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# Budget Update and 2024 Customer Rate Setting and Any Additional Expenditure Discussion

Amrit Singh  
Executive Committee  
November 27, 2023



# Purpose

Review updated budget projections and provide guidance on additional funding scenarios

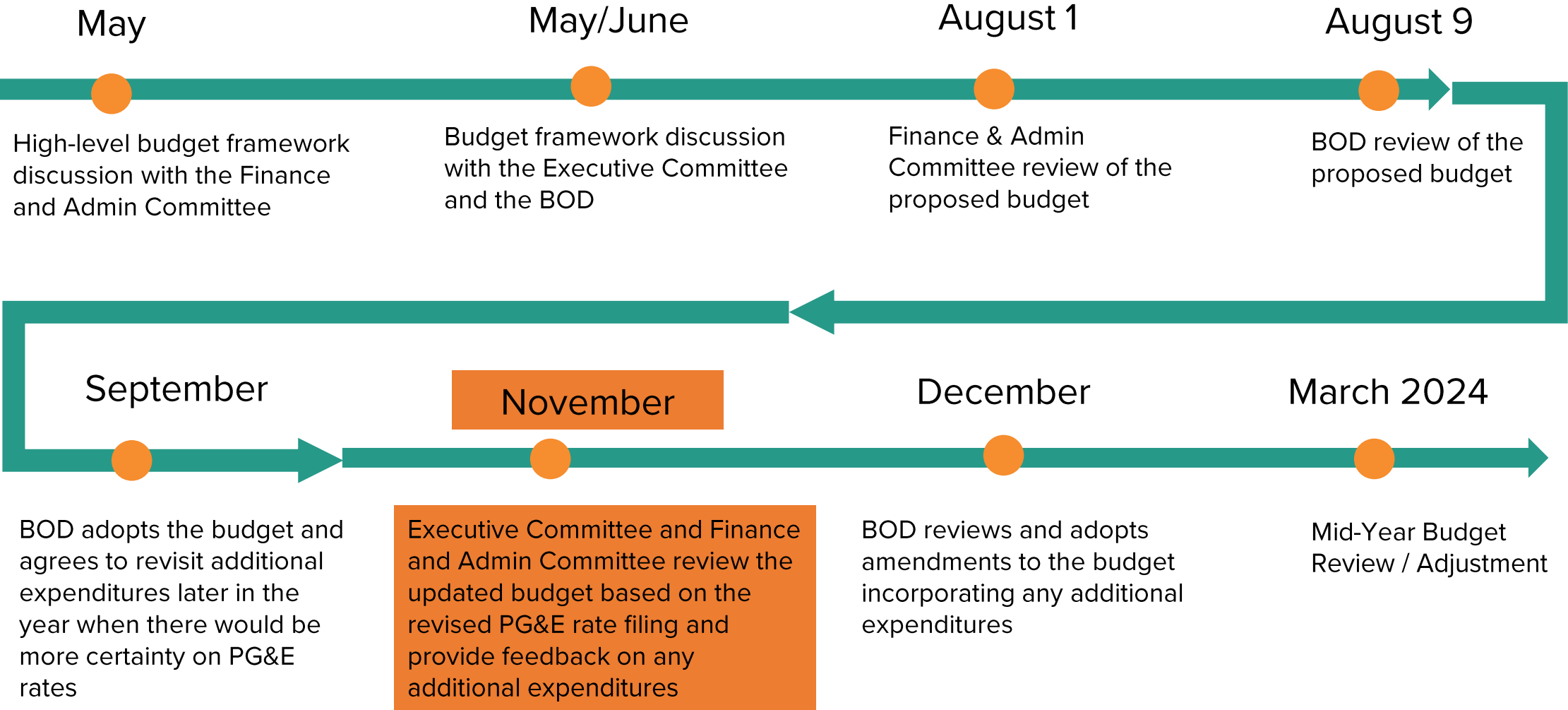
## Main Areas of Discussion

1. Recap of assumptions used in setting the adopted budget and an update on the budget forecast using the recent PG&E Rate forecast
2. Comparison of Adopted and Updated Budget
3. Updated Reserve Projection
4. Discussion on Additional Funding Scenarios
5. Accounting True-Up of Programs Fund Balance





# FY23-24 Budget Development Timeline





# Key Messages

## Recap of Adopted Budget Assumptions

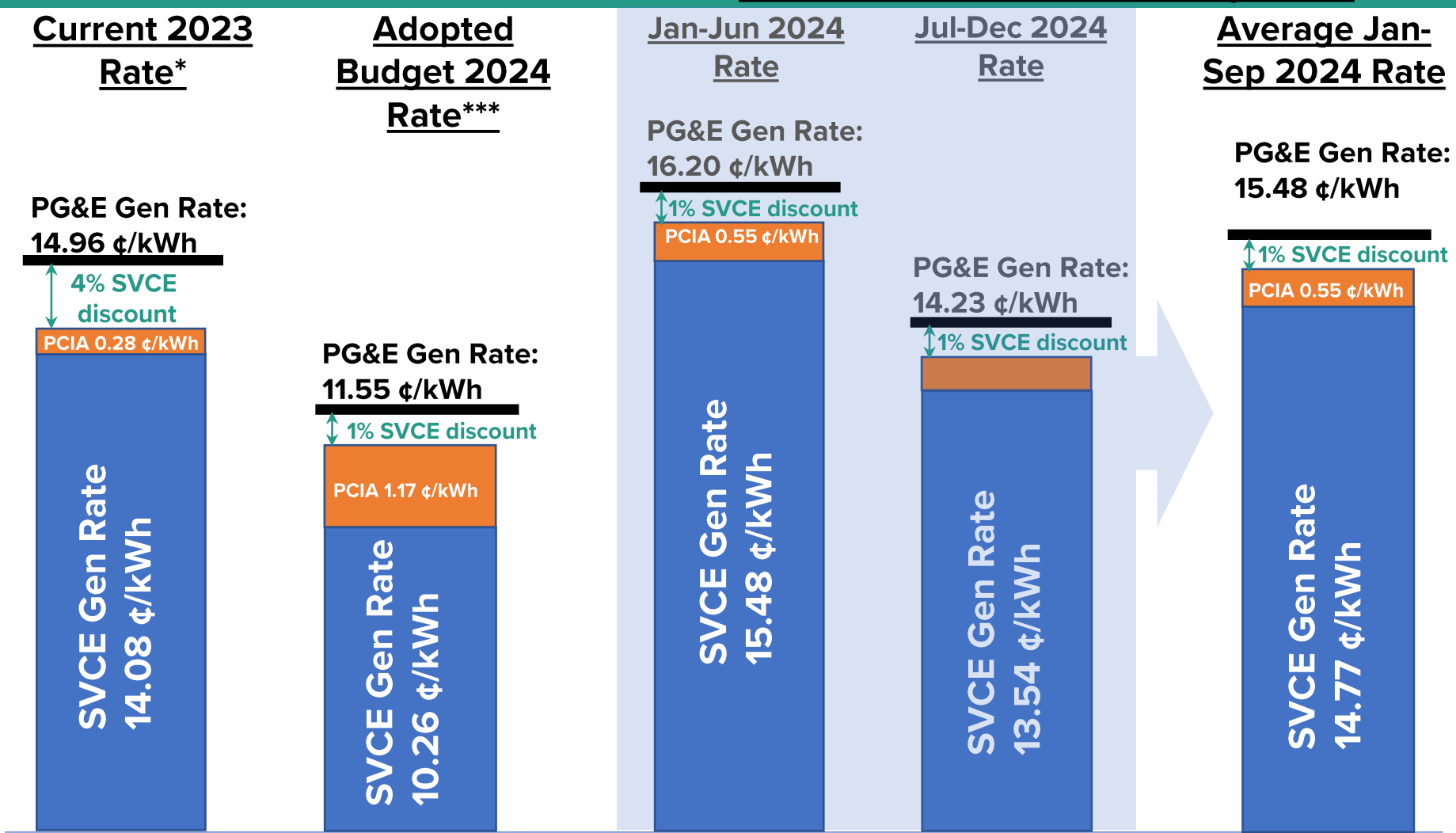
- Conservative assumptions used in estimating revenues
  - CPUC's updating of RA and RPS prices in setting the Market Price Benchmark (MPB) was highly uncertain
  - MPB prices are used in calculating PCIA and PG&E generation rates
- Staff had estimated a potential increase in revenues of \$100 million if higher RPS and RA prices were adopted in MPB
- Budget maintained the current 4% discount to the end of December 2023
- Budget set the initial discount starting in January 2024 to 1 %, with an additional 1% offered as bill credits to low-income customers
- The board agreed to revisit the customer discount and any additional expenditures, including those for programs and an SVCE office building, when there would be more certainty on PG&E rates

## Highlights of the Updated Budget Using PG&E's Recent ERRA Forecast that Incorporates the New MPBs

- CPUC's updated MPB account for a substantial increase in RA and RPS prices
- SVCE's forecasted revenues are higher by about \$127 million
- Updating for revenues and power supply expenses, the net contribution to reserves increases from the adopted budget forecast of \$7.7 million to \$127.9 million
- Without any additional expenditures, reserves increase above the target days of cash on hand of 300 to 334 but below the maximum target of 490

# Higher PG&E Rate Forecast Improving SVCE Revenue Projections by ~\$127 million

## PG&E ERRA Rate Forecast Update\*\*



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

\*\* PG&E 2024 ERRA Forecast Update, released in October, 2023 (Weighted for SVCE Portfolio Load)

\*\*\* Using NewGen Model with 7/7/2023 Forward Curves and 10% modeling error haircut

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



# FY 24 Adopted and Updated Budget

*Primarily Revenues and Power Supply Expenses are Updated*

(\$ in thousands)

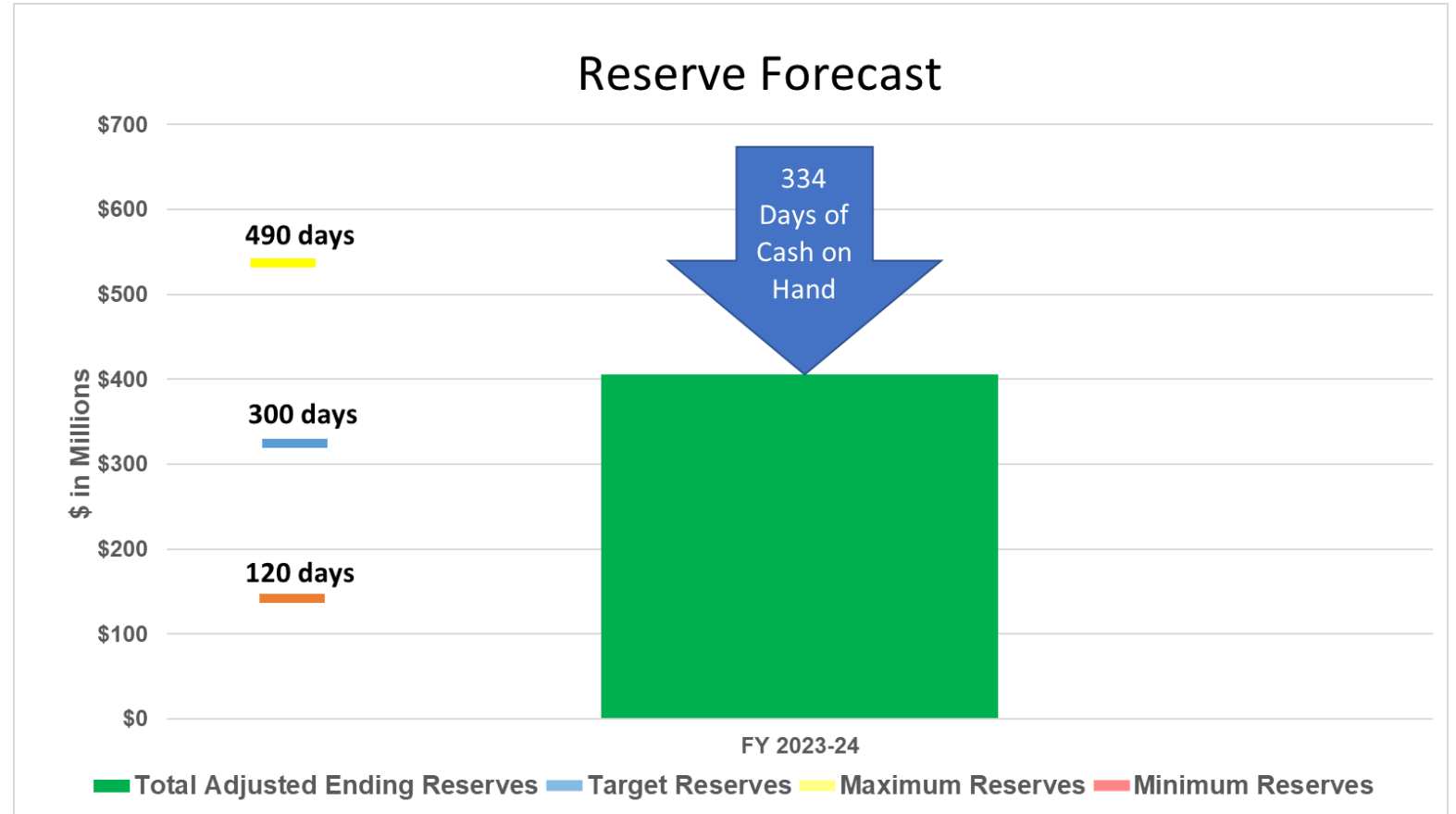
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			\$	%
Energy Revenues	440,404	567,585	127,181	28.9%
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Operating Margin	<u>48,780</u>	<u>168,038</u>	<u>119,259</u>	<u>244.5%</u>
Operating Expenses	32,361	32,361	0	0.0%
Non-Operating Revenue (Expense)	5,498	6,431	932	17.0%
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Program Fund	8,874	8,874	0	0.0%
Nuclear Allocation	2,188	2,188	0	0.0%
Multi Family Direct Install Program	0	0	0	-
Electrification Discount Program	0	0	0	-
Customer Bill Relief	3,136	3,136	0	0.0%
Building Fund	0	0	0	-
Other	50	50	0	0.0%
BALANCE AVAILABLE FOR RESERVES	<u>\$7,669</u>	<u>\$127,860</u>	<u>\$120,191</u>	<u>1567.1%</u>



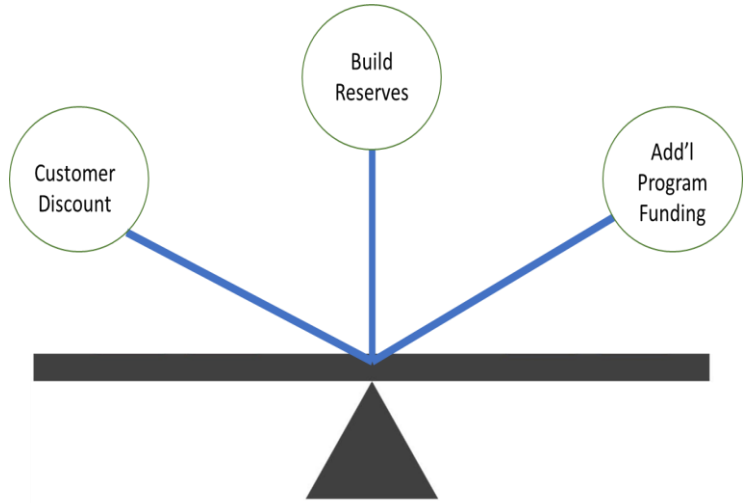
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Projected End of FY Reserves  
without additional Expenditure:

- \$405 Million
- 334 Days of Cash on Hand (DCOH)
  - Based on a forecast of program expenditures
  - Unspent program dollars count toward reserves
- ~292 DCOH if unspent program dollars are removed from reserves



# Discussion: Balancing Priorities



- 1% customer discount over 12 months of 2024 is ~\$5.7 million\*
- 1% discount over 9 months (Jan – Sep 2024) ~\$4.3 million\*
- Monthly Average Bill Savings of 1%\* Discount:
  - Residential - ~\$0.78
  - Small Commercial - ~\$2.80
  - Medium Commercial - ~\$30.87

\* Based on October PG&E ERRR Forecast

To initiate discussion, on the next slide, staff is proposing the following funding items:

1. Increasing customer discount
2. Trueing up the intended 1% bill credit to low-income customers to account for higher rates than anticipated in the original budget
3. Setting aside funds for an SVCE office building
4. Setting aside funds to maintain higher customer discounts over the next two years
5. Increasing funding for programs that include decarbonization grants for cities



# Funding Scenarios

**All scenarios maintain projected reserves above the target level of 300 DCOH\* and well below the maximum level of 490 DCOH over the next 5 years**

\$ Million	Additional Expenditures	Funding Scenarios			
		1. Build Reserves	2. Increase Rate Discount	3. Longer-term Affordability	4. Add'l Set Aside for Programs
1. General Customer Rate Discount Level		<u>1%</u> -	<u>4%</u> 12.90	<u>4%</u> 12.90	<u>4%</u> 12.90
2. True-up 1% Bill Credit to Reflect Higher Rates		1.16	1.16	1.16	1.16
3. Transfer to Building Fund		20.00	20.00	20.00	20.00
4. Set Aside to Fund 4% Discount for 2 Additional Years				34.20	34.20
5. Additional Program Expenditures Including Grant to Cities					20.00
		<u>21.16</u>	<u>34.06</u>	<u>68.26</u>	<u>88.26</u>
**Resulting <b>Financial</b> Forecast Reserve Level (DCOH*)					
- End of Fiscal Year		333	322	322	322
- <u>High-Level Estimate***</u> Reserve 3 years out		350	340	312	312
- <u>High-Level Estimate***</u> Reserve 5 years out		379	369	341	324

\* Days cash on hand.

\*\*Not expected to have any significant impact on forecast of the current fiscal year financial reserves since expenditure is likely delayed to future years.

Staff recommends funding scenario 4.



# Funding Scenarios - Continued

\$ Million	Additional Expenditures	Funding Scenarios		
		4. Add'l Set Aside for Programs	5. Keep Rates Unchanged	6. Rates Unchanged with Lower 5th Yr Reserves
1. General Customer Rate Discount Level		<u>4%</u> 12.90	<u>7.2%</u> 26.66	<u>7.2%</u> 26.66
2. True-up 1% Bill Credit to Reflect Higher Rates		1.16	1.16	1.16
3. Transfer to Building Fund		20.00	20.00	20.00
4. Set Aside to Fund at least 4% Discount for 2 Additional Years		34.20	34.20	34.20
5. Additional Program Expenditures Including Grant to Cities		<b>20.00</b>	<b>6.24</b>	<b>20.00</b>
		<b>88.26</b>	<b>88.26</b>	<b>102.02</b>

\*\*Resulting **Financial** Forecast Reserve Level (DCOH\*)

- End of Fiscal Year	322	311	311
- <u>High-Level Estimate***</u> Reserve 3 years out	312	300	300
- <u>High-Level Estimate***</u> Reserve 5 years out	324	324	313

# Accounting True-up of Program Dollars

*Clarify that unspent program dollars were to roll into the program funds when it was created*

- Program fund was created in the fiscal year 2019-2020
  - Prior to funds creation, the Board allocated funds in each fiscal year's operating budget
  - The net amount allocated, including adjustments for some grants received, was \$10.125 million
- When the program fund was created, the intent was to rollover the \$10.125 million into the fund
- Staff requests the Board to explicitly authorize the rollover of \$10.125 to the program's fund
  - The reserve projections in the prior slides account for this rollover
  - After the Board's approval, the accounting records and the program fund balance shown in the Treasurer's Report will be updated

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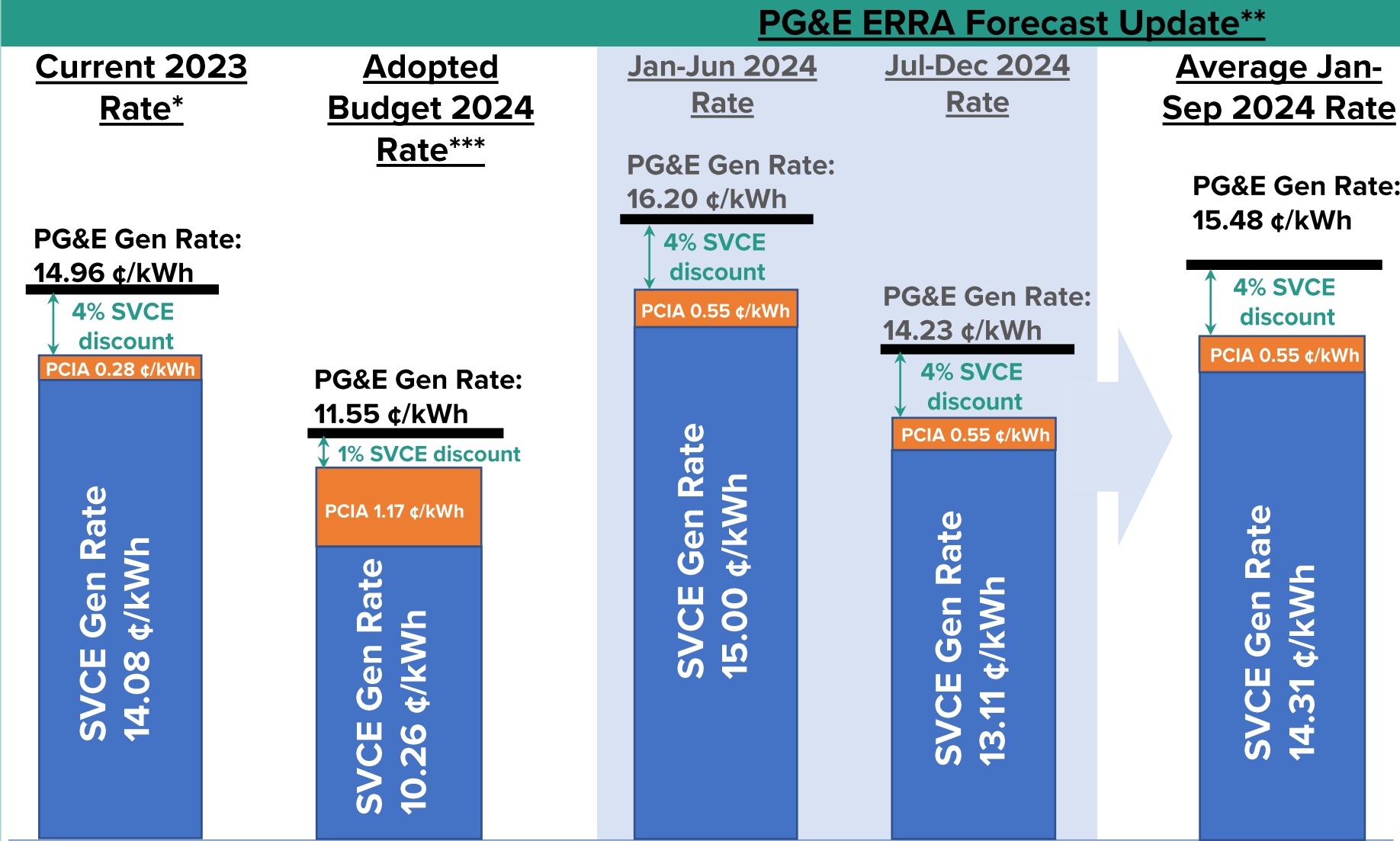
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# Rate Comparison with the Recommended 4% Customer Discount

- With the recommended 4% customer discount, SVCE’s customer generation rates, on average, are expected to increase by about **3.5%**, inclusive of PCIA.

- A 7.2% discount on average is expected to keep SVCE’s customer generation rates unchanged, inclusive of PCIA.



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

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# Updated Market Price Benchmark

	Units	Adopted Budget		Revised Budget		% Change	
		2023	2024	2023	2024	2023	2024
<b>On-Peak Energy MPB*</b>	\$/MWh	75.14	77.99	68.28	72.88	-9%	-7%
<b>Off-Peak Energy MPB*</b>	\$/MWh	65.89	69.57	62.23	65.77	-6%	-5%
<b>Average ATC Energy MPB*</b>	\$/MWh	71.08	74.29	65.62	69.76	-8%	-6%
<b>RPS MPB**</b>	\$/MWh	12.63	12.50	30.30	31.73	140%	154%
<b>System RA MPB**</b>	\$/kW-Month	7.39	8.50	14.37	15.23	94%	79%
<b>Local RA MPB**</b>	\$/kW-Month	6.93	8.46	8.38	9.52	21%	13%
<b>Flex RA MPB**</b>	\$/kW-Month	7.15	8.38	7.82	9.12	9%	9%

\*CY 2023 rates are based on average NP-15 market prices (actual+forward); 2024 rates were set as Market Benchmarks for 2024 per PG&Es October 16th, 2023 filing.

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# 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		

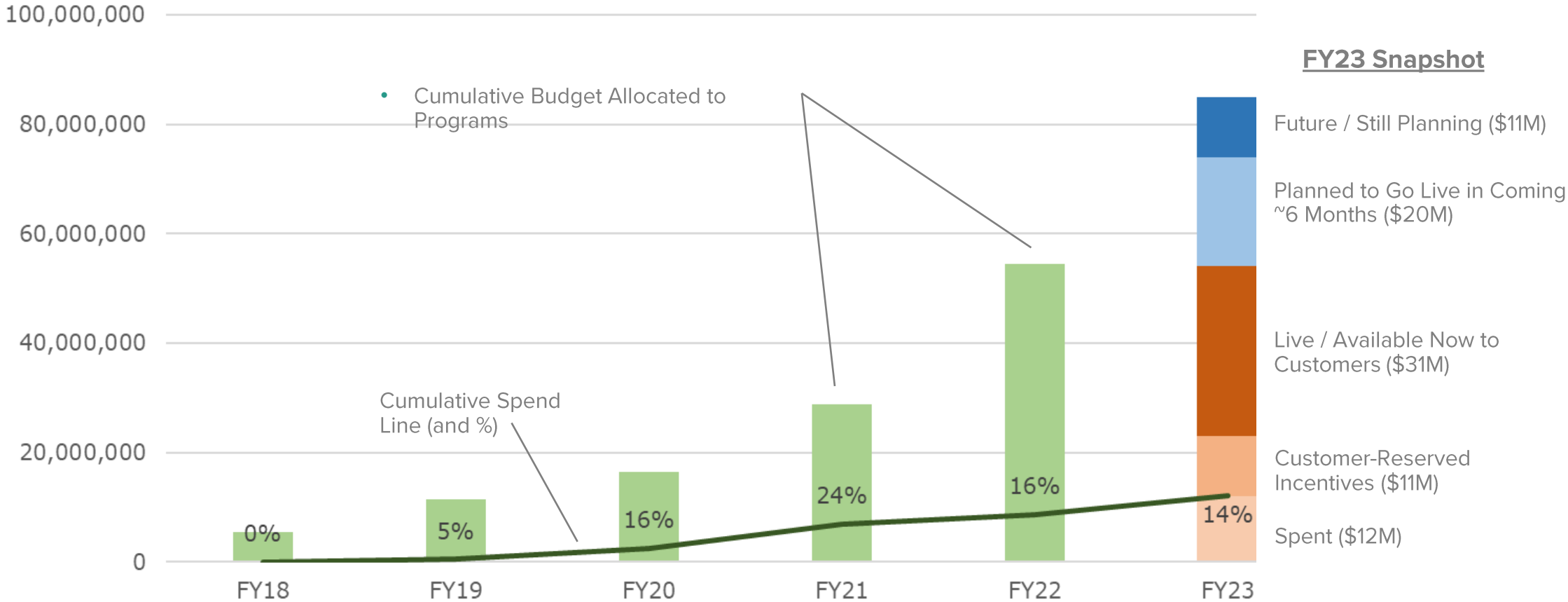


Issue: Financial Stewardship	Staff Recommendation	Implications/Reasons
<ul style="list-style-type: none"><li>SVCE’s current lease runs through Sept. 2025<ul style="list-style-type: none"><li>Need time to explore the alternatives of buying or leasing new space</li></ul></li><li>SVCE should be prepared to pursue attractive property opportunities as they arise</li></ul>	<ul style="list-style-type: none"><li>Research alternatives and establish an ad hoc Committee to advise staff and evaluate property and financing options</li><li>Staff to continue assessing market opportunities and return to the Board with a purchase or lease analysis<ul style="list-style-type: none"><li>\$16MM (based on current assumptions) + 25% contingency = \$20MM set aside</li></ul></li></ul>	<ul style="list-style-type: none"><li>Buying may be a cheaper longer-term option<ul style="list-style-type: none"><li>Initial back-of-the-envelope analysis indicates a roughly 10-year breakeven period compared to leasing</li></ul></li><li>SVCE is growing and requires more space for employees and expanded programs</li><li>Purchasing also enables customization to suit the hybrid work environment<ul style="list-style-type: none"><li>Flexible workspace for collaborative work</li></ul></li></ul>



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Programs Fund Over Time





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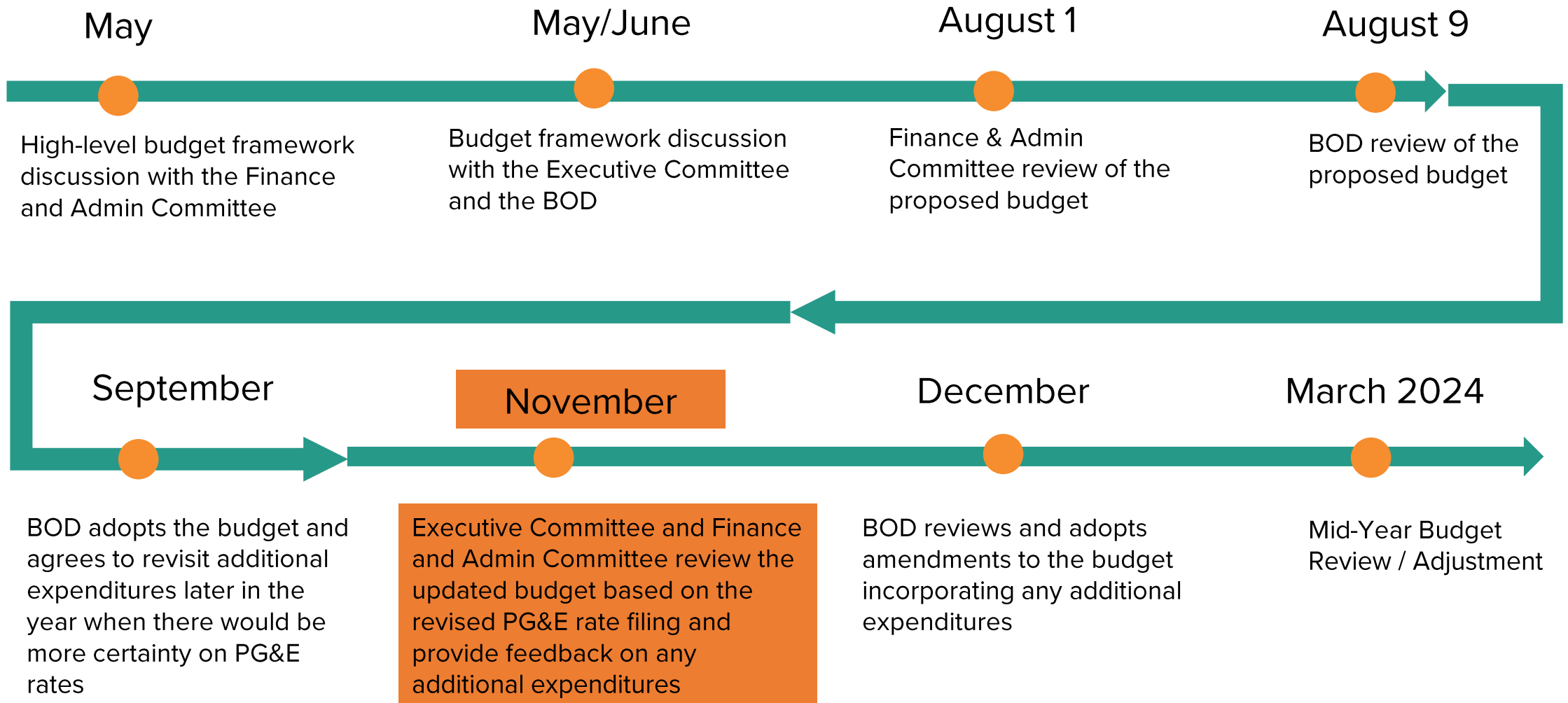
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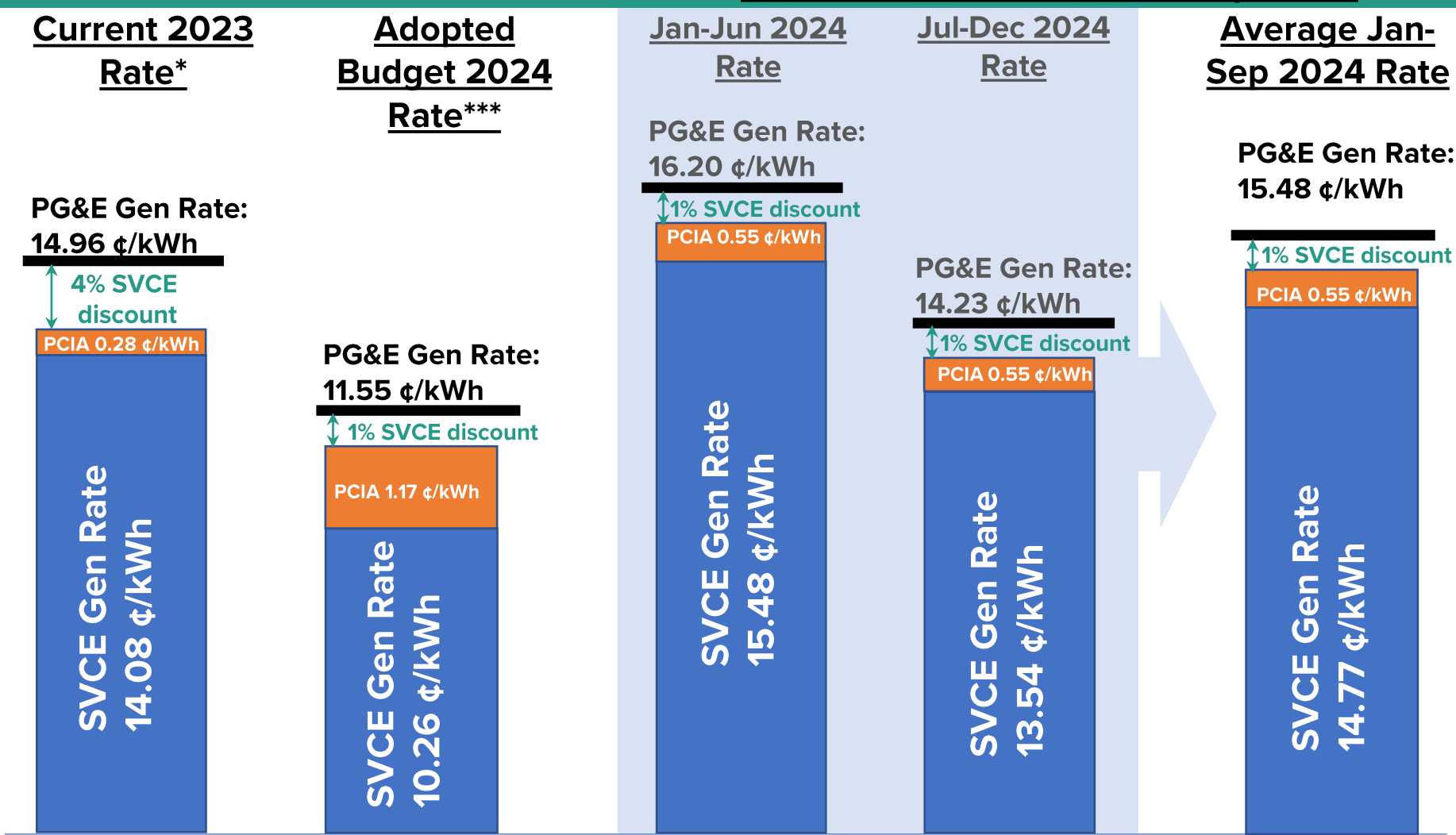
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- CPUC issued Market Price Benchmarks (MPB) reflecting higher RPS and RA prices relative to budget assumptions.
  - RPS prices for 2023/2024 have increased 140%/154%.
  - RA prices for 2023/2024 have increased 94%/79%.
- PG&E's updated rate forecast, incorporating MPB prices, shows rates in January increasing on average by 8% from current rates and then dropping in July by ~ 4.5%.
- PCIA up from 0.28 to 0.55 ¢/kWh.
- Relative to budget assumptions, SVCE's margins on average, improved by ~**44%**. Resulting in a ~**\$127** million increase in revenues.
- Rates are not final until CPUC's decision at the 12/14 meeting.
  - CPUC may prefer one blended rate increase and moderate or remove some of the proposed rate increases.
  - Significant changes from CPUC are not expected.
  - CPUC is expected to issue a Proposed Decision on 11/29.





# FY 24 Adopted and Updated Budget

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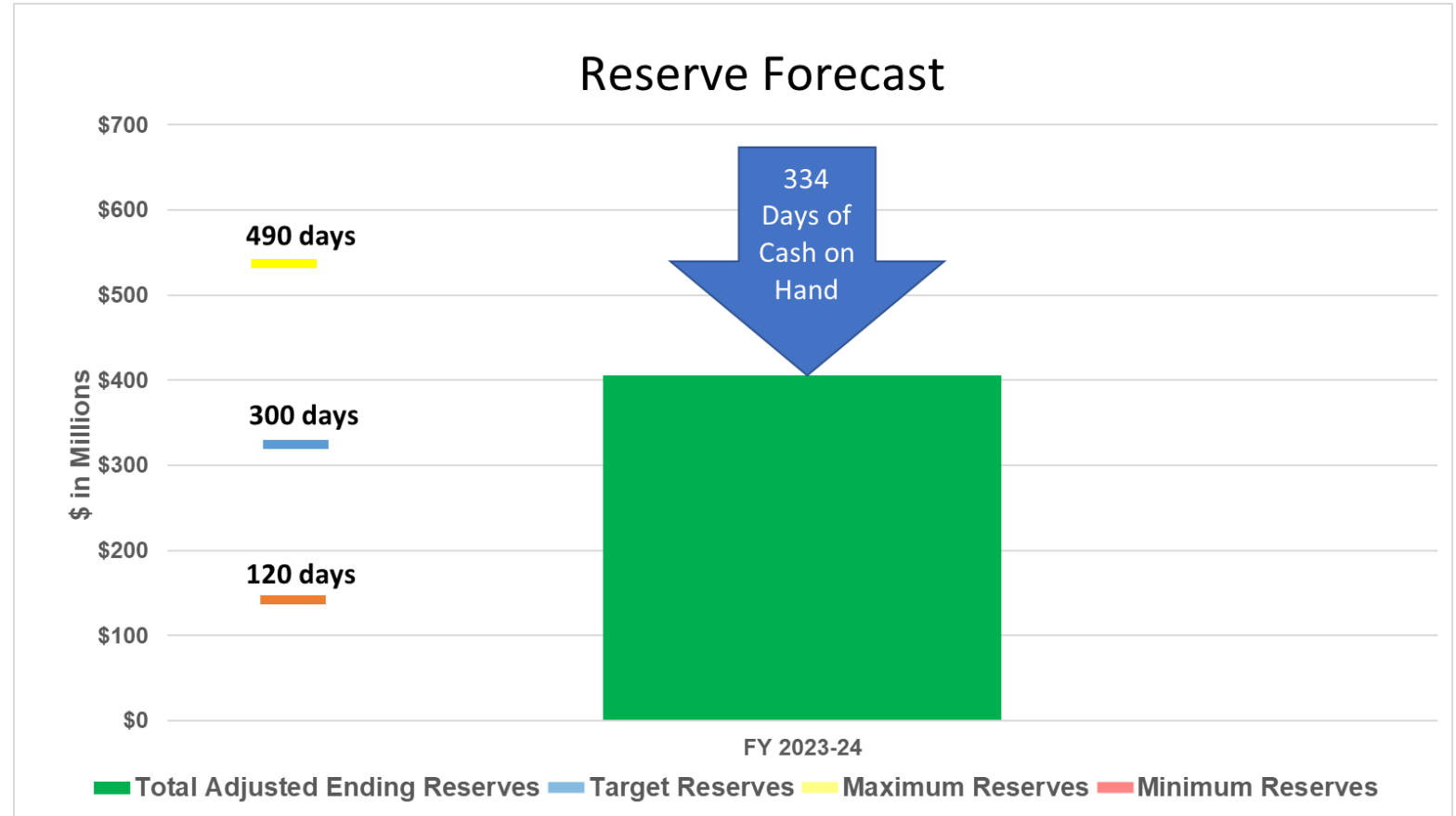
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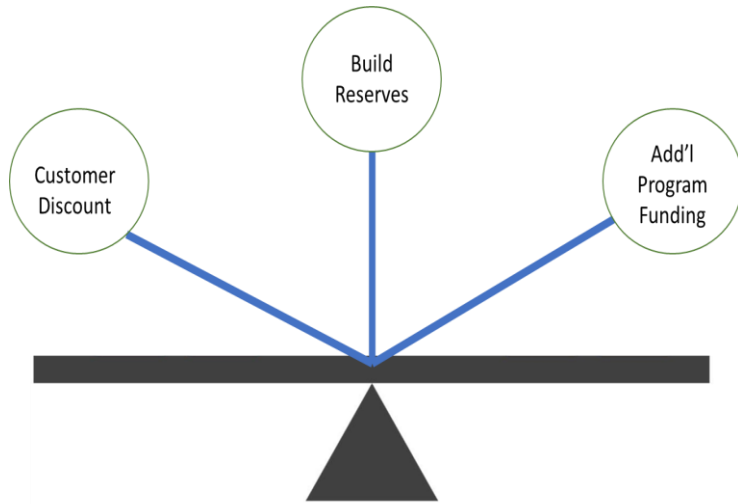
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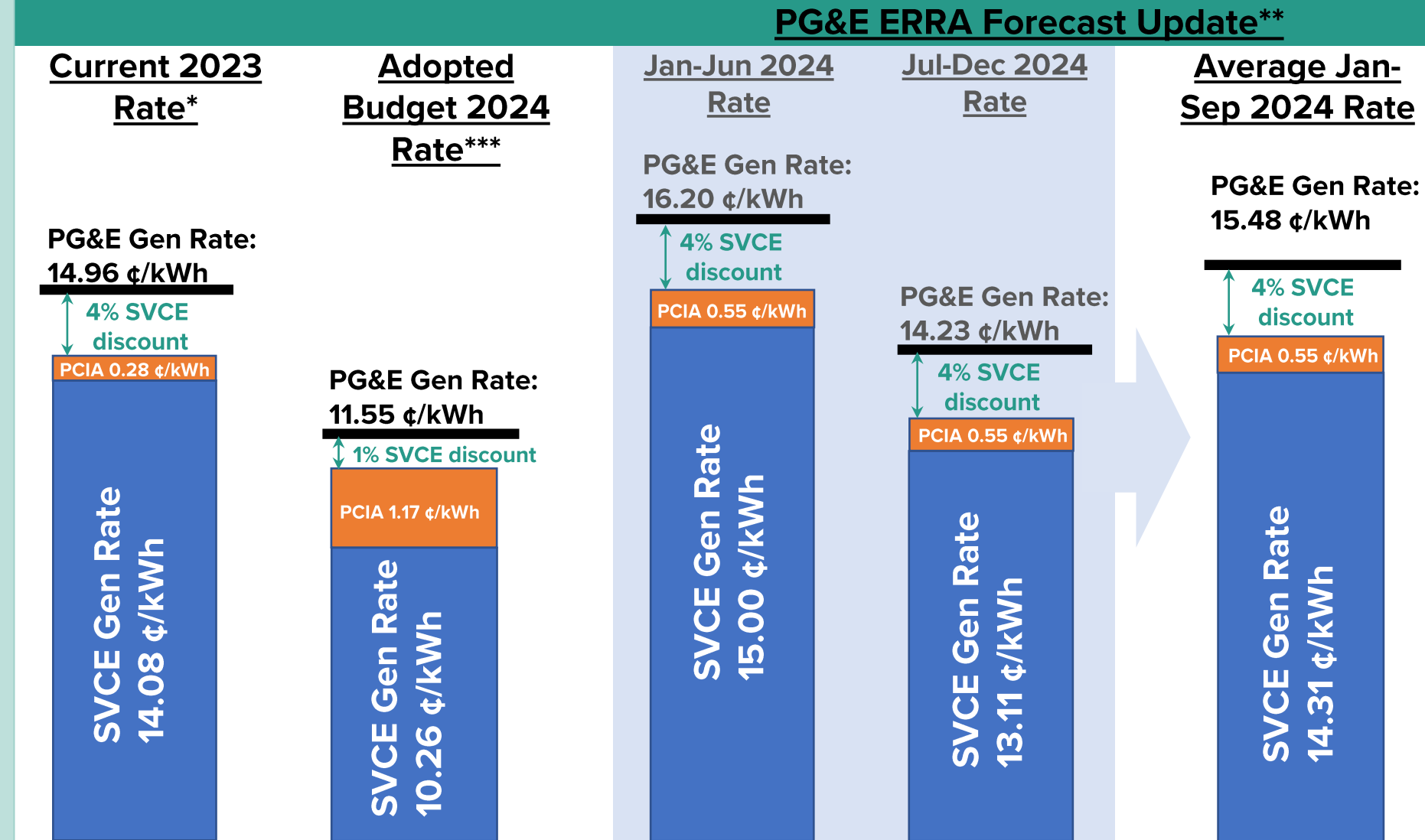
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Item 4  
PRESENTATION

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Office Assumptions		
Size	20,000 sf	(est)
Location for Comps*	Sunnyvale, Mtn View, Santa Clara, San Jose	
* further analyses to include broader service territory		



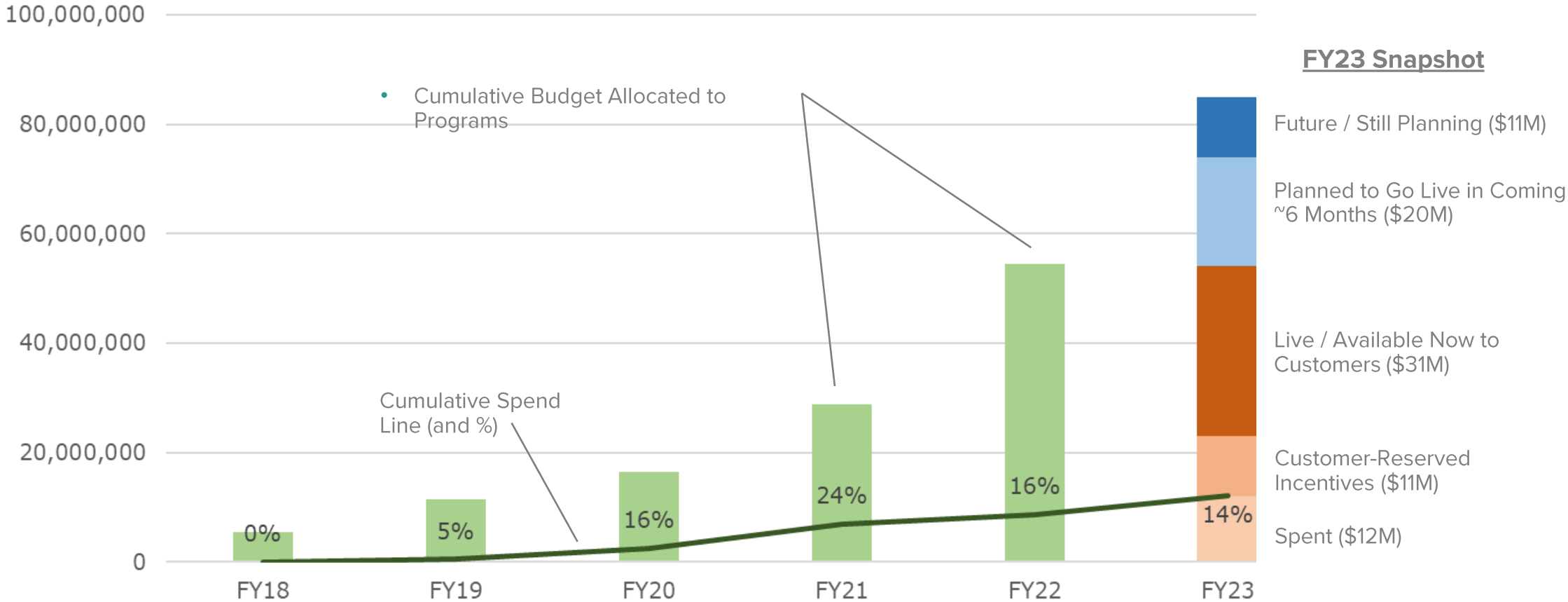
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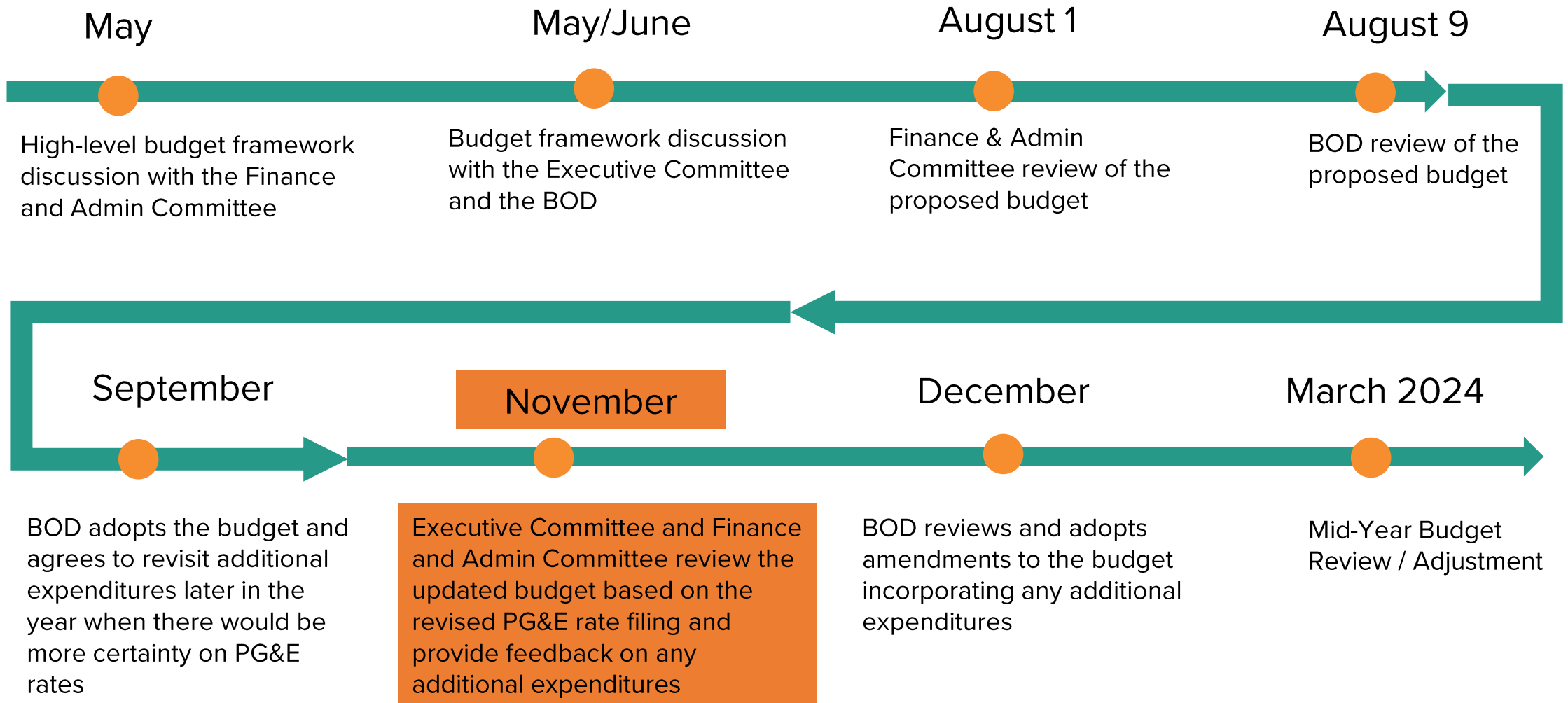
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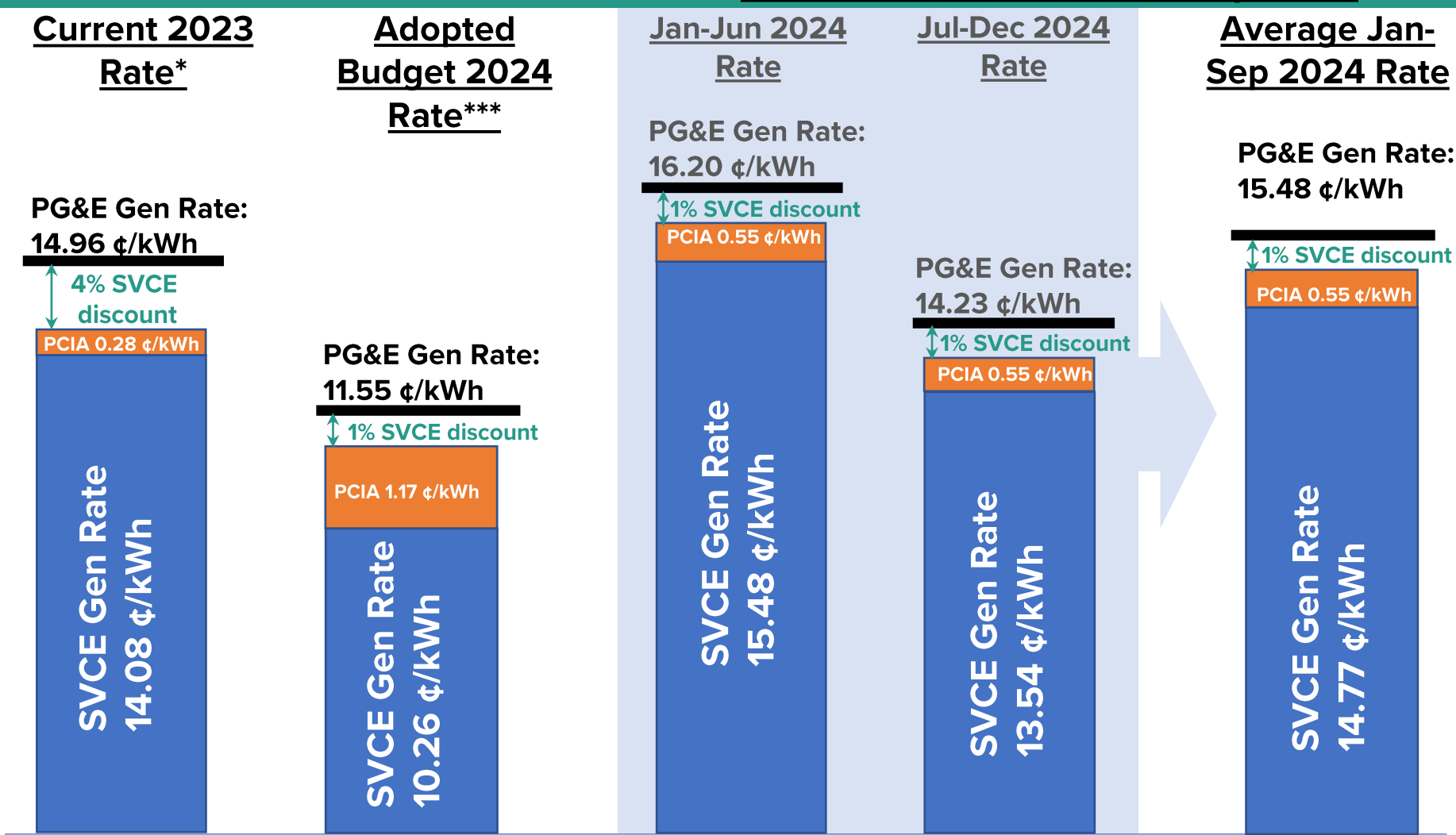
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- CPUC's updated MPB account for a substantial increase in RA and RPS prices
- SVCE's forecasted revenues are higher by about \$127 million
- Updating for revenues and power supply expenses, the net contribution to reserves increases from the adopted budget forecast of \$7.7 million to \$127.9 million
- Without any additional expenditures, reserves increase above the target days of cash on hand of 300 to 334 but below the maximum target of 490

# Higher PG&E Rate Forecast Improving SVCE Revenue Projections by ~\$127 million

## PG&E ERRA Rate Forecast Update\*\*



\* Source: PG&E 2023 Average Rate, effective January 1, 2023 (Weighted for SVCE Portfolio Load)  
\*\* PG&E 2024 ERRA Forecast Update, released in October, 2023 (Weighted for SVCE Portfolio Load)  
\*\*\* Using NewGen Model with 7/7/2023 Forward Curves and 10% modeling error haircut  
Above margin analyses ignores minor reductions for franchise fees (0.09 ¢/kWh)

- CPUC issued Market Price Benchmarks (MPB) reflecting higher RPS and RA prices relative to budget assumptions.
  - RPS prices for 2023/2024 have increased 140%/154%.
  - RA prices for 2023/2024 have increased 94%/79%.
- PG&E's updated rate forecast, incorporating MPB prices, shows rates in January increasing on average by 8% from current rates and then dropping in July by ~ 4.5%.
- PCIA up from 0.28 to 0.55 ¢/kWh.
- Relative to budget assumptions, SVCE's margins on average, improved by ~**44%**. Resulting in a ~**\$127** million increase in revenues.
- Rates are not final until CPUC's decision at the 12/14 meeting.
  - CPUC may prefer one blended rate increase and moderate or remove some of the proposed rate increases.
  - Significant changes from CPUC are not expected.
  - CPUC is expected to issue a Proposed Decision on 11/29.





# FY 24 Adopted and Updated Budget

*Primarily Revenues and Power Supply Expenses are Updated*

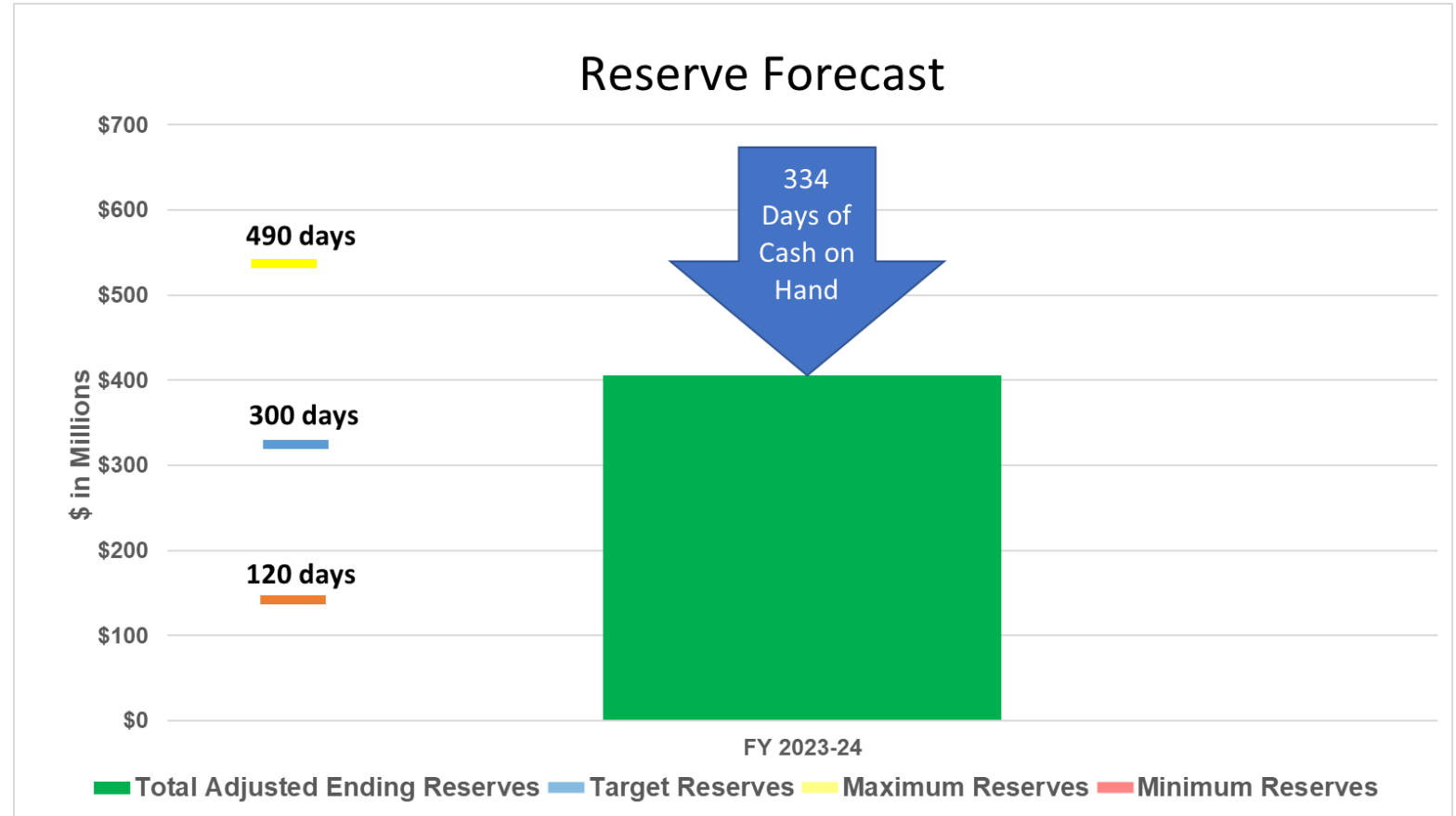
(\$ in thousands)

DESCRIPTION	FY 2023-24 ADOPTED BUDGET	FY 2023-24 ADJUSTED BUDGET	Change	
			\$	%
Energy Revenues	440,404	567,585	127,181	28.9%
Power Supply Expense	391,624	399,546	7,922	2.0%
Operating Margin	<u>48,780</u>	<u>168,038</u>	<u>119,259</u>	<u>244.5%</u>
Operating Expenses	32,361	32,361	0	0.0%
Non-Operating Revenue (Expense)	5,498	6,431	932	17.0%
Annual Transfers and Other Expenses				
Program Fund	8,874	8,874	0	0.0%
Nuclear Allocation	2,188	2,188	0	0.0%
Multi Family Direct Install Program	0	0	0	-
Electrification Discount Program	0	0	0	-
Customer Bill Relief	3,136	3,136	0	0.0%
Building Fund	0	0	0	-
Other	50	50	0	0.0%
BALANCE AVAILABLE FOR RESERVES	<u>\$7,669</u>	<u>\$127,860</u>	<u>\$120,191</u>	<u>1567.1%</u>

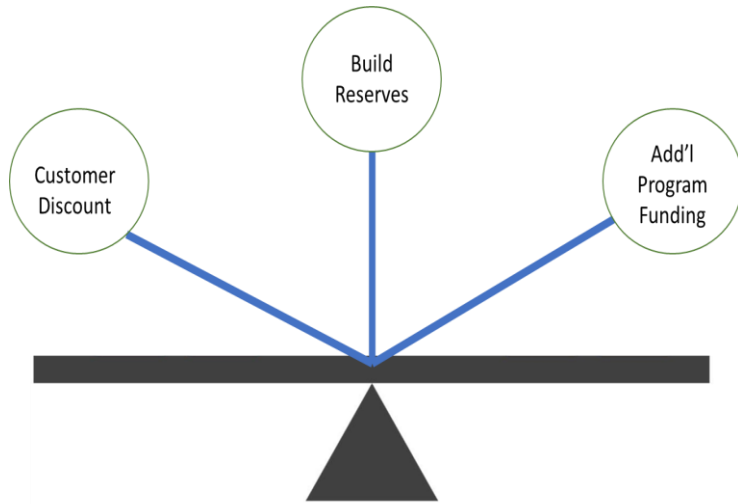
# Reserve Projection

Projected End of FY Reserves  
without additional Expenditure:

- \$405 Million
- 334 Days of Cash on Hand (DCOH)
  - Based on a forecast of program expenditures
  - Unspent program dollars count toward reserves
- ~292 DCOH if unspent program dollars are removed from reserves



# Discussion: Balancing Priorities



- 1% customer discount over 12 months of 2024 is ~\$5.7 million\*
- 1% discount over 9 months (Jan – Sep 2024) ~\$4.3 million\*
- Monthly Average Bill Savings of 1%\* Discount:
  - Residential - ~\$0.78
  - Small Commercial - ~\$2.80
  - Medium Commercial - ~\$30.87

\* Based on October PG&E ERRR Forecast

To initiate discussion, on the next slide, staff is proposing the following funding items:

1. Increasing customer discount
2. Trueing up the intended 1% bill credit to low-income customers to account for higher rates than anticipated in the original budget
3. Setting aside funds for an SVCE office building
4. Setting aside funds to maintain higher customer discounts over the next two years
5. Increasing funding for programs that include decarbonization grants for cities

# Funding Scenarios

**All scenarios maintain projected reserves above the target level of 300 DCOH\* and well below the maximum level of 490 DCOH over the next 5 years**

\$ Million	Additional Expenditures	Funding Scenarios			
		1. Build Reserves	2. Increase Rate Discount	3. Longer-term Affordability	4. Add'l Set Aside for Programs
1. General Customer Rate Discount Level		<u>1%</u> -	<u>4%</u> 12.90	<u>4%</u> 12.90	<u>4%</u> 12.90
2. True-up 1% Bill Credit to Reflect Higher Rates		1.16	1.16	1.16	1.16
3. Transfer to Building Fund		20.00	20.00	20.00	20.00
4. Set Aside to Fund 4% Discount for 2 Additional Years				34.20	34.20
5. Additional Program Expenditures Including Grant to Cities					20.00
		<u>21.16</u>	<u>34.06</u>	<u>68.26</u>	<u>88.26</u>
**Resulting <b>Financial</b> Forecast Reserve Level (DCOH*)					
- End of Fiscal Year		333	322	322	322
- <u>High-Level Estimate***</u> Reserve 3 years out		350	340	312	312
- <u>High-Level Estimate***</u> Reserve 5 years out		379	369	341	324

\* Days cash on hand.

\*\*Not expected to have any significant impact on forecast of the current fiscal year financial reserves since expenditure is likely delayed to future years.

Staff recommends funding scenario 4.

# Accounting True-up of Program Dollars

*Clarify that unspent program dollars were to roll into the program funds when it was created*

- Program fund was created in the fiscal year 2019-2020
  - Prior to funds creation, the Board allocated funds in each fiscal year's operating budget
  - The net amount allocated, including adjustments for some grants received, was \$10.125 million
- When the program fund was created, the intent was to rollover the \$10.125 million into the fund
- Staff requests the Board to explicitly authorize the rollover of \$10.125 to the program's fund
  - The reserve projections in the prior slides account for this rollover
  - After the Board's approval, the accounting records and the program fund balance shown in the Treasurer's Report will be updated



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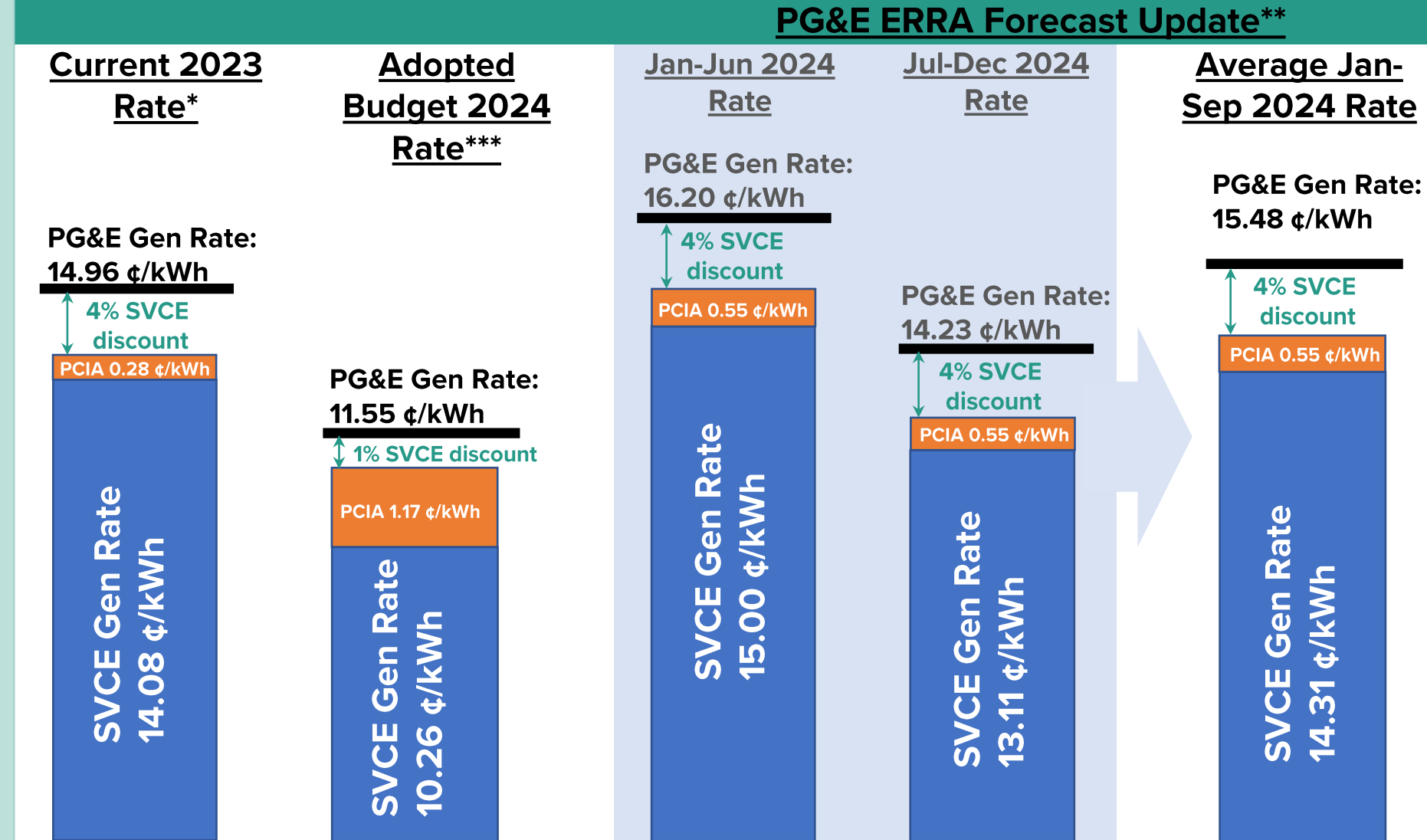
**Thank you! / Questions?**

# Rate Comparison with the Recommended 4% Customer Discount

Item 4  
PRESENTATION

- With the recommended 4% customer discount, SVCE's customer generation rates, on average, are expected to increase by about **3.5%**, inclusive of PCIA.

- A 5.5% discount on average is expected to keep SVCE's customer generation rates unchanged, inclusive of PCIA.



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

\*\* PG&E 2024 ERRA Forecast Update, released in October, 2023 (Weighted for SVCE Portfolio Load)

\*\*\* Using NewGen Model with 7/7/2023 Forward Curves and 10% modeling error haircut

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



# Updated Market Price Benchmark

	Units	Adopted Budget		Revised Budget		% Change	
		2023	2024	2023	2024	2023	2024
<b>On-Peak Energy MPB*</b>	\$/MWh	75.14	77.99	68.28	72.88	-9%	-7%
<b>Off-Peak Energy MPB*</b>	\$/MWh	65.89	69.57	62.23	65.77	-6%	-5%
<b>Average ATC Energy MPB*</b>	\$/MWh	71.08	74.29	65.62	69.76	-8%	-6%
<b>RPS MPB**</b>	\$/MWh	12.63	12.50	30.30	31.73	140%	154%
<b>System RA MPB**</b>	\$/kW-Month	7.39	8.50	14.37	15.23	94%	79%
<b>Local RA MPB**</b>	\$/kW-Month	6.93	8.46	8.38	9.52	21%	13%
<b>Flex RA MPB**</b>	\$/kW-Month	7.15	8.38	7.82	9.12	9%	9%

\*CY 2023 rates are based on average NP-15 market prices (actual+forward); 2024 rates were set as Market Benchmarks for 2024 per PG&Es October 16th, 2023 filing.

\*\* Based on PG&E's 2024 forecast update testimony, released on October 16th, 2023



# 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		

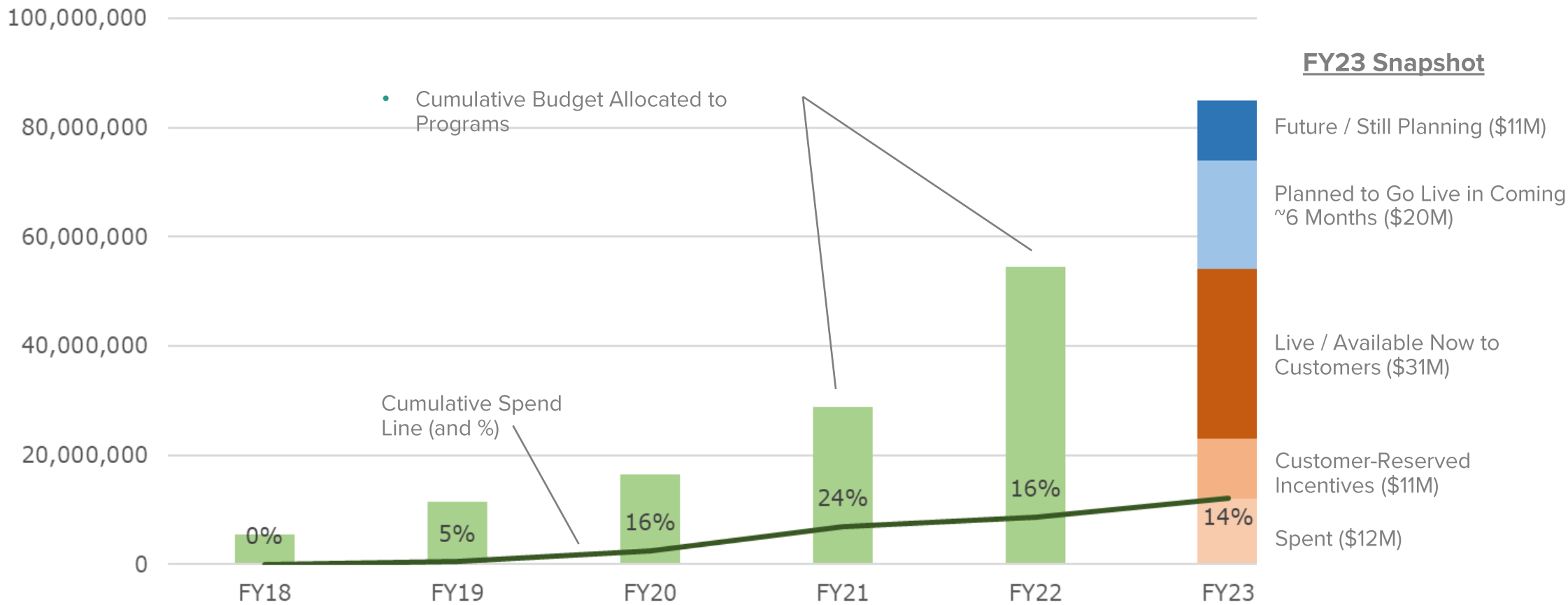


Issue: Financial Stewardship	Staff Recommendation	Implications/Reasons
<ul style="list-style-type: none"><li>SVCE's current lease runs through Sept. 2025<ul style="list-style-type: none"><li>Need time to explore the alternatives of buying or leasing new space</li></ul></li><li>SVCE should be prepared to pursue attractive property opportunities as they arise</li></ul>	<ul style="list-style-type: none"><li>Research alternatives and establish an ad hoc Committee to advise staff and evaluate property and financing options</li><li>Staff to continue assessing market opportunities and return to the Board with a purchase or lease analysis<ul style="list-style-type: none"><li>\$16MM (based on current assumptions) + 25% contingency = \$20MM set aside</li></ul></li></ul>	<ul style="list-style-type: none"><li>Buying may be a cheaper longer-term option<ul style="list-style-type: none"><li>Initial back-of-the-envelope analysis indicates a roughly 10-year breakeven period compared to leasing</li></ul></li><li>SVCE is growing and requires more space for employees and expanded programs</li><li>Purchasing also enables customization to suit the hybrid work environment<ul style="list-style-type: none"><li>Flexible workspace for collaborative work</li></ul></li></ul>



# Program Fund Budget Allocation

Programs Fund Over Time





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# **SVCE Information Update on 2024 SVCE Board Elections**

Executive Committee Meeting  
November 27, 2023



Review the selection process and timeline for 2024 SVCE appointments of Chair, Vice Chair, and committees.



# Selection Process

## **January BOD Meeting**

Chair/Vice Chair  
Appointments

Executive Committee  
Appointments

December 15<sup>th</sup>:

- Letters of Interest requested for Chair/Vice Chair
- Notification of Executive Committee interest requested

Selections made at annual meeting on January 10, 2024



# Selection Process (Cont.)

## **February**

All other Committee  
Appointments (Audit,  
Finance and  
Administration, 2024  
Legislative Ad Hoc  
Committee)

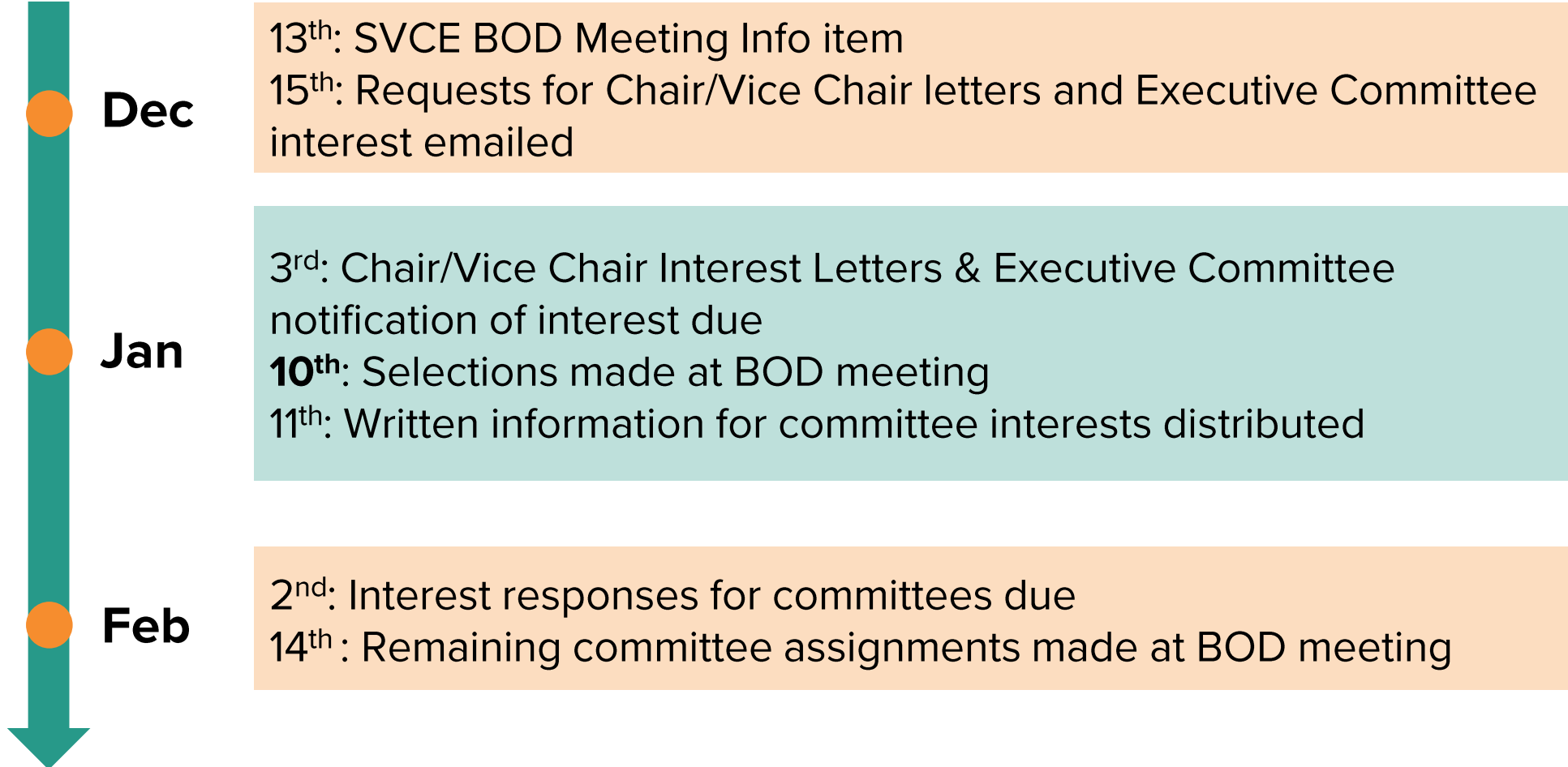
January 11<sup>th</sup>:

Request for members to notify Board  
Clerk of interest in serving on  
remaining Committees

Selections made at February 14, 2024  
Board of Directors Meeting.



# Timeline Snapshot





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**Thank you**



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# Go Electric Advisor Electrification Concierge Service

Executive Committee Meeting  
November 27, 2023



Provide a comprehensive, white-glove advisory service helping customers access the myriad of electrification programs and resources offered by SVCE and other entities.

## **Objectives:**

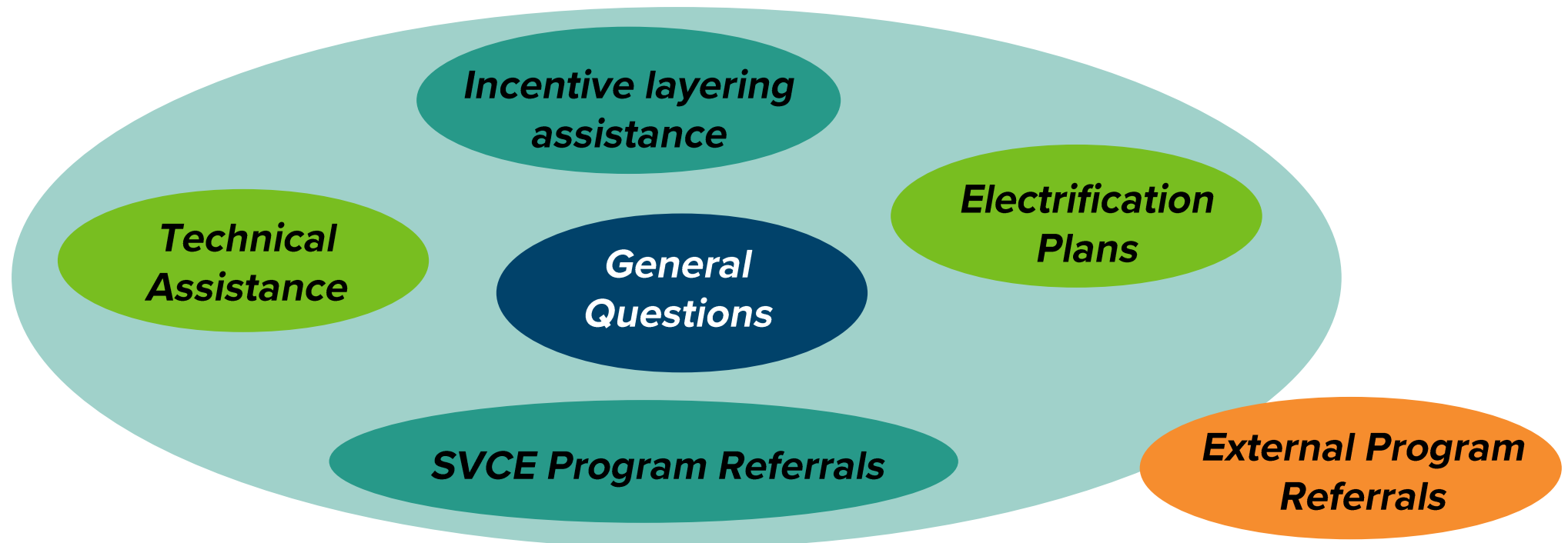
- Help customers better leverage electrification rebates & complementary SVCE offerings
- Address key knowledge gaps, such as electrification planning or technology inquiries

**Target Audience:** Residential



# Advisor Offering

- Budget: \$892k (3-year horizon, depends on uptake)
- SMUD selected as vendor – customer service, expertise, flexibility
- Phone hotline & web interface





# Key design decisions

## Goals

*Seamless customer support*



## Program Elements

Single point of contact model,  
extensive program database

*Impartial technical assistance*



SMUD in-house energy experts, vetted  
FAQs, meet people where they are

*Promote efficient electrification*



Resources & guidance to avoid service  
upgrades; weatherization

*Equity & accessibility*



Multiple access channels, call center  
with extensive language support, staff  
with low-income program experience



# Service launching next week!



## Go Electric Advisor



833-243-4235  
PRESENTATION

Connect with Us

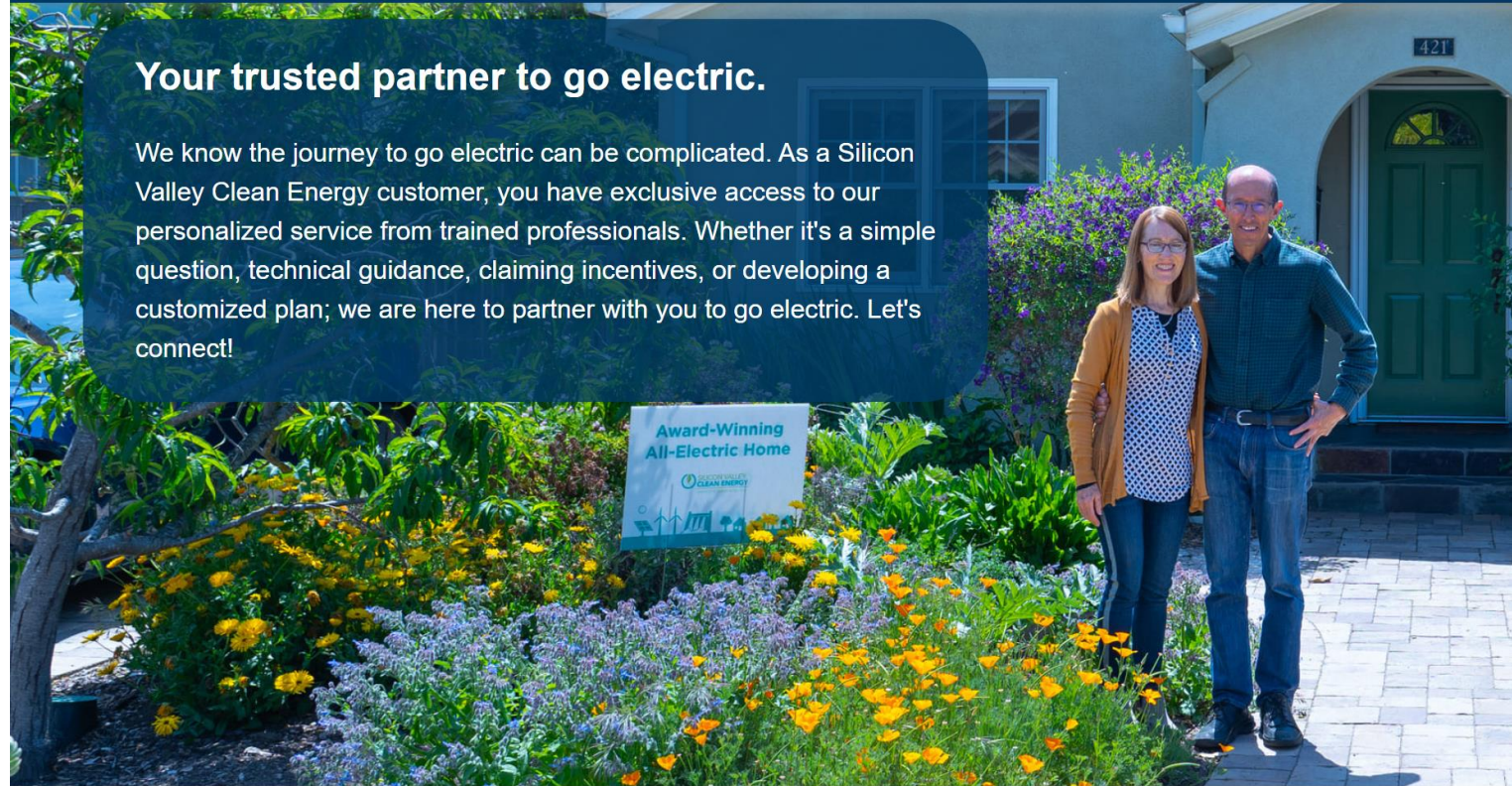
Types of Services

Support Team

Go Electric Resources

### Your trusted partner to go electric.

We know the journey to go electric can be complicated. As a Silicon Valley Clean Energy customer, you have exclusive access to our personalized service from trained professionals. Whether it's a simple question, technical guidance, claiming incentives, or developing a customized plan; we are here to partner with you to go electric. Let's connect!



### Connect with us.

Energy Advisors are available  
Monday-Friday, 9am-5pm PST



[833-243-4235](tel:833-243-4235)



[SVCEGOELECTRIC@SMUD.ORG](mailto:SVCEGOELECTRIC@SMUD.ORG)



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[REQUEST A CONTACT](#)