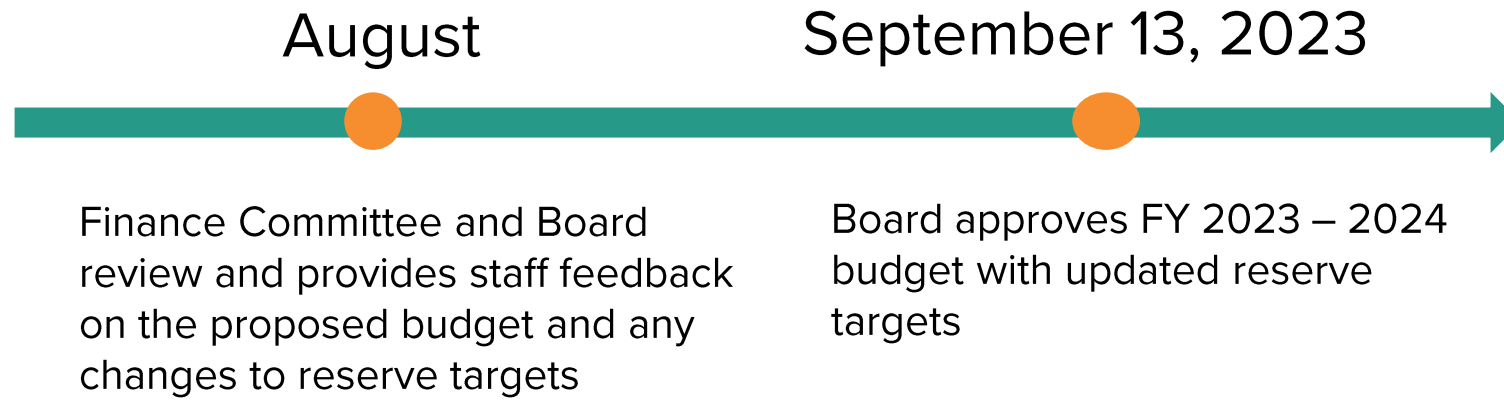
- Use the results of these analyses to propose a reserve target for the next fiscal year's budget
- Build reserves such that if the stress scenario were to occur, reserves do not fall below the minimum reserve threshold of holding 120 DCOH over the next 2 years and 90 DCOH over the years 3 to 5

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

- The stress test analysis will be updated using prices consistent with those used to construct next year's fiscal budget. The above table will then be revised and will be used to update the targets in the reserves policy.



Next Steps



Appendix



Stress Test Scenario Construction -2023

Economic Recession

- Price Drop
- Increase in POLR
- Resource Adequacy (RA) reform and market uncertainties, along with increased procurement targets and potential penalties, increase procurement costs
- Bad Debt @ 1%
- Potential Load Loss
- Large Counterparty Collateral Postings
- MTM Losses on Investments

Scenario Construction (revenue side)

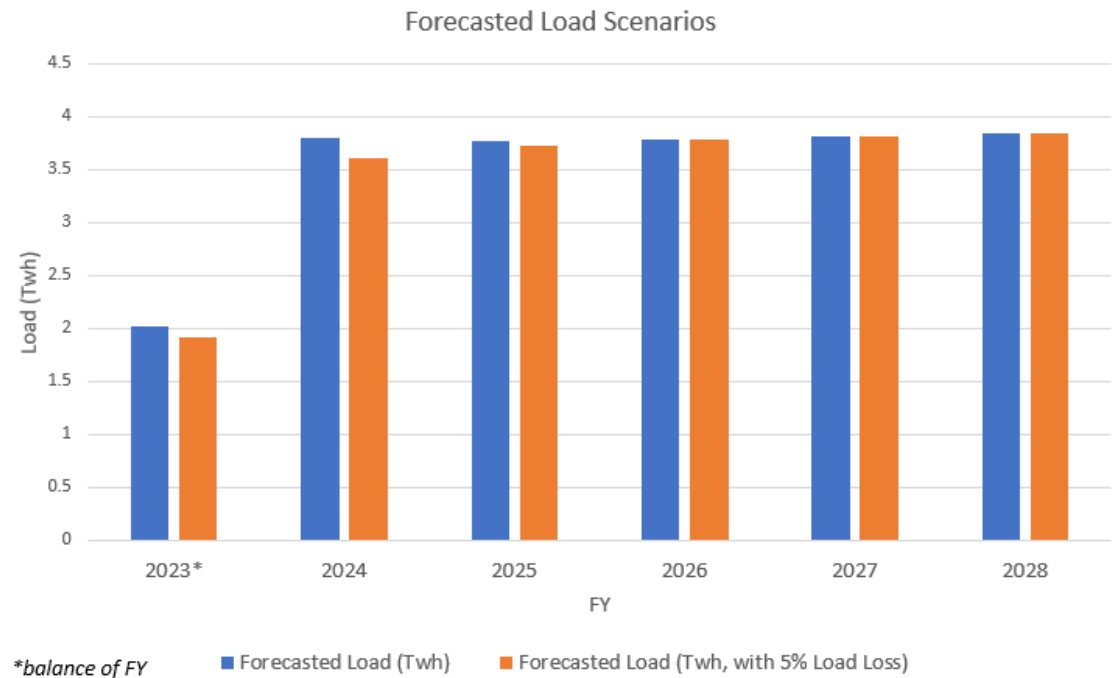
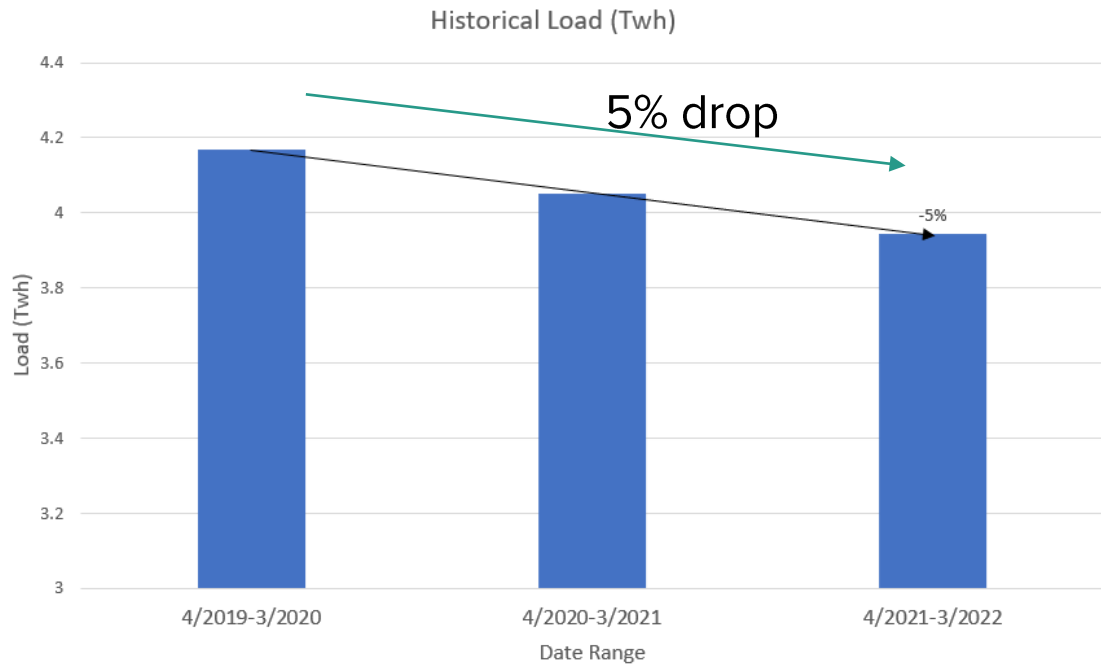
- Bad Debt @ 1%
- 4% Discount until Dec 2023 and 1% thereafter
- 5% Load Loss
- 10% modeling error adjustment to NewGen model forecast based on past trends

Scenario Construction (cost side)

- Energy: Statistical 1 percentile low case prices (extreme but plausible scenario)
- RA : Fundamental Forecast based
- Term : Balance of fiscal year 2023 to FY2028 (5+years)
- Price drops for all forward months to the 1 percentile level taking into account current forward prices
- Hedges and MTR executed per ERM thresholds (hedge to max targets)
- Evaluation of Collateral postings at stress price levels



Load Assumptions and Forecast





Days Cash on Hand CCA Comparable

SVCE Target Days on Hand is 285

CCA	Published Targets
SCP	280
MCE	240
3CE	183
EBCE	183
PCE	180
SJCA	180

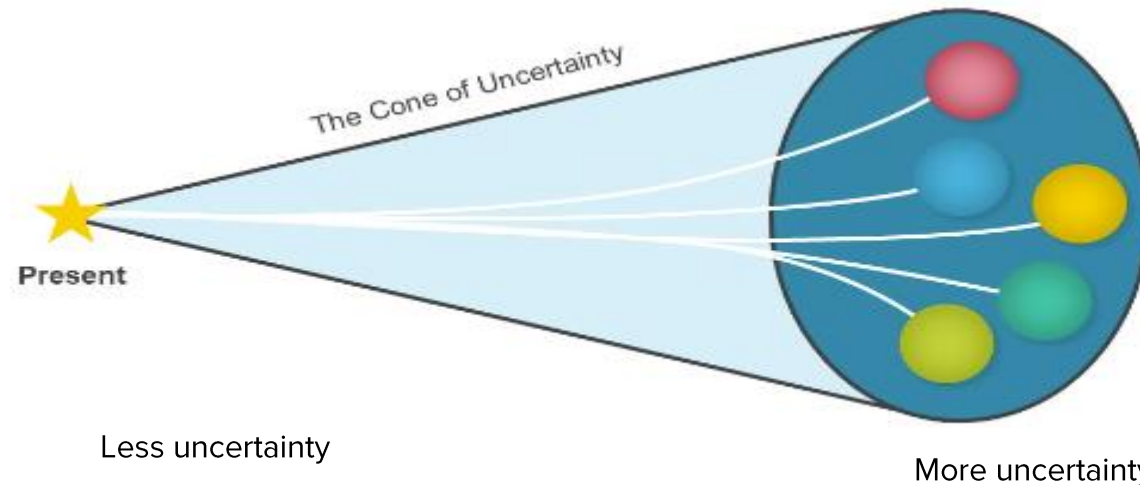


Summary of Base Case Results

High forward prices result in low PCIA and high PG&E Gen Rates resulting in healthy SVCE Margins.

Base Case \$ millions

	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





Summary of Stress Test Results

Base Case

Fiscal Year (BY)

	2023	2024	2025	2026	2027	2028
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Stress Case

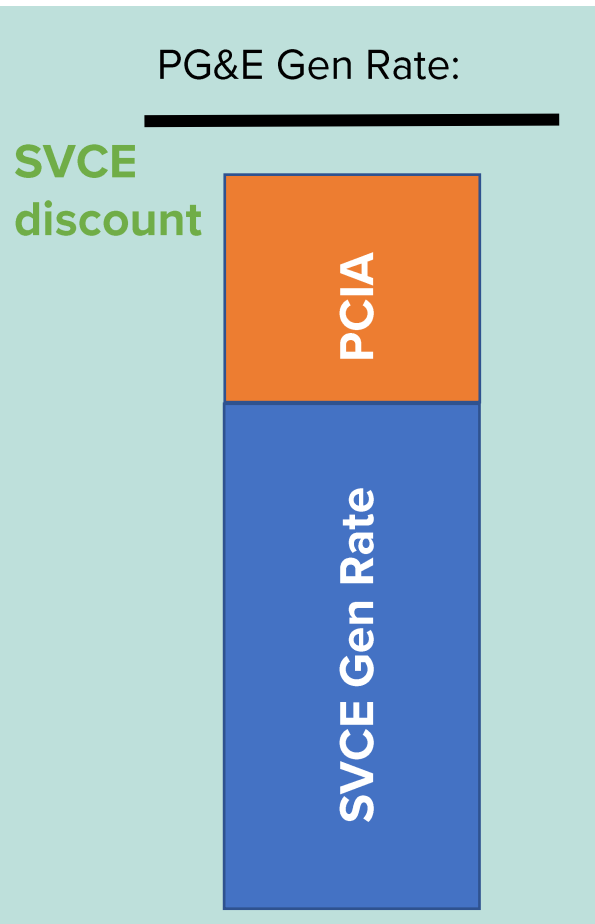
P1

	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)

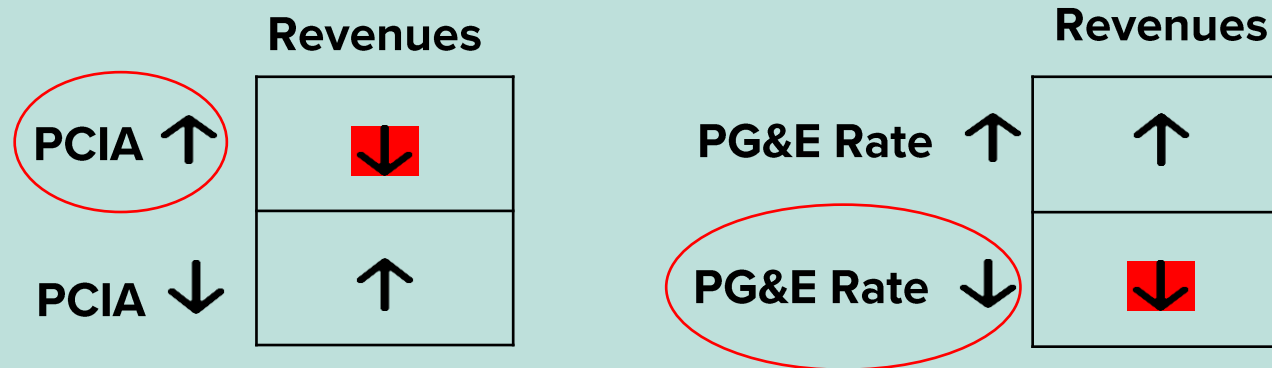


Key Takeaways – Price Uncertainty

Biggest contributor to risk: PCIA and PG&E Generation Rate Uncertainty.



PCIA and PG&E Gen Rate determine SVCE Rates and therefore Revenues



Revenues decline when prices decline



Key Takeaways – Price Uncertainty – Cont'd

Big contributor to PCIA and PG&E Generation Rate Uncertainty is Market Prices.

Next Year's PCIA & PG&E Gen Rate



Current Year's actual realized Prices



Forecast of Next Year's Market Prices



Can't fully bank current year's margin

- Deviations between actual and forecast costs are tracked in balancing accounts and trued up next year
- If prices drop, then there can be substantial draw from reserves

- $PCIA_{2023} = PCIA \text{ Balancing Account}_{2022} + \text{Forecast Balance}$
 - $\text{Balancing Account} = (\text{Prior Year's Forecast Prices}_{2022} - \text{Actual Prices}_{2022}) * PCIA \text{ Portfolio}$
 - $\text{Forecast Balance} = (\text{Legacy Contract Costs} - \text{Forecast Prices}_{2023}) * PCIA \text{ Portfolio}$
- PG&E Gen Rate Set Similarly
 - $PG\&E \text{ Gen Rate} = ERRA \text{ Balancing Account} + \text{Forecast Costs}$

** Simplified representation of concepts*



Key Takeaways – Price Uncertainty – Cont’d

Price collapse poses biggest financial risk.

- Revenues drop significantly
- Loss of revenues far exceed savings from lower power procurement costs
 - Power procurement savings dampened by existing hedges

	2024 Prices ↑	2024 Prices ↓
2023 Prices ↑	PCIA ↓ PG&E Rate ↑ SVCE Revenues ↑	
2023 Prices ↓		PCIA ↑ PG&E Rate ↓ SVCE Revenues ↓

FY 23-24 Budget Framework

Amrit Singh
Board of Directors
June 14, 2023

Purpose

Discuss Budget Framework

- Seeking high-level feedback/validation on principles and assumptions
- Budget numbers to be computed in July based on feedback
- Methodology could be tweaked if results from actual numbers in July do not align with expectations

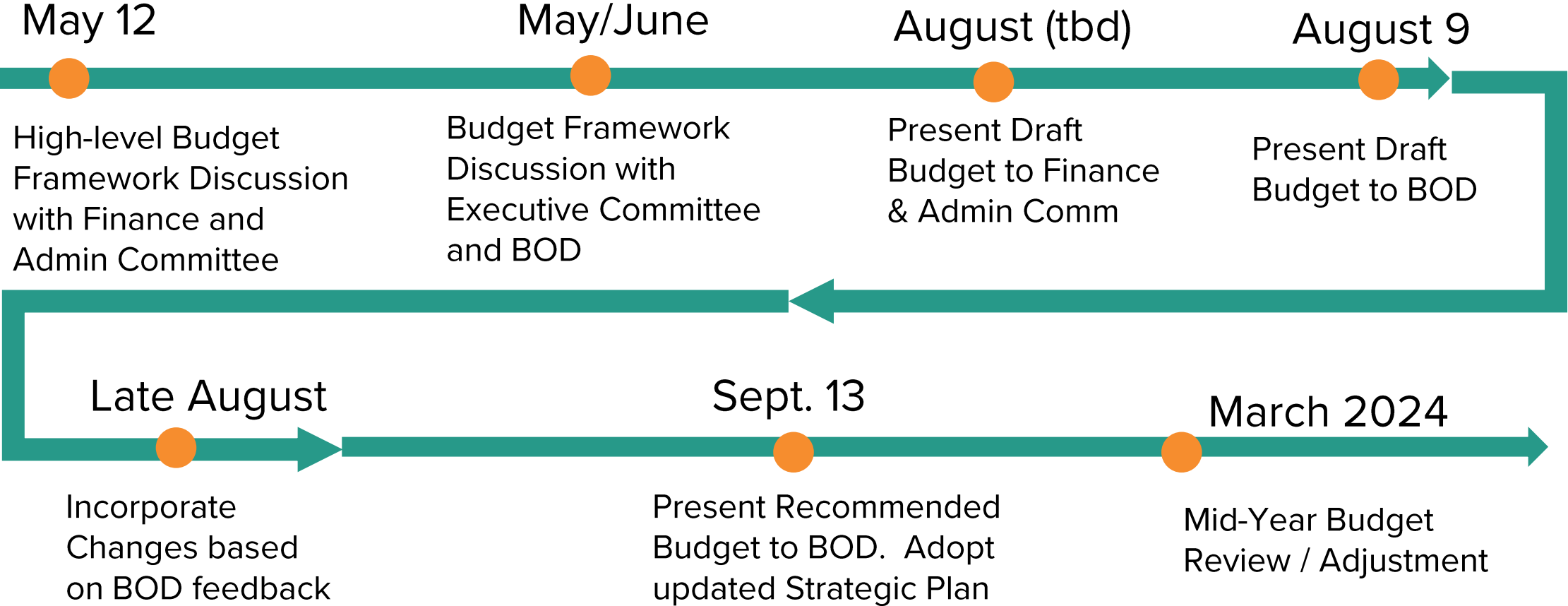
Main Areas of Discussion

1. Revenue Modeling
 - PCIA and PG&E Gen Rate Uncertainty
2. Reserve Targets
3. Customer Discount Rate, Additional Funding for Programs and Set Aside for Reserves
4. Power Supply Costs
5. Other Cost Drivers
 - Office Space



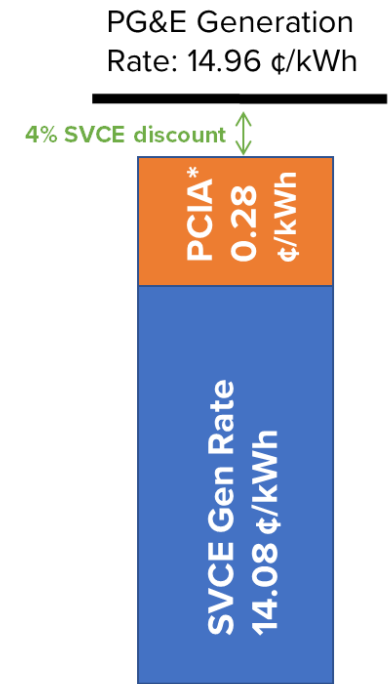


FY23-24 Budget will be ready for Discussion in August





Revenue Forecast Depends on PG&E Generation and PCIA Rates



* Power Charge Indifference Adjustment (PCIA) is a charge our customers pay to PG&E such that they can recover commitments made on behalf of the customer when they were part of PG&E's portfolio.

Issue: Rate Uncertainty	Staff Recommendation	Implications/Reasons
<ul style="list-style-type: none">PG&E issued the 2023 ERRA forecast on May 15 with preliminary <u>2024</u> PG&E generation and PCIA rate forecastsShows negative PCIA and about 3% lower PG&E generation rate leading to an overall ~3% improvement in SVCE revenues (at current discount level)Results already outdated, given the high volatility in energy pricesBased on 5/11 prices, revenues could be lower by an estimated 14-19 %PG&E will update this forecast in the fall. CPUC normally adopts the rate in December based on this update	<p>Use the latest market data in the Cal-CCA NewGen model after calibrating the model to PG&E's forecasted rates and accounting for modeling error</p> <p>(10% downward adjustment on headroom)</p>	<ul style="list-style-type: none">Likely aligns revenues closer to rates that PG&E will later updateBetter aligns revenues with power supply costsPrimarily for budget-setting purposesAdditional expenditures based on headroom projections can be made by the Board in December when actual PG&E and PCIA rates are known

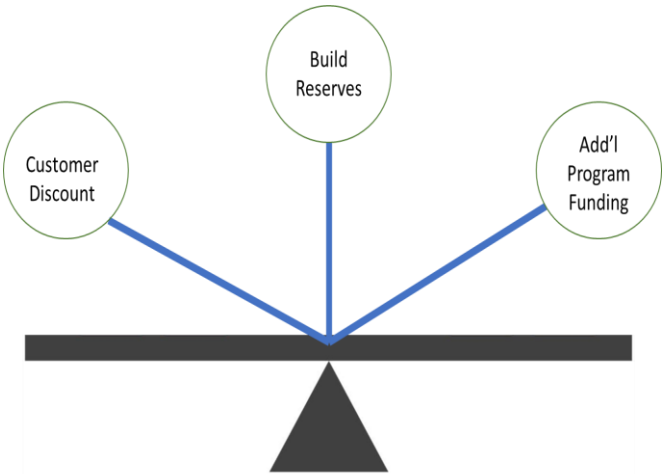


Reserve Targets

Issue: Update Reserve Targets	Staff Recommendation	Implications/Reasons
<ul style="list-style-type: none">• Ensure SVCE maintains sufficient reserves to manage risks such as those modeled under the Stress Test analyses• Staff will update the stress test analyses in July using market prices consistent with those used to develop the annual budget	<p><u>Target</u> to keep reserves above 120 Days Cash On Hand (DCOH) for FY 2023-2024 and FY 2024-2025</p> <p>Reset <u>Upper</u> Reserve Target such that over the next 5 fiscal years reserves do not fall below 90 DCOH</p>	<ul style="list-style-type: none">• FY 24 margins not guaranteed given true-up in 2023 for PCIA and PG&E Gen rate• If adverse conditions materialize, need 120 days to reshape strategy and secure additional liquidity• Increase upper reserve target to take advantage of good margin years to manage risks over 5-year period



Additional Funding for Programs, Customer Discounts, and Building Reserves



- 1% customer discount over 12 months of 2024 is ~\$5 million*
- 1% discount over 9 months (Jan – Sep 2024) ~\$3.5 million*
- Monthly Average Bill Savings of 1%* Discount:
 - Residential - ~\$0.67
 - Small Commercial - ~\$2.41
 - Medium Commercial - ~\$26.58

* Based on 4/27/23 Forward prices

Issue: Balancing Priorities	Staff Recommendation	Implications/Reasons
<ul style="list-style-type: none">• Continue to provide competitively-priced and high-valued services to SVCE customers• Funds not needed to cover cost-of-service flow to customers via lower SVCE rates (discount to comparable PG&E rates)• Cost-of-service includes funds needed to cover operations, meet reserve targets, and fund decarbonization programs	<ul style="list-style-type: none">• To be developed later after completing the budget analysis<ul style="list-style-type: none">• Likely to keep current discount through the end of this year• Set a preliminary discount for next year• Board can change the budgeted discount rate once actual PG&E rates are known towards the end of the year• Staff plans to present several options to the Board on different levels of discount rates, additional spending on programs, and set aside for reserves	<ul style="list-style-type: none">• Reaching new target reserve levels ensures SVCE can withstand adverse risk scenarios• Keeping the discount rate to a reasonable level<ul style="list-style-type: none">• Enables additional funding for valued customer programs such as decarbonization efforts• Ensures there's more organizational resiliency to respond to risks over the 5-yr planning horizon



Power Supply Expenses

(>90% of Expenses)

Issue: Volatile Power Prices	Staff Recommendation	Implications/Reasons
<ul style="list-style-type: none">Power prices are near record high levels and are very volatileIn addition to PG&E Gen Rate and PCIA uncertainty, power price volatility makes energy budget projections highly uncertain<ul style="list-style-type: none">Budget will be developed based on a snapshot of market prices in JulyCurrently hedged ~85%Remaining 15% exposed to volatile market pricesContract delays/renegotiations further add uncertaintyResource adequacy requirements are changing, and costs are high, but more hedged next year	<ul style="list-style-type: none">Continue hedging to current ERM (Energy Risk Management) targetsContinue with SVCE's 100% clean policy	<ul style="list-style-type: none">Maintain a high customer value proposition with 100% clean energy and serve SVCE's missionFurthers SVCE focus toward 24x7 clean energy goal



Other Costs

(Staffing, Cost of living/Merit, Operations)

Status	Staff Recommendation	Implications/Reasons
<ul style="list-style-type: none">Review and assess staffing in all areas of the organization<ul style="list-style-type: none">10 new budgeted positions added in the FY22-23 budget13 new staff hired since Sept 2022 (includes 1 starting later in June)4 remaining vacanciesAdjust employee salaries for cost-of-adjustment and merit/promotionsReview existing employee benefits to remain competitive with peer CCAsDecarb Programs continue to ramp – quantity of rebates/ scope of outreach	<ul style="list-style-type: none">Current budgeted headcount of 49<ul style="list-style-type: none">Directors are being surveyed for future staffing needsAdjustment for COLA<ul style="list-style-type: none">Consider basing on 6-month (Jan – June 2023) rolling average of SF Bay Area CPI – current trailing 6-mo average is 5.48%CEO discretion applied depending on employee pay relative to market range, performance, and date of hireAny additional increases for merit and promotions based on CEO discretionEmployee benefits – to be reviewed/ updated during budget process	<ul style="list-style-type: none">Evaluate staff levels needed to:<ul style="list-style-type: none">Scale up programs teamReduce high level of existing employee workloadAdvance strategic focus area goalsCreate organizational depth for business continuitySustained investments in cybersecurity preparedness and business process optimization projects



SVCE Office Space – Lease vs Buy

Current Lease Details		
Monthly Lease Cost	5.30 \$/sf	
Size	7,900 sf	
New Lease Assumptions		
New Monthly Lease Cost	7.50 \$/sf	(est)
Purchase Assumptions		
Purchase Cost	700 \$/sf	(est)
Improvement Cost	100 \$/sf	(est)
Office Assumptions		
Size	20,000 sf	(est)
Location for Comps*	Sunnyvale, Mtn View, Santa Clara, San Jose	
* further analyses to include broader service territory		

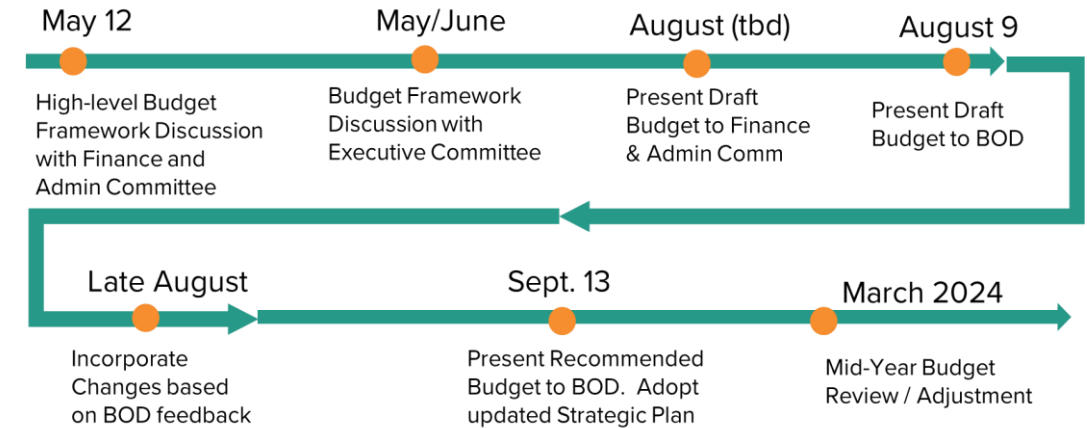


Issue: Financial Stewardship	Staff Recommendation	Implications/Reasons
<ul style="list-style-type: none">SVCE's current lease runs through Sept. 2025<ul style="list-style-type: none">Need time to explore the alternatives of buying or leasing new spaceSVCE should be prepared to pursue attractive property opportunities as they arise	<ul style="list-style-type: none">Research alternatives and establish an ad hoc Committee to advise staff and evaluate property and financing options	<ul style="list-style-type: none">Buying may be a cheaper longer-term option<ul style="list-style-type: none">Initial back-of-the-envelope analysis indicates a roughly 10-year breakeven period compared to leasingSVCE is growing and requires more space for employees and expanded programsPurchasing also enables customization to suit the hybrid work environment<ul style="list-style-type: none">Flexible workspace for collaborative work



Next Steps

- Update revenue and energy cost forecasts using the latest prices
- Develop recommendations with some options for:
 - Customer Discount Levels
 - Additional funding for Programs
 - Set aside for Reserves
 - Staffing Needs
 - Employee Cost of Living, Merit, and Benefits adjustments
 - Buying versus leasing office space
- Present draft budget for Finance Committee review in early August and then to the Board
- Recommend the Board adopt the budget in September



Thank you! / Questions?



SVCE Planning & Budgeting Process

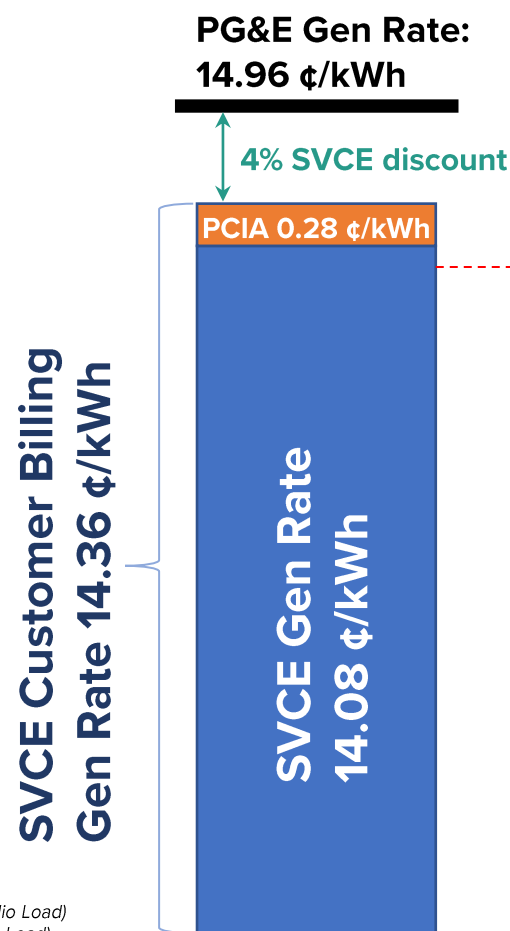




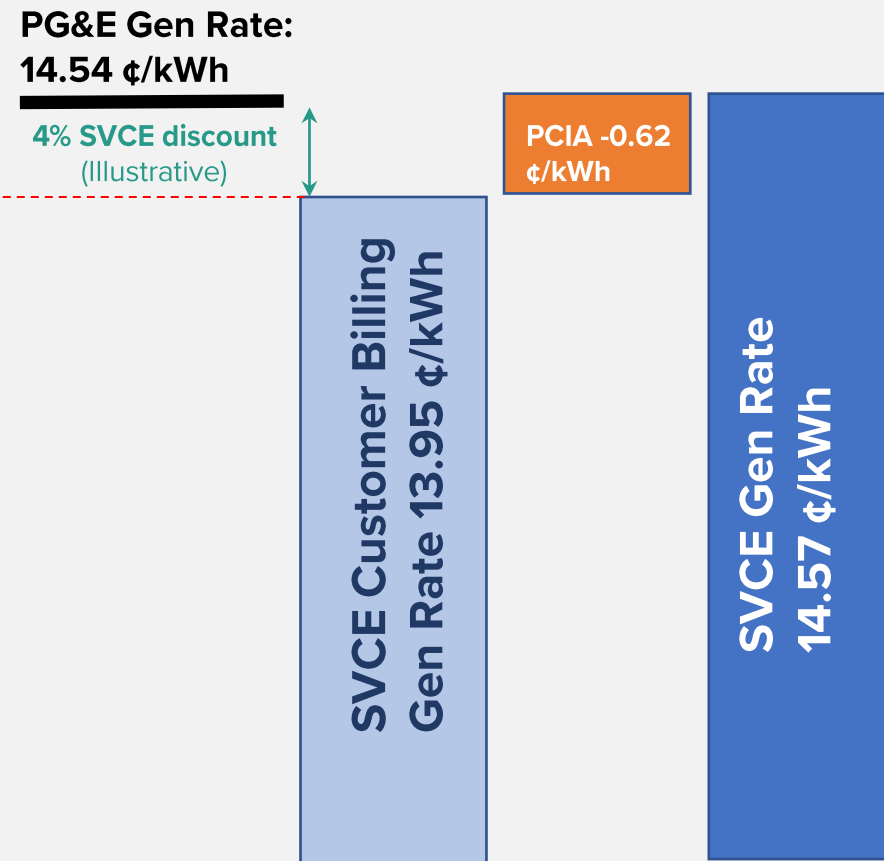
Current 2023 Rate vs PG&E 2024 ERRA Forecast

- PG&E filed it's forecast of 2024 Rates on 5/15/23
 - PG&E Gen Rate decreased ~-3%
 - PCIA reduced from positive 0.28 ¢/kWh to negative -0.62 ¢/kWh
- PG&E ERRA forecast is based on 3/27/2023 forward market prices
- Represents weighted average customer billing rate decrease of -3% from 14.36 ¢/kWh to 13.95 ¢/kWh
- SVCE gen rate is higher than Customer Billing Rate due to negative PCIA
 - SVCE gen rate up ~3.5%

Current 2023 Rate*



ERRA Forecast 2024 Rate**



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

** PG&E 2024 ERRA Forecast, released on 15th of May, 2023 (Weighted for SVCE Portfolio Load)

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



PG&E 2024 ERRA Forecast vs NewGen Model Run

Using 3/27/2023 Forward Prices

NewGen Model
has approximately
3 - 5% modeling
error

ERRA Forecast 2024 Rate*

PG&E Gen Rate:
14.54 ¢/kWh

4% SVCE discount
(Illustrative)

**SVCE Customer Billing
Gen Rate 14.39 ¢/kWh**

PCIA -0.62
¢/kWh

**SVCE Gen Rate
14.57 ¢/kWh**

NewGen Model 2024 Rate**

PG&E Gen Rate:
15.28 ¢/kWh

4% SVCE discount
(Illustrative)

PCIA -0.30
¢/kWh

**SVCE Customer Billing
Gen Rate 14.67 ¢/kWh**

**SVCE Gen Rate
14.97 ¢/kWh**

*PG&E 2024 ERRA Forecast, released on 15th of May, 2023 (Weighted for SVCE Portfolio Load)

**Using NewGen Model (version 3.4) with 3/27/2023 Forward Curves (Weighted for SVCE Portfolio Load)

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



Market Prices Since PG&E's ERRA Forecast Date has Dropped

- On average, prices are down ~10%
- Reduces SVCE headroom from current rates by ~14-19%
 - Based on 5/11 market prices
 - Budget will be based on market prices in July
- Prices are extremely volatile; RPS premium and RA prices difficult to estimate
- Like last year, staff recommends adjusting NewGen Model results by 10% to account for modeling error

	CY 2023*	CY 2024**			
	Current Gen Rate	PG&E ERRA Forecast (3/27/23)	NewGen Run (5/11/23)- No Haircut	NewGen Run (5/11/23)- 5% Haircut	NewGen Run (5/11/23)- 10% Haircut
PG&E Gen Rate (¢/KWH)	14.96	14.54	14.21	13.50	12.79
Customer Rate Discount***	-4%	-4%	-4%	-4%	-4%
Customer Billing Generation Rate	14.36	13.95	13.65	12.96	12.28
PCIA (¢/KWH)	0.28	-0.62	0.93	0.89	0.84
Headroom (¢/KWH)	14.08	14.57	12.71	12.08	11.44
Headroom Delta from Current Rates	0%	3%	-10%	-14%	-19%
Estimated 2024 \$M Delta from Current Rates	-	17.3	(48.8)	(71.4)	(94.0)

* Source: Official PG&E Rates for 2023 (Weighted for SVCE Portfolio Load)

** Source: PG&E 2024 ERRA Forecast released on May 15 and NewGen model runs (Weighted for SVCE Portfolio Load)

*** Customer discount for 2024 is illustrative and will be determined later this year.

Note: 1% discount represents ~ \$4.6M at current estimated 2024 rates



Additional Headroom Analyses

Table 1: Illustrative Customer Discount at 4%

	CY 2023*	CY 2024**						
	Current Gen Rate	PG&E ERRA Forecast (3/27/23)	NewGen Run (3/27/23)- No Haircut	NewGen Run (3/27/23)- 5% Haircut	NewGen Run (3/27/23)- 10% Haircut	NewGen Run (5/11/23)- No Haircut	NewGen Run (5/11/23)- 5% Haircut	NewGen Run (5/11/23)- 10% Haircut
PG&E Gen Rate (¢/KWH)	14.96	14.54	15.28	14.52	13.75	14.21	13.50	12.79
Customer Rate Discount***	-4%	-4%	-4%	-4%	-4%	-4%	-4%	-4%
Customer Billing Generation Rate	14.36	13.95	14.67	13.93	13.20	13.65	12.96	12.28
PCIA (¢/KWH)	0.28	-0.62	-0.30	-0.29	-0.27	0.93	0.89	0.84
Headroom (¢/KWH)	14.08	14.57	14.97	14.22	13.47	12.71	12.08	11.44
Headroom Delta from Current Rates	0%	3%	6%	1%	-4%	-10%	-14%	-19%
Estimated 2024 \$ Delta from Current Rates	-	17.3	31.5	4.8	(21.8)	(48.8)	(71.4)	(94.0)

Table 2: Illustrative Customer Discount at 1%

	CY 2023*	CY 2024**						
	Current Gen Rate	PG&E ERRA Forecast (3/27/23)	NewGen Run (3/27/23)- No Haircut	NewGen Run (3/27/23)- 5% Haircut	NewGen Run (3/27/23)- 10% Haircut	NewGen Run (5/11/23)- No Haircut	NewGen Run (5/11/23)- 5% Haircut	NewGen Run (5/11/23)- 10% Haircut
PG&E Gen Rate (¢/KWH)	14.96	14.54	15.28	14.52	13.75	14.21	13.50	12.79
Customer Rate Discount***	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Customer Billing Generation Rate	14.81	14.39	15.13	14.37	13.61	14.07	13.37	12.66
PCIA (¢/KWH)	0.28	-0.62	-0.30	-0.29	-0.27	0.93	0.89	0.84
Headroom (¢/KWH)	14.08	15.01	15.43	14.66	13.88	13.14	12.48	11.83
Headroom Delta from Current Rates	0%	7%	10%	4%	-1%	-7%	-11%	-16%
Estimated 2024 \$ Delta from Current Rates	-	32.8	47.8	20.3	(7.1)	(33.6)	(57.0)	(80.4)

* Source: Official PG&E Rates for 2023 (Weighted for SVCE Portfolio Load)

** Source: PG&E 2024 ERRA Forecast released on May 15 and NewGen model runs (Weighted for SVCE Portfolio Load)

*** Customer discount for 2024 is illustrative and will be determined later this year.

Note: 1% discount represents ~ \$4.6M at current estimated 2024 rates



Typical Customer Bill Savings

(Current Rates)

	Residential		Small Commercial		Medium Commercial		Large Commercial	
	SVCE	PG&E	SVCE	PG&E	SVCE	PG&E	SVCE	PG&E
Rate Schedule (eff. Jan 1, 2023)	E-TOUC	E-TOUC	B-1	B-1	B-10	B-10	B-19S	B-19S
Average Usage (kWh/month)	491	491	1,851	1,851	19,390	19,390	148,625	148,625
Annual Peak Demand (kW)							499	499
PG&E Electric Delivery	\$ 93.36	\$ 93.36	\$ 334.88	\$ 334.88	\$ 3,484.91	\$ 3,484.91	\$ 18,457.74	\$ 18,457.74
Electric Generation	\$ 71.63	\$ 76.66	\$ 258.55	\$ 276.71	\$ 3,319.99	\$ 3,550.05	\$ 20,835.80	\$ 22,292.26
PG&E Added Fees (PCIA, Franchise)	\$ 1.96	\$ -	\$ 7.09	\$ -	\$ 91.06	\$ -	\$ 564.78	\$ -
Average Total Cost	\$ 166.95	\$ 170.02	\$ 600.52	\$ 611.59	\$ 6,895.96	\$ 7,034.96	\$ 39,858.32	\$ 40,750.00
Average Monthly Savings	\$ 3.07		\$ 11.07		\$ 139.00		\$ 891.68	

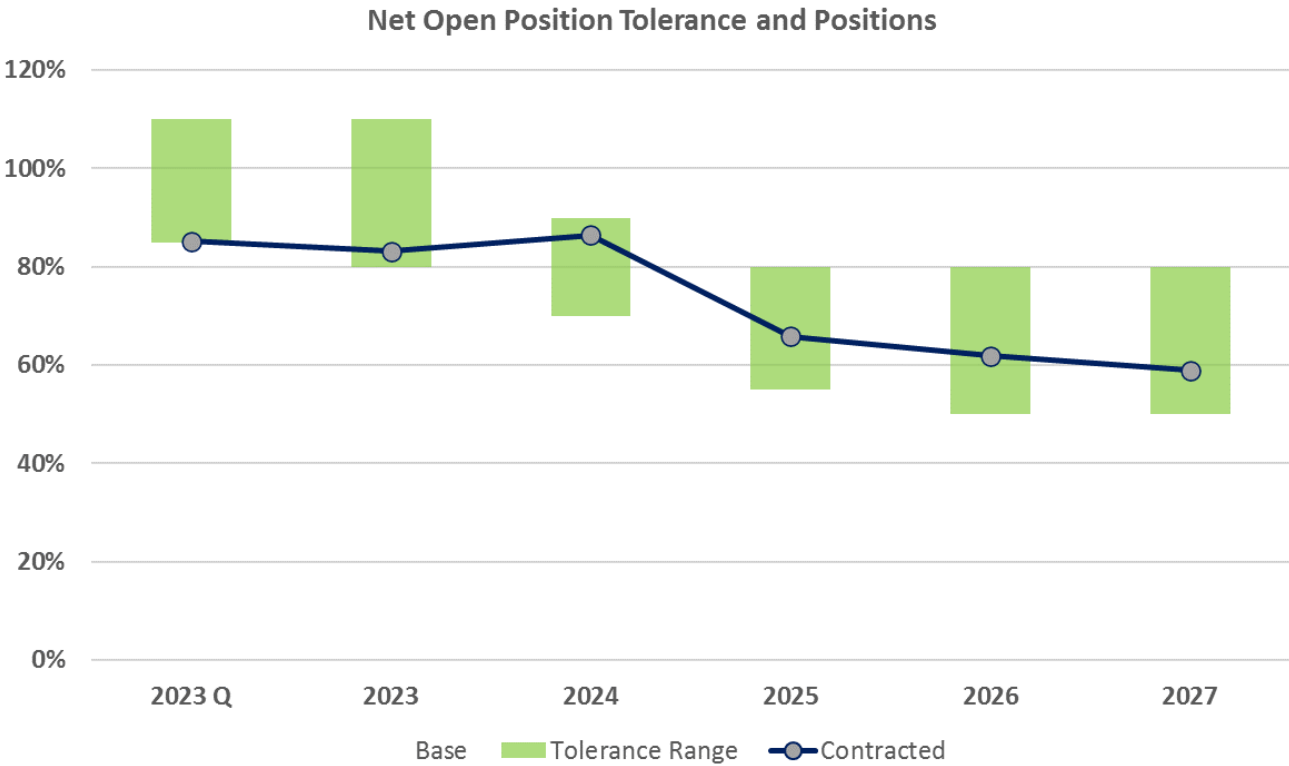


Current Energy Hedge Levels

Hedged 85% for FY24

Table 1 Calendar Year Energy NOP Tolerance Bands

Period*	Minimum Tolerance	Maximum Tolerance
Prompt Quarter	85%	110%
Current Balance of Year	80%	110%
Year 2	70%	90%
Year 3	55%	80%
Year 4	50%	80%
Year 5	50%	80%



2022-2023 Mid-Year Operating Budget

SILICON VALLEY CLEAN ENERGY MY 2022-23 OPERATING BUDGET (\$ in thousands)	
DESCRIPTION	MY 2022-23 ADJUSTED BUDGET
ENERGY REVENUES	
Energy Sales	522,853
Green Prime	1,055
Other Income	50
TOTAL ENERGY REVENUES	<u>523,958</u>
ENERGY EXPENSES	
Power Supply	392,436
OPERATING MARGIN	<u>131,522</u>
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	<u>27,559</u>
OPERATING INCOME (LOSS)	<u>103,963</u>
NON-OPERATING REVENUES	
Interest Income	3,870
Grant Income	0
TOTAL NON-OPERATING REVENUES	<u>3,870</u>
NON-OPERATING EXPENSES	
Financing	3
Interest	0
TOTAL NON-OPERATING EXPENSES	<u>3</u>
TOTAL NON-OPERATING INCOME (EXPENSES)	<u>3,867</u>
CHANGE IN NET POSITION	<u>107,830</u>
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	<u>\$34,465</u>
BALANCE AVAILABLE FOR RESERVES	<u>\$73,365</u>