
Financial Policy 7 - Purchase Card Policy Amendment

Karen Chang
Amrit Singh
November 30, 2023

Purpose

Action:

1. Recommend Board to Approve the First Amendment to Finance Policy 7 – Purchase Card Policy
2. Recommend Board to Ratify Past Exceedance

Main Areas of Discussion

1. Introduction and Background
2. Current Operating Needs and Amendment Recommendation
3. Past Exceedance Ratification
4. Recommended Purchase Card Policy Update





Introduction and Background of Purchase Card Policy

Purchase Card Policy was First Adopted in March 2017, Has Not Been Updated Since Inception.

Purchase Card (“P-Card”) Uses:

- Business travel (airfare, lodging, vehicle rental, rideshare, parking/tolls)
 - Conference registrations
 - Online/offsite training for continuous learning
 - Social media marketing
 - Office supplies
 - Periodical publications and subscriptions
 - Downpayment for events to secure booking
 - IT software subscriptions
- Policy outlines guidelines for the use of corporate credit cards.
 - Policy grants CEO, Board Clerk, Directors to use for operational expenses not feasible through invoicing, check payments, or bank transfers.
 - Policy has a limit of \$3,000 per credit card per month.



Current Operating Needs and Amendment Recommendation

Current	Reasoning	Amendment Recommendation
<p>1) <u>Growth and Monthly Card Limits</u></p> <ul style="list-style-type: none">Monthly charges have consistently increased, surpassing the established threshold of \$3,000 per month per card.	<ul style="list-style-type: none">Since 2017, SVCE has experienced an expansion in both its workforce and vendor engagement. Consequently, there has been a rise in the demand for the use of P-Cards.	<p>1) <u>Recommendation on Monthly Card Limit:</u></p> <ul style="list-style-type: none">To raise the limit for each P-Card; proposing to revise the language to “A maximum limit of \$20,000 per card per month, subject to the CEO’s discretion”Cards with higher usage will have higher limits assigned.
<p>2) <u>Controls</u></p> <ul style="list-style-type: none">Unclear guidelines on authorized and unauthorized purchases.The record-keeping requirements are not explicitly defined.Essential compliance and policy reinforcement details are missingAmbiguities exist regarding the access of terminated employees to P-Cards.	<ul style="list-style-type: none">Enhance process controls and compliance	<p>2) <u>Recommendation on Controls:</u></p> <ul style="list-style-type: none">To provide a more clearly defined list of authorized and unauthorized charges.Introduce specific requirements regarding record-keeping for cardholders.Incorporate a system for measuring compliance and outlining consequences for non-compliance.Implement a policy addressing P-Cards for terminated employees.



Past Exceedance and Ratification

Recommend Board to Ratify Previous Transactions that Did Not Comply With the 2017 Policy.

- Since policy inception, monthly charges have periodically been exceeding the established limit of \$3,000 per card
 - All exceedances were still within approved budget
- Proposed amendment will address the monthly limit challenge
- Corrective actions going forward:
 - Dedicated finance staff for enhanced compliance on policy
 - Monthly card limit monitoring
 - Monthly spending analysis review
 - Implement alert systems with credit card vendor for proactive monitoring
 - Conduct annual policy reviews and make revisions as necessary



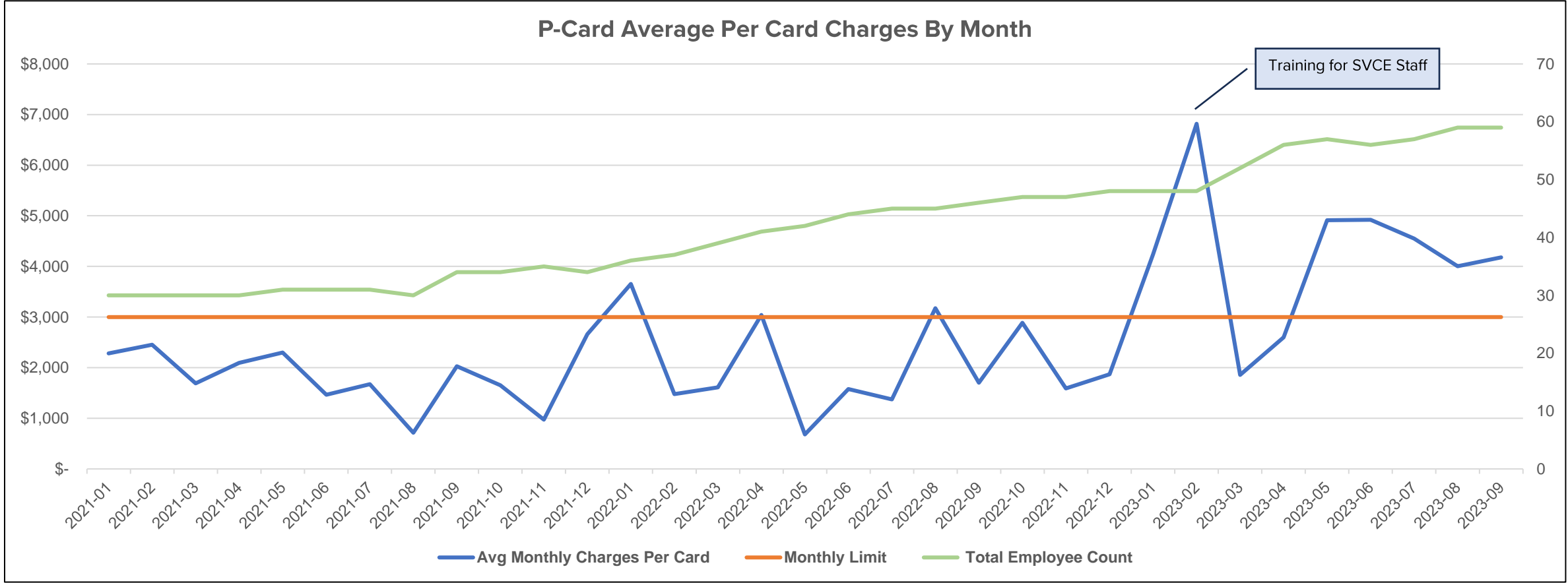
Recommendations

- Committee recommends the Board approve via the Consent Calendar
 - The proposed revision policy - the First Amendment to the Finance Policy 7 – Purchase Card Policy, dated 11/30/2023
 - To ratify previous transactions that did not comply with the previous policy

Backup



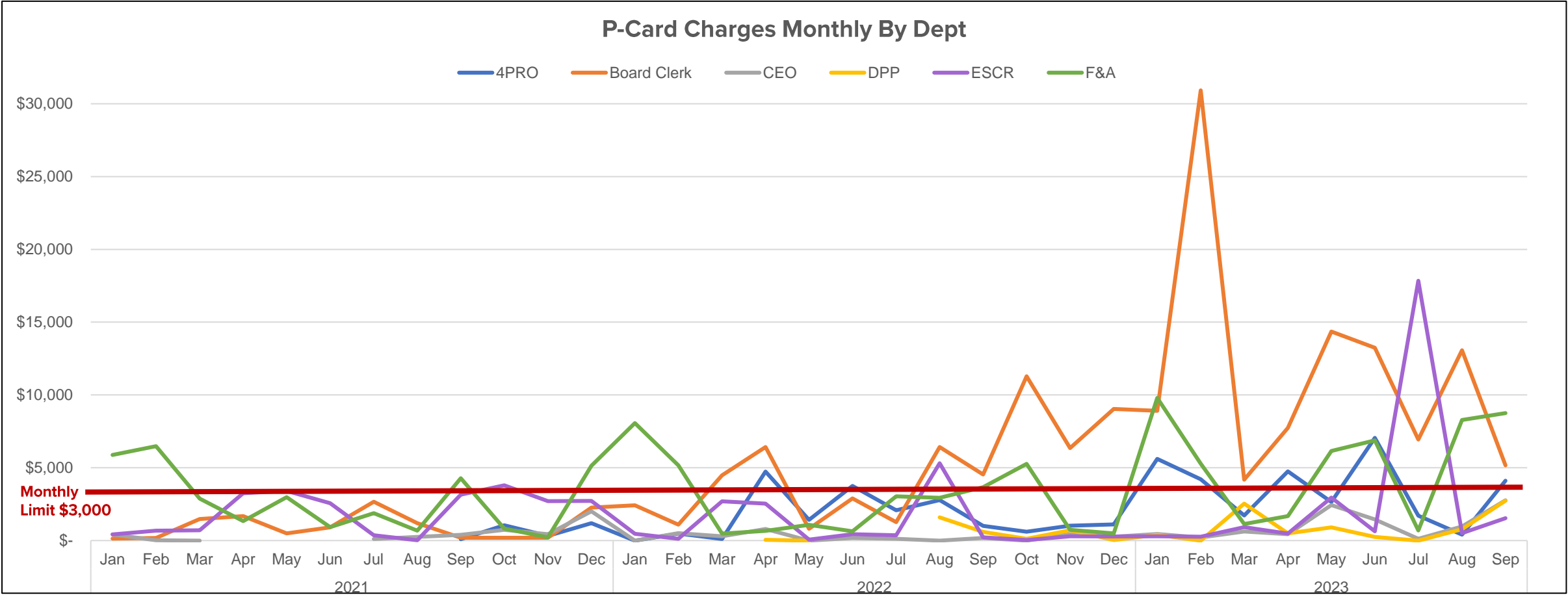
Backup: Average Monthly Charges



Specifically, the P-Cards for Board Clerk and F&A Director consistently surpasses the \$3,000 threshold, primarily due to operational and administrative expenses.



Backup: Average Monthly Charges By Dept



2023 Feb Board Clerk card charges were mainly due to training courses for SVCE employees.

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

Amrit Singh
Finance and Administration Committee
November 30, 2023

Purpose

Review updated budget projections and provide guidance on additional funding scenarios

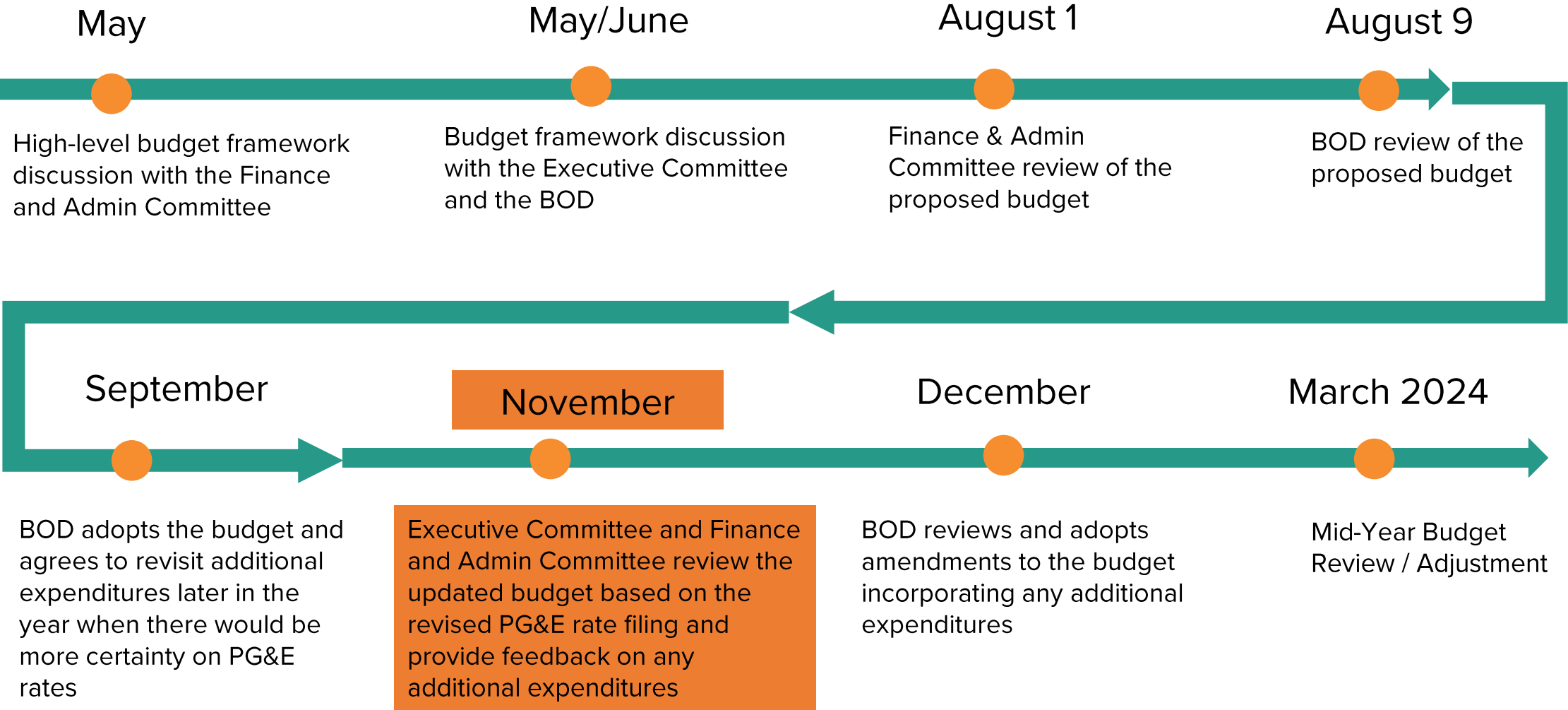
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FY23-24 Budget Development Timeline





Key Messages

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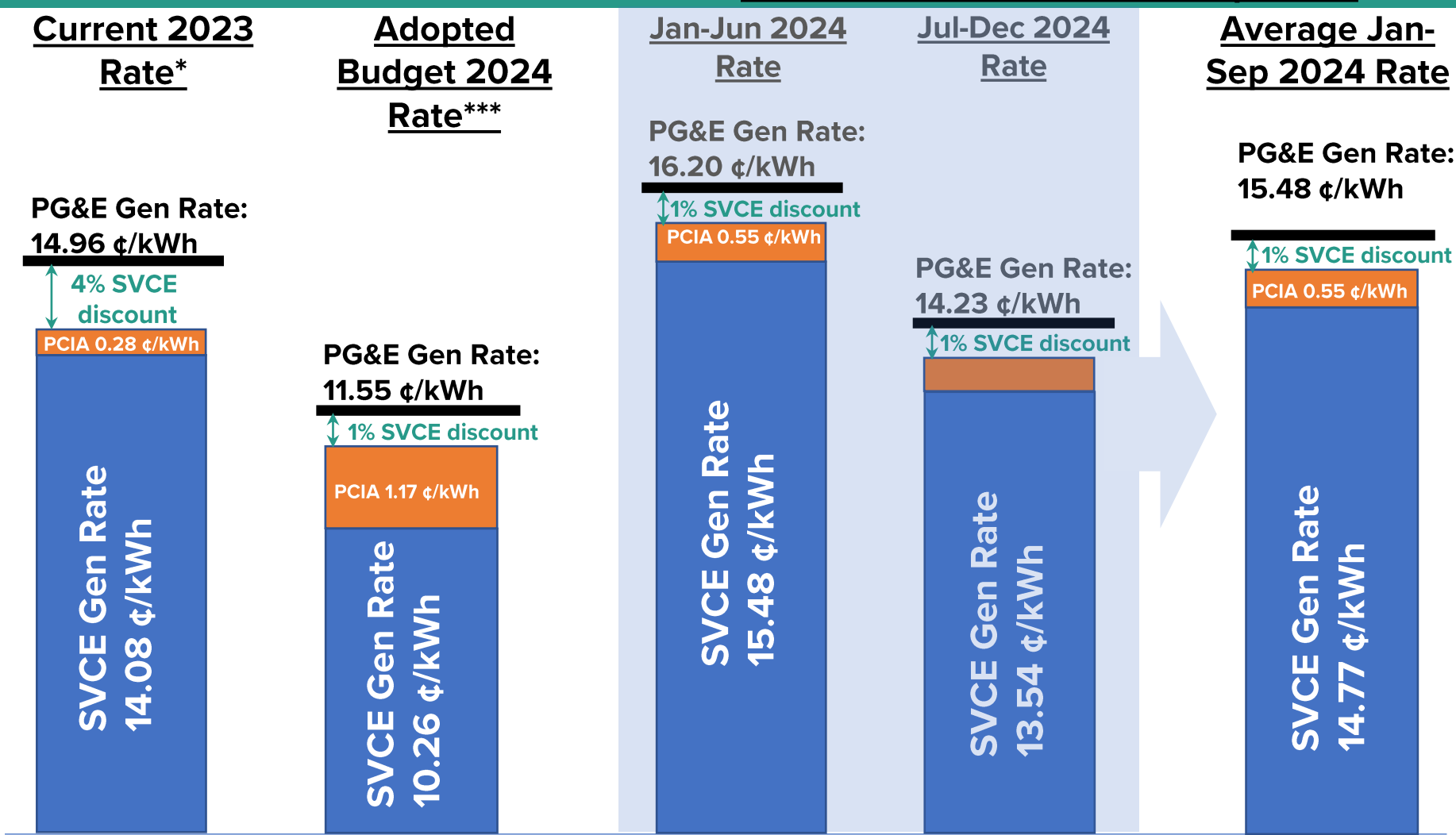
- Conservative assumptions used in estimating revenues
 - CPUC's updating of RA and RPS prices in setting the Market Price Benchmark (MPB) was highly uncertain
 - MPB prices are used in calculating PCIA and PG&E generation rates
- Staff had estimated a potential increase in revenues of \$100 million 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)
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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

Primarily Revenues and Power Supply Expenses are Updated

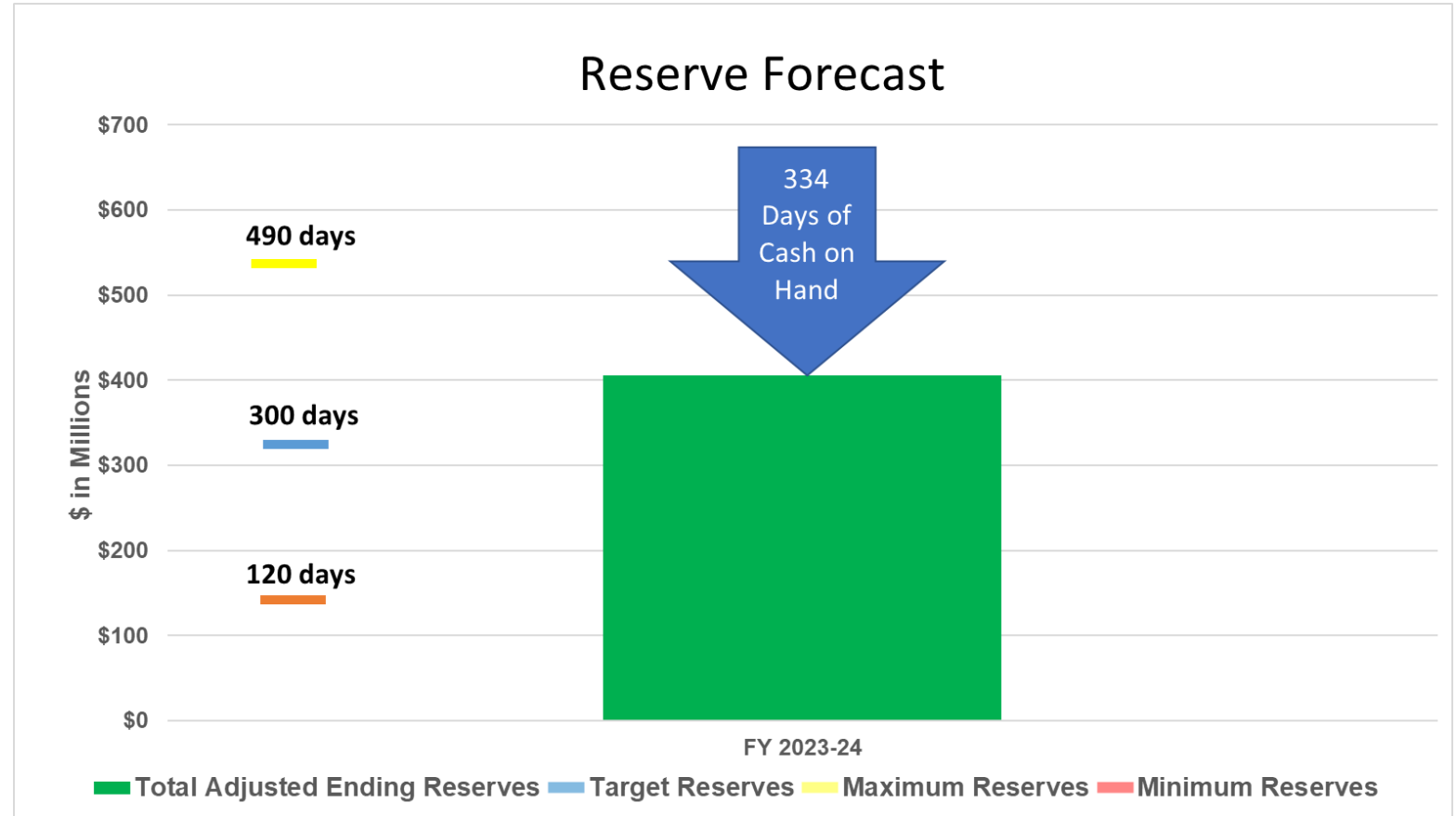
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DESCRIPTION	FY 2023-24 ADOPTED BUDGET	FY 2023-24 ADJUSTED BUDGET	Change	
			\$	%
Energy Revenues	440,404	567,585	127,181	28.9%
Power Supply Expense	391,624	399,546	7,922	2.0%
Operating Margin	<u>48,780</u>	<u>168,038</u>	<u>119,259</u>	<u>244.5%</u>
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>

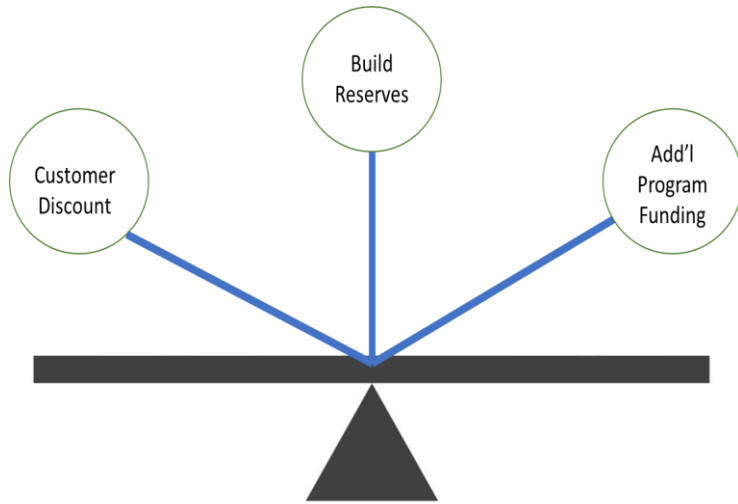
Reserve Projection

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 Financial 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		20.00	6.24	20.00
		88.26	88.26	102.02

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

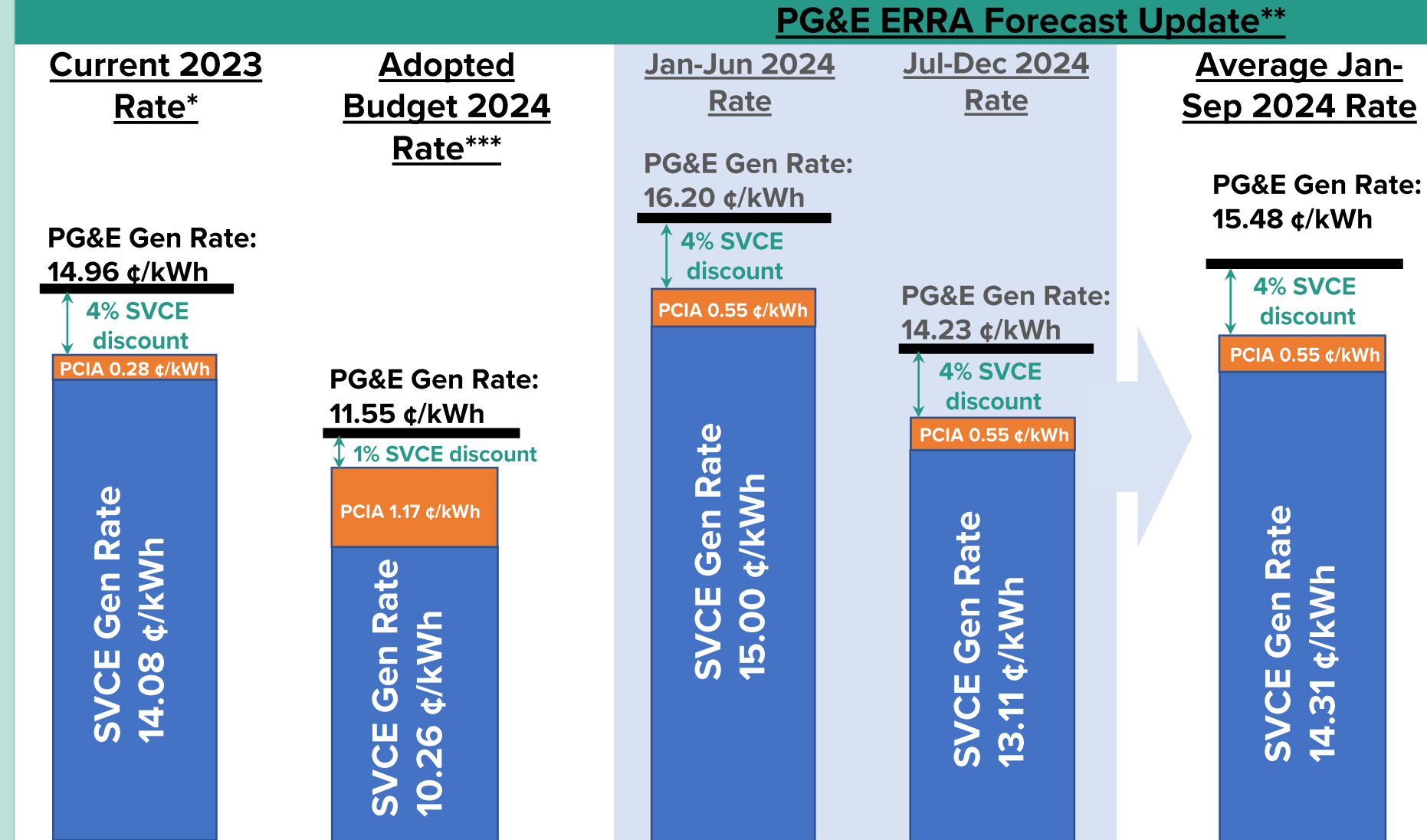
Thank you! / Questions?

Rate Comparison with the Recommended 4% Customer Discount

Item 3
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 7.2% discount on average is expected to keep SVCE's customer generation rates unchanged, inclusive of PCIA.



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

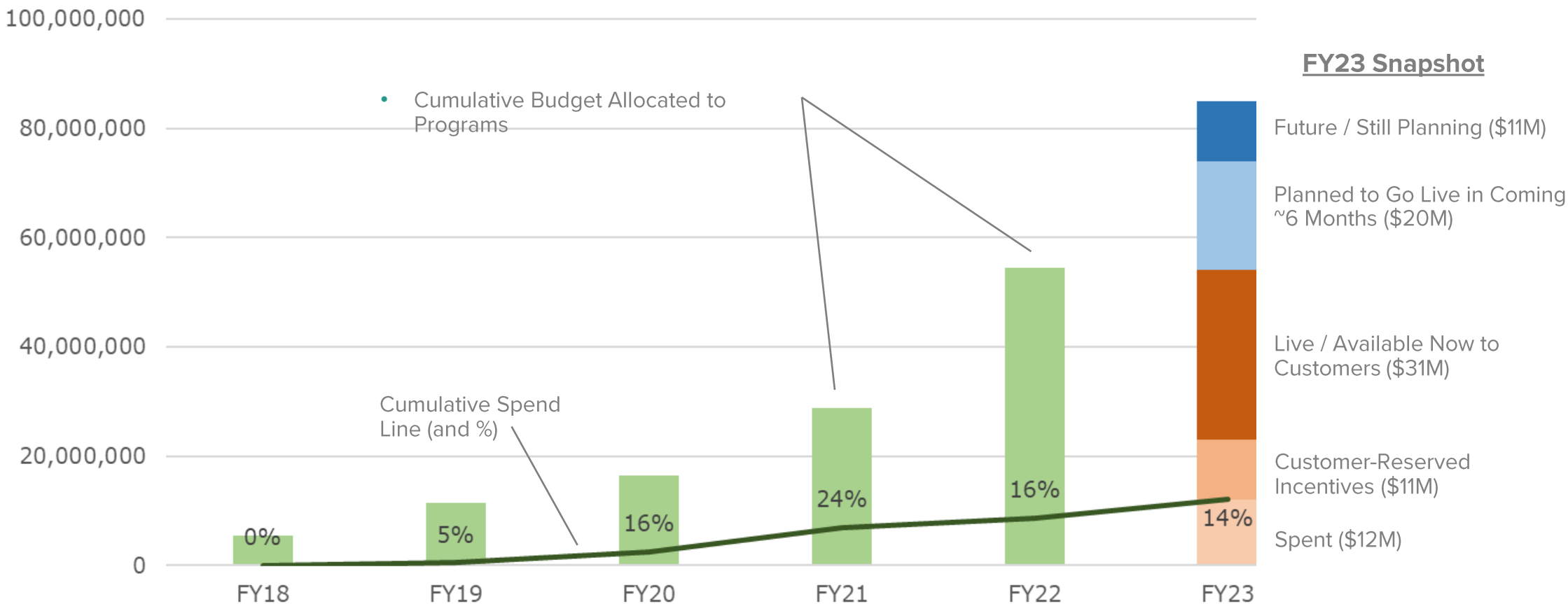


Issue: Financial Stewardship	Staff Recommendation	Implications/Reasons
<ul style="list-style-type: none">SVCE's current lease runs through Sept. 2025<ul style="list-style-type: none">Need time to explore the alternatives of buying or leasing new spaceSVCE should be prepared to pursue attractive property 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 optionsStaff to continue assessing market opportunities and return to the Board with a purchase or lease analysis<ul style="list-style-type: none">\$16MM (based on current assumptions) + 25% contingency = \$20MM set aside	<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



Program Fund Budget Allocation

Programs Fund Over Time



Purpose

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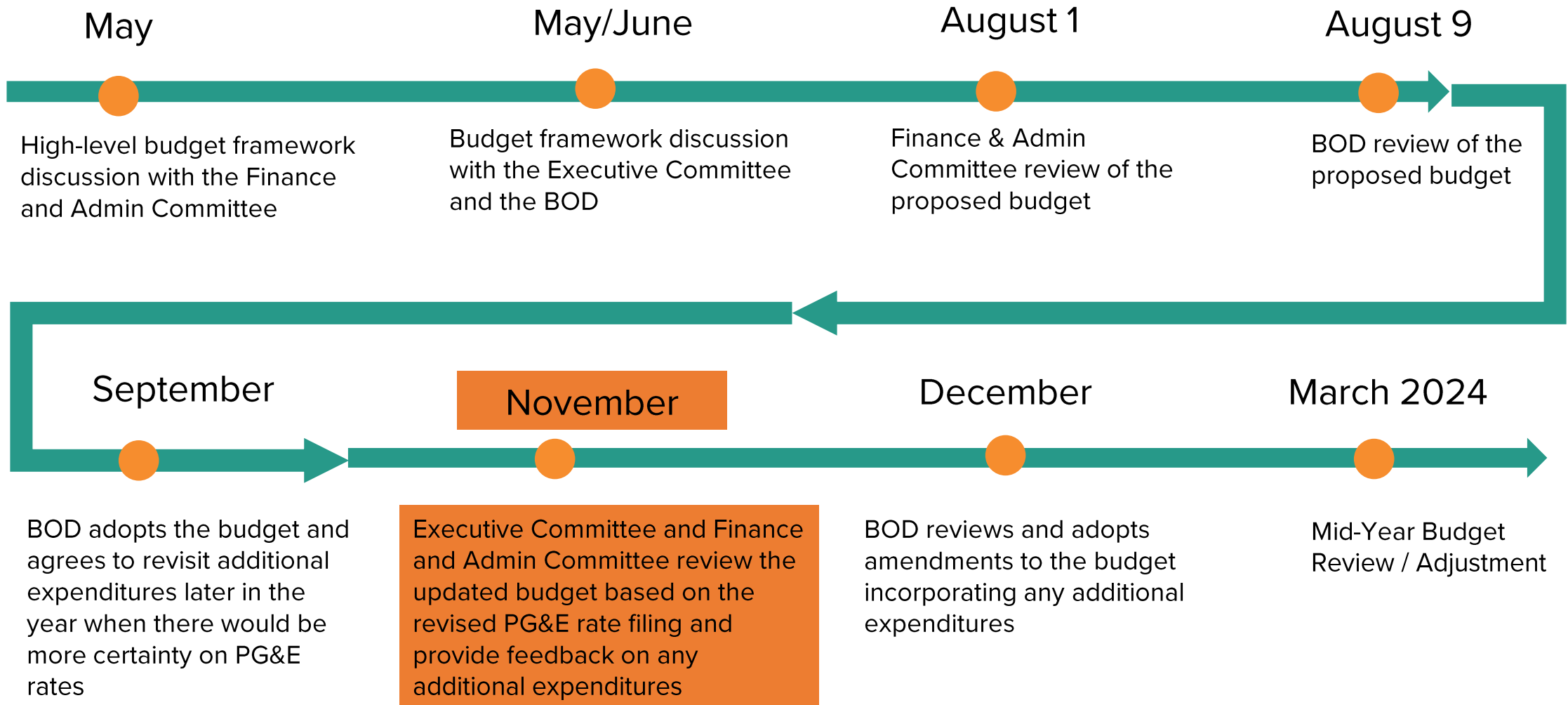
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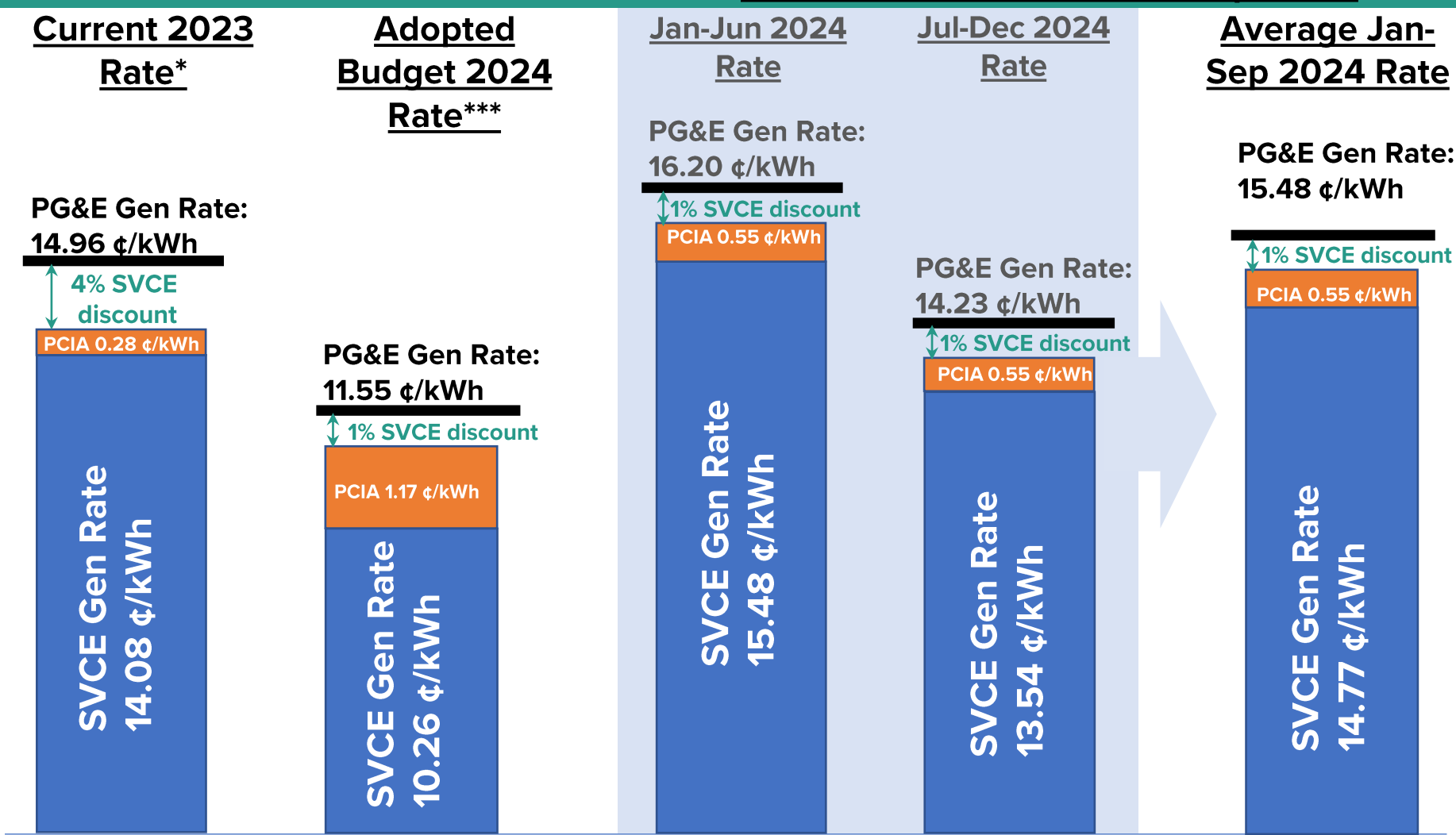
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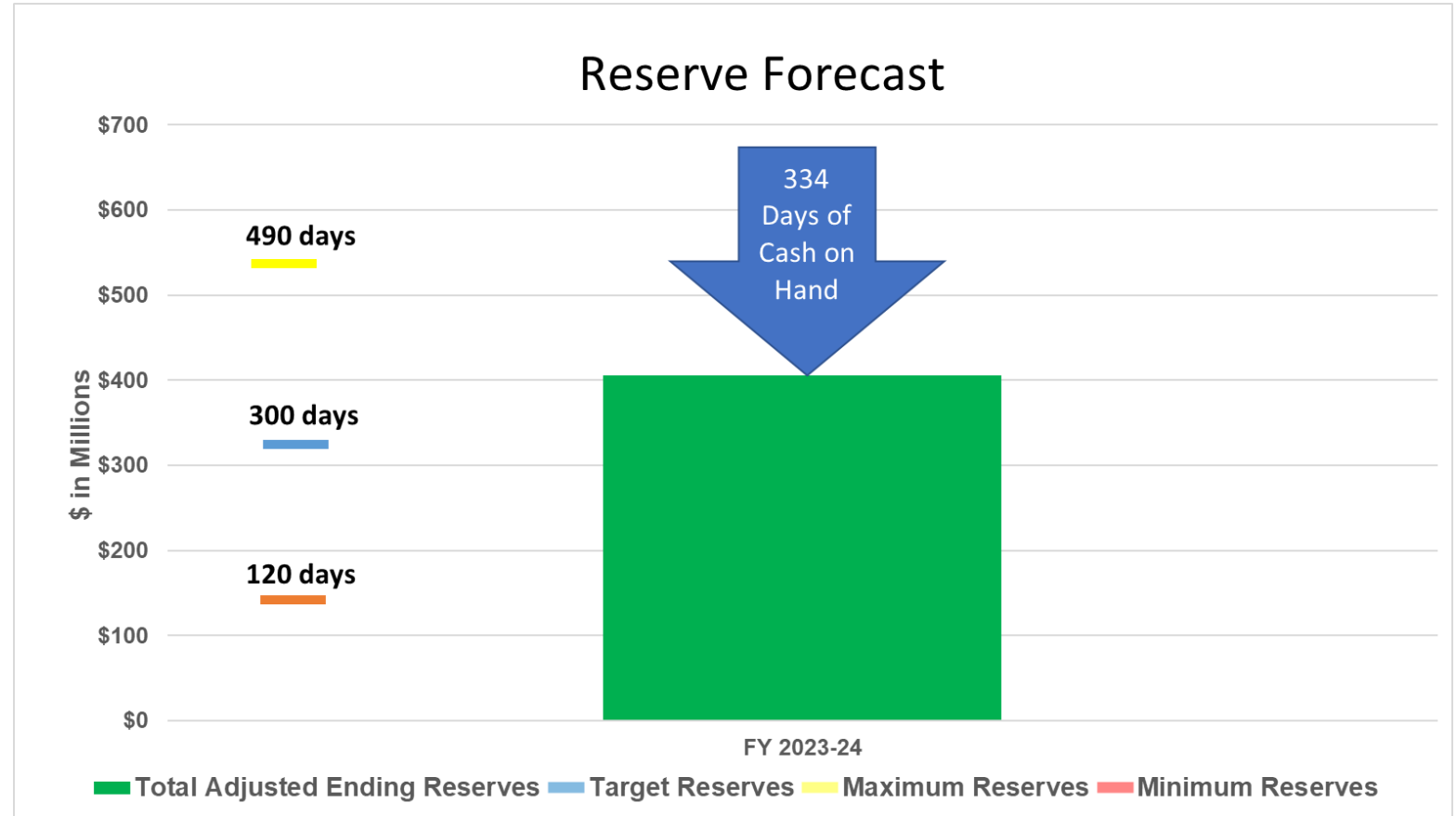
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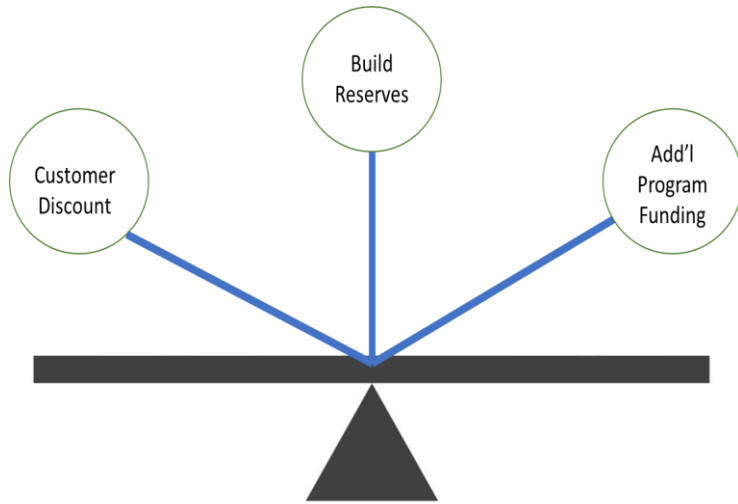
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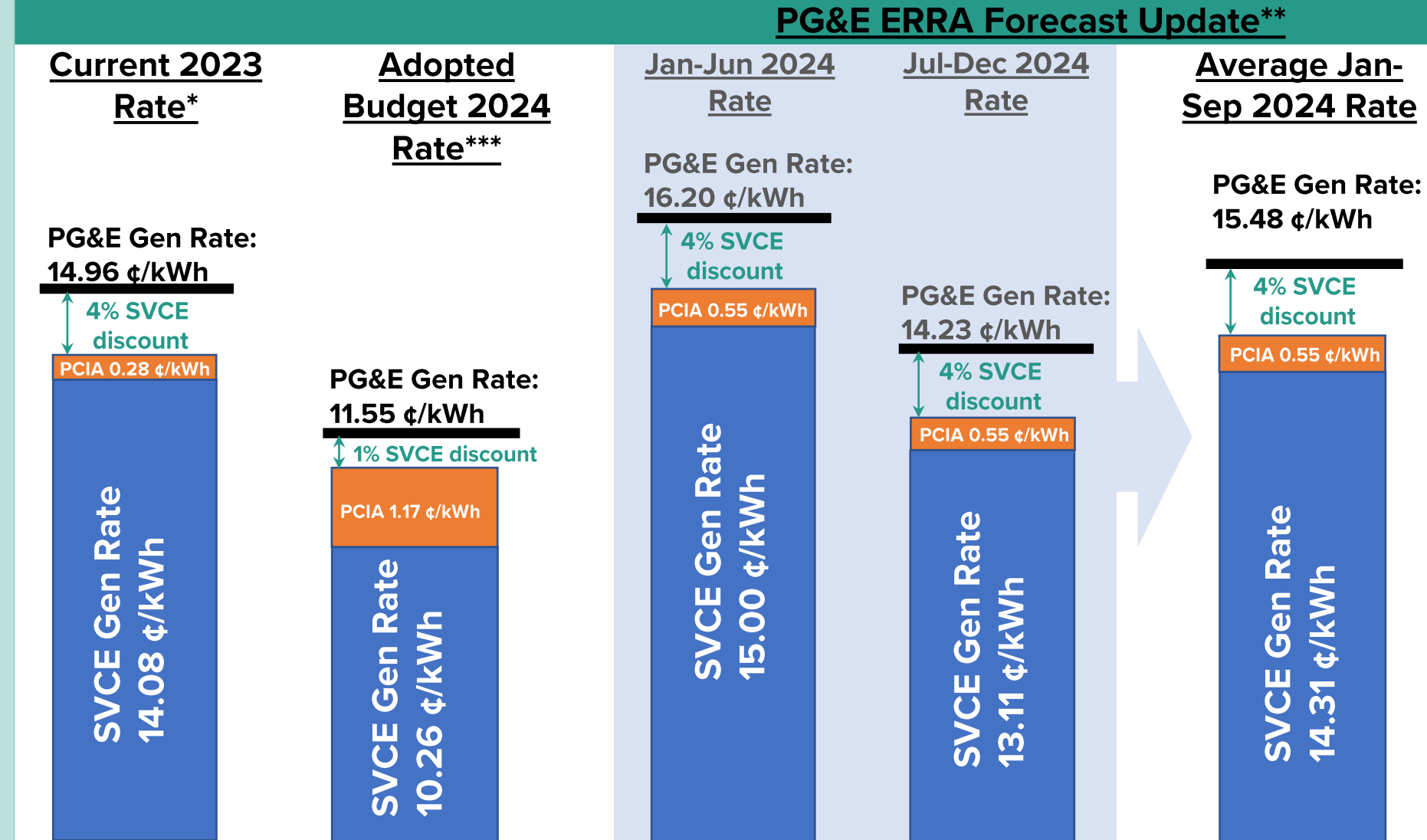
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Off-Peak Energy MPB*	\$/MWh	65.89	69.57	62.23	65.77	-6%	-5%
Average ATC Energy MPB*	\$/MWh	71.08	74.29	65.62	69.76	-8%	-6%
RPS MPB**	\$/MWh	12.63	12.50	30.30	31.73	140%	154%
System RA MPB**	\$/kW-Month	7.39	8.50	14.37	15.23	94%	79%
Local RA MPB**	\$/kW-Month	6.93	8.46	8.38	9.52	21%	13%
Flex RA MPB**	\$/kW-Month	7.15	8.38	7.82	9.12	9%	9%

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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">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 optionsStaff to continue assessing market opportunities and return to the Board with a purchase or lease analysis<ul style="list-style-type: none">\$16MM (based on current assumptions) + 25% contingency = \$20MM set aside	<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



Program Fund Budget Allocation

Programs Fund Over Time

