



Silicon Valley Clean Energy Finance and Administration Committee Meeting

Thursday, November 30, 2023
2:00 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/84050434616>

Or by Telephone (Audio only):
US: +1 669 219-2599
Webinar ID: 840 5043 4616

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 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 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

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333 W El Camino Real
Suite 330
Sunnyvale, CA 94087



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Consent Calendar (Action)

- 1) Approve Minutes of the October 3, 2023 Finance and Administration Committee Meeting

Regular Calendar

- 2) Recommend Approval of the Amendment to Financial Policy 7 – Purchasing Card Policy (Action)
- 3) Budget Update and 2024 Customer Rate Setting and Any Additional Expenditure Discussion (Discussion)

Committee/Staff Remarks

Adjourn

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**Silicon Valley Clean Energy
Finance and Administration Committee Meeting**

Tuesday, October 3, 2023
2:00 p.m.

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

DRAFT MEETING MINUTES

Call to Order

Vice Chair Meadows called the meeting to order at 2:02 p.m.

Roll Call

Present:

Vice Chair Sally Meadows, Los Altos
Director Margaret Abe-Koga, Mountain View
Director Walia, Saratoga

Absent:

Chair Hung Wei, Cupertino
Director Elliot Scozzola, Campbell

Public Comment on Matters Not Listed on the Agenda

No speakers.

Consent Calendar

Vice Chair Meadows opened public comment.
No speakers.
Vice Chair Meadows closed public comment.

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

The motion carried with Chair Wei and Director Scozzola absent.

- 1) Approve Minutes of the August 1, 2023, Finance and Administration Committee Meeting**



Regular Calendar

2) Recommend the SVCE Board of Directors Authorize the CEO to Execute Agreements with Firms Providing Services to Enable SVCE to Execute its Third Prepay and to Execute the Power Supply Contract with the California Community Choice Financing Authority and Related Supporting Agreements (Action)

Amrit Singh, CFO and Director of Finance and Administration, introduced the item and Mike Berwanger of PFM Financial Advisors LLC. CFO Singh provided a presentation with a request for the committee to recommend the SVCE Board of Directors authorize the CEO to execute agreements with firms providing services to enable SVCE to execute its third prepay and approve the parameters of the proposed transaction.

Main areas of discussion in the presentation included a review of the prepay goal and structure, information on leveraging the first and second prepay structure, fees for consultants and counsel, Board-authorized parameters for execution of the deal, fiscal impact, and next steps.

The staff recommendation for approval included the following:

A request that the Finance and Administration Committee recommend that the Board authorize the CEO to approve or execute the following contracts for services these firms will provide to enable SVCE to execute its third Prepay transaction. The combined fees for services provided by the firms identified below shall not exceed 1% of the bond proceeds amount, including other ancillary services such as green bond verification, bond trustee and counsel fees, an investment advisor fee, and other miscellaneous costs such as printing.

1. PFM Financial Advisors LLC & PFM Swap Advisors - \$155,000
2. Chapman & Cutler (Disclosure/Issuer's Counsel) - \$175,000
3. Ballard Spahr (Bond and Tax Counsel) - \$250,000
4. Moody's Investor Service Inc (Credit Rating) - \$272,500

A request that the Finance and Administration Committee recommend that the Board approve engagement with Morgan Stanley as the Prepay Supplier with the following fee structure:

- Bond underwriting fee of \$5/bond
- Underwriter expenses not to exceed \$0.50/bond.

A request that the Finance and Administration Committee recommend that the Board authorize the CEO to execute Power Supply Contract with California Community Choice Financing Authority (CCCFA) and execute or approve the related supporting agreements to enable SVCE to enter an approximately 30-year energy prepayment transaction subject to the following parameters:

1. The Bonds, issued by CCCFA, will not be guaranteed obligations of SVCE but will be limited obligations of CCCFA payable solely from the revenues and other amounts pledged under the Indenture as the Trust Estate, including amounts owed by SVCE under the Power Supply Contract.
2. The aggregate principal amount of the Bonds shall not exceed \$1,500,000,000.



3. The energy savings to SVCE under the Power Supply Contract for the initial Reset Period, including the Annual Refund (as defined in the Power Supply Contract), shall be at least 8 percent.
4. The energy service revenue fee in the transaction shall not exceed \$1.10 per MWh.
5. The commodity swap counterparty fee in the transaction is not to exceed \$0.50 MWh.
6. If floating rate debt is issued, Morgan Stanley shall charge no more than six basis points on the interest rate swap spread to mid-market.

CFO Singh responded to committee member questions on proposed savings, the discount offered on this third prepay, and the bond and tax counsel.

Vice Chair Meadows opened public comment.

No speakers.

Vice Chair Meadows closed public comment.

MOTION: Director Abe-Koga moved and Director Walia seconded the motion to recommend the SVCE Board of Directors authorize the CEO to execute agreements with firms providing services to enable SVCE to execute its third Prepay and authorize the CEO to execute the Power Supply Contract with California Community Choice Financing Authority and related supporting agreements, as outlined in staff's recommendation.

The motion carried by verbal roll call vote with Chair Wei and Director Scozzola absent.

Committee/Staff Remarks

CFO Singh thanked committee members for their time.

Adjournment

Vice Chair Meadows adjourned the meeting at 2:31 p.m.

ATTEST:

Andrea Pizano, Board Secretary



Staff Report – Item 2

Item 2: Recommend Approval of the Amendment to Financial Policy 7 – Purchasing Card Policy

From: Girish Balachandran, CEO

Prepared by: Karen Chang, Manager of Finance and Risk Controls
Amrit Singh, CFO and Director of Administrative Services

Date: 11/30/2023

RECOMMENDATION

Staff recommends that the Finance and Administration Committee recommend that the Board of Directors approve the First Amendment to FP7 – Purchasing Card Policy; also, to ratify previous transactions that did not adhere to the original policy approved in 2017.

BACKGROUND

On March 8, 2017, the Board approved SVCE's Financial Policy 7 - Purchasing Card policy. This policy introduced Purchase Cards ("P-Cards") as corporate credit cards designated for the CEO, Board Clerk, and Directors. These cards facilitate the management of operational expenses that are not practical to settle through invoicing, check payments, or bank transfers. The policy outlined specific authorized and unauthorized expenditures and each P-Card was allocated a monthly spending limit of \$3,000.

Since its implementation in 2017, SVCE has undergone considerable growth in both its workforce and vendor interactions. Consequently, there has been a surge in the demand for P-Card usage, leading to a consistent escalation in monthly charges. This has resulted in periodic exceedance of the originally established monthly threshold of \$3,000 per card.

Moreover, the 2017 Purchase Card Policy lacks explicit details on record-keeping requirements and comprehensive guidelines regarding authorized and unauthorized purchases. Certain controls, such as protocols for terminated employees retaining access to P-Cards and mechanisms for reinforcing compliance, are not clearly defined. This necessitates a review and revision of the existing policy to address these gaps and ensure its efficacy in the current organizational landscape.

ANALYSIS & DISCUSSION

SVCE has evolved significantly as an organization since the inception of our P-Card Policy in 2017. The demand for P-Card utilization has risen steadily in recent years.

Our analysis indicates that SVCE staffing nearly doubled over the past three years. Additionally, in 2023, SVCE has experienced a notable upswing in the number of conferences and events compared to previous years, resulting in a heightened demand for event bookings and conference registrations. Furthermore, SVCE has made increased investments in training courses for employees, contributing to the rising expenses incurred through credit card transactions.

Agenda Item: 2**Agenda Date: 11/30/2023**

It is important to note that the increase in P-Card expenditures correlates directly with the growth in the number of employees and the increased frequency of conferences, events, and staff trainings. Importantly, these expenditures remain within the parameters of the approved annual budget. In essence, the overall increase in P-card purchases aligns with the expansion of our organization's workforce and the heightened engagement in conferences, events, and staff trainings.

However, the administration of the P-Card policy has posed challenges, primarily stemming from ambiguities in the original policy. Critical aspects of compliance and policy reinforcement, such as definition of authorized and unauthorized charges, record-keeping protocols, and guidelines for handling a terminated employee with card access, are not clearly defined.

The proposed amendment aims to tackle the aforementioned issues comprehensively. First, Staff recommends raising the limit for each P-card, with a revision to the policy language to say that each card has "a maximum limit of \$20,000 per card per month, subject to the CEO's discretion". This will ensure that cards do not continue to exceed limits set by the original policy. Second, Staff recommends introducing additional language to add controls to ensure compliance through:

- 1) Clearly defining a list of authorized and unauthorized charges.
- 2) Implementing specific requirements for record-keeping by cardholders.
- 3) Incorporating a system to measure compliance and outlining the consequences for non-compliance.
- 4) Establishing a policy specifically addressing P-Card administration for terminated employees.

Lastly, in addressing prior transactions that exceeded monthly policy limits, Staff recommends that the Finance and Administration Committee recommend that the Board of Directors ratify the past exceedances. Going forward, the amendment will address the limit increases, and the Finance and Administration Department will have dedicated finance staff to enhance compliance and policy adherence.

Proactive monitoring measures will be implemented, including monthly card limit monitoring, spending analysis reviews, credit card alert setups, and annual policy reviews with revisions as necessary. These procedures will ensure a robust system for overseeing P-card usage and maintaining fiscal responsibility.

STRATEGIC PLAN

The recommendation supports the Board adopted strategic plan. Specifically, the recommendations support Goal 19 – "Commit to maintaining a strong financial position", and Goal 20 – "Avoid failures in management of market risk, credit risk, liquidity risk, operational risks, and enterprise risks". Specifically, the recommendation supports the compliance to the budget as well as having the appropriate tool to empower staff to avoid and mitigate risks to SVCE.

ALTERNATIVE

Staff is open to suggestions from the Board regarding the recommendation.

FISCAL IMPACT

There is no fiscal impact to the agency for adoption of the recommendation. However, this amendment will strengthen the controls over the use of the P-Card, overall improving the efficiency, accuracy, accountability, and auditability.

ATTACHMENTS

1. FP7 – Amended Purchasing Card Policy (Clean)
2. FP7 – Amended Purchasing Card Policy (Redline)



FP7

Category: FINANCE

PURCHASING CARD POLICY

I. PURPOSE

The proper use of Purchasing Cards ("P-Card") provides our Agency, Silicon Valley Clean Energy ("SVCE"), with a cost-effective, convenient, and streamlined method of purchasing items, allowing staff to operate more efficiently and reduce costs.

II. CONTROLS

1. P-Cards may be issued to the Chief Executive Officer, Executive Assistant/Board Clerk, and Director-level Employees.
2. The use of P-Card shall be in accordance with Section III. Policy.
3. Each P-Card will have a credit card limit that does not exceed \$20,000 monthly, subject to the CEO's discretion.

III. POLICY

1. P-Card Administration
 - a) The Finance and Administration Department is responsible for:
 - Issuance of P-Cards (approved by Director of Finance and Administration)
 - Distribution of monthly statements for cardholder reconciliation
 - Monitor and review of cardholder activity
 - Timely payments of P-Card statements
 - Corrective action regarding unauthorized use or fraudulent activity
 - b) Cardholders may delegate the use of the P-Card to additional SVCE employee(s) with the approval of CEO; only the cardholder and the delegate(s) may use P-Cards.
2. Authorized P-Card Use:
 - a) All purchases must be lawful and comply with all SVCE policies and procedures



FP7

Category: FINANCE

b) All P-Card transaction requests must be authorized by cardholder or his/her delegate prior to the transaction.

Allowable purchases include:

- SVCE authorized business travel and registration expenses, in accordance with SVCE's Travel Policy (ex: Airfare, hotel lodging, vehicle rental, parking, tolls, public transportation fare, conference registrations)
- Online/offsite training
- Certain marketing and social media expenses
- Office supplies
- Books, periodical publications, and subscriptions necessary for business
- Vendors who do not accept payment by ACH/wire/check; including vendors who may accept checks but for whom payment by card is necessary for the timely and efficient delivery of goods and services.

3. Unauthorized P-Card Use:

a) Delegation of P-Card to any unauthorized individual

b) Transactions not authorized by the cardholder

c) Prohibited purchases include:

- Personal purchases and non-business expenditures of any kind, including alcohol, firearms, tobacco, room service such as movies.
- Purchase of temporary or contract labor which requires 1099 reporting
- Cash advances of any type
- Political contributions
- Rental or lease of land or buildings
- Lease or purchase of fixed asset equipment
- Purchases that require other departmental approvals (ex: IT Hardware/software)
- Meals, entertainment, gifts, or other expenditures which are otherwise prohibited by:
 - SVCE's budget and/or policies
 - Federal, state, or local laws or regulations
 - Grant conditions or policies of the entities from which we receive funds



FP7

Category: FINANCE

4. Cardholder and Delegated User Responsibilities
 - a) Maintain physical and digital security of the Purchasing Card at all times
 - b) Ensure all P-Card transactions are for authorized uses as defined in this policy, and are in accordance with all other policies and internal procedures
 - c) Retain all documentation for proof of purchase, such as invoices, itemized receipts, and order confirmations.
 - d) Report lost and/or stolen cards and/or fraudulent activity immediately to the Finance and Administration Department
5. Monthly Statement Review
 - a) All cardholders must check each transaction against monthly statement and keep documentation
 - For travels: include travel dates
 - For meals or conferences: include information on who was in attendance and what topics were discussed
 - b) Any transaction with missing documentation requires a written explanation and signed affidavit for the missing documentation
 - Include the vendor name, date, description of purchase, and reason for the missing documentation
 - c) Any disputed charges are the responsibility of the cardholder to correct with the vendor and must be noted on the statement reconciliation
 - d) Cardholders must submit the reconciled statement, purchasing documentation, and all associated receipts to the Finance and Administration Department timely for monthly accounting reconciliation
6. Termination of Employment of Cardholders or Delegated User
 - a) Cardholder:
 - Prior to departure or termination of duties with SVCE, the cardholder must reconcile all expenditures on his/her card account since the last statement submitted.
 - It is the responsibility of the cardholder to ensure that his/her account is settled prior to departure.



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Category: FINANCE

- The P-Card must be surrendered to the Director or Manager of Finance and Administration upon termination of employment.
- b) Delegated User:
 - Prior to departure or termination of duties with SVCE, the delegated user is required to reconcile with the cardholder for his/her expenses incurred since the last submitted statement.
 - It is the responsibility of the cardholder to ensure that the delegated user's expenses are settled prior to departure.

IV. POLICY COMPLIANCE AND REINFORCEMENT

1. Compliance Measurement
 - a) The Finance and Administration Department will verify compliance to this policy through various methods, including, but not limited to, monthly statement reviews, internal audits, and feedback to the cardholder.
2. Non-Compliance
 - a) Violation of this policy by any employee may lead to disciplinary measures, including possible termination of employment.
 - b) The use of the card for personal business expenses by employees is strictly prohibited. Failure to comply with this directive may result in disciplinary measures, including potential termination of employment.
 - c) Deliberate disregard of the policy will lead to the revocation of the card and may result in disciplinary measures, up to and including termination of employment.

V. ATTACHMENTS

1. Missing Documentation P-Card Affidavit



FP7

Category: FINANCE

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Category: FINANCE

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- o Office supplies
- o Books, periodical publications, and subscriptions necessary for business
- o Vendors who do not accept payment by ACH/wire/check; including vendors who may accept checks but for whom payment by card is necessary for the timely and efficient delivery of goods and services.

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- o Purchase of temporary or contract labor which requires 1099 reporting
- o Cash advances of any type
- o Political contributions
- o Rental or lease of land or buildings
- o Lease or purchase of fixed asset equipment
- o Purchases that require other departmental approvals (ex: IT Hardware/software)
- o Meals, entertainment, gifts, or other expenditures which are otherwise prohibited by:
 - SVCE's budget and/or policies
 - Federal, state, or local laws or regulations



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Category: FINANCE

- Grant conditions or policies of the entities from which we receive funds

4. Cardholder and Delegated User Responsibilities

- a) Maintain physical and digital security of the Purchasing Card at all times
- b) Ensure all P-Card transactions are for authorized uses as defined in this policy, and are in accordance with all other policies and internal procedures
- c) Retain all documentation for proof of purchase, such as invoices, itemized receipts, and order confirmations.
- d) Report lost and/or stolen cards and/or fraudulent activity immediately to the Finance and Administration Department

5. Monthly Statement Review

- a) All cardholders must check each transaction against monthly statement and keep documentation
 - o For travels: include travel dates
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- d) Cardholders must submit the reconciled statement, purchasing documentation, and all associated receipts to the Finance and Administration Department timely for monthly accounting reconciliation

6. Termination of Employment of Cardholders or Delegated User

- a) Cardholder:



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- o Prior to departure or termination of duties with SVCE, the cardholder must reconcile all expenditures on his/her card account since the last statement submitted.
- o It is the responsibility of the cardholder to ensure that his/her account is settled prior to departure.
- o The P-Card must be surrendered to the Director or Manager of Finance and Administration upon termination of employment.
- b) Delegated User:
 - o Prior to departure or termination of duties with SVCE, the delegated user is required to reconcile with the cardholder for his/her expenses incurred since the last submitted statement.
 - o It is the responsibility of the cardholder to ensure that the delegated user's expenses are settled prior to departure.

IV. POLICY COMPLIANCE AND REINFORCEMENT

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2. Non-Compliance

- a) Violation of this policy by any employee may lead to disciplinary measures, including possible termination of employment.
- b) The use of the card for personal business expenses by employees is strictly prohibited. Failure to comply with this directive may result in disciplinary measures, including potential termination of employment.
- c) Deliberate disregard of the policy will lead to the revocation of the card and may result in disciplinary measures, up to and including termination of employment.

V. ATTACHMENTS

- 1. Missing Documentation P-Card Affidavit~~Purchasing Cards or P-Cards,~~

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Category: FINANCE

~~are credit cards issued to authorized employees to make purchases for the Authority. The proper use of P-Cards helps our business operate more efficiently and reduce costs.~~

~~2. Purchasing Cards will have a monthly cardholder limit of \$3,000.~~

~~3. Purchasing Cards will be issued to the Chief Executive Officer, Board Clerk, and Director Level employees.~~

~~4. Purchasing Cards may not be used to purchase temporary or contract labor which requires 1099 reporting.~~

~~5. In every case of credit card usage, the individual charging an account will be held personally responsible in the event that the charge is deemed personal or unauthorized.~~

~~6. Authorized Card Use:~~

~~a. Only Cardholders are authorized to use P-Cards.~~

~~b. P-Card authority cannot be delegated.~~

~~c. Cardholders are responsible for all use of their P-Card.~~

~~d. All purchases must comply with the purchasing, purchase order, travel, and accounts payable procedures.~~

~~e. Authorized purchases include:~~

~~i. The P-Card may be used for small purchases of supplies or services acquired through a purchase order or regular order or an individual order where the contract specifically allows such payment method.~~

~~ii. Designated representatives who travel on Authority business may use the P-Card for authorized travel expenses.~~

~~7. Unauthorized P-Card Uses~~

~~a. Cash advances of any type are prohibited.~~

~~b. P-Cards shall not be used for personal purchase.~~

~~c. Personal or non-business expenditures of any kind are prohibited.~~

~~d. Meals, entertainment, gifts or other expenditures which are prohibited by:~~

~~i. Authority budget and/or policies~~

~~ii. Federal, state, or local laws or regulations.~~

~~iii. Grant conditions or policies of the entities from which we receive funds.~~

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Category: FINANCE

~~8. Cardholder Recordkeeping~~

- ~~a. Every instance of credit card or other purchase must be documented with travel authorizations, receipts, nature of business, etc., before the expense will be considered authorized and will be approved for reimbursement.~~
- ~~b. Cardholders are responsible for retaining the documentation necessary for proof of purchase. This includes the invoice, shipping documents, and "Customer Copy" of the charge receipts.~~

~~9. Monthly Statement Review~~

- ~~a. All Cardholders must check each transaction against the purchasing log and supporting documentation. The original documents shall be attached to the monthly statement.~~
- ~~b. Any transaction with missing documentation requires a written explanation for the missing documentation. Include the vendor name, date, description of purchase, and reason for the missing documentation.~~
- ~~c. The Finance Department will review purchasing logs for completeness and process payment upon signature from the Chief Executive Officer. The Chief Executive Officer's purchasing log shall be reviewed and signed by the Director of Administration and Finance.~~

~~10. Returns are the responsibility of the Cardholder. Returns must be noted on the P Card log and shipping documentation attached to the monthly statement review.~~

~~11. Disputes must be noted on the P Card log.~~

~~12. If the Card is lost or stolen, it is important for the Cardholder to immediately notify the designated individual in the Authority.~~

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Staff Report – Item 3

Item 3: Budget Update and 2024 Customer Rate Setting and Any Additional Expenditure Discussion

From: Girish Balachandran, CEO

Prepared by: Amrit Singh, CFO and Director of Finance and Administration

Date: 11/30/2023

RECOMMENDATION

1. Staff will update the committee on the improved current fiscal year budget projection that increases net contribution to reserves from the adopted budget level of \$7.7 million to \$127.9 million, resulting primarily from updating PG&E generation rate and Power Charge Indifference Adjustment¹ (PCIA) assumptions obtained from PG&E's October ERRA² forecast filing.
2. Staff will seek the Committee's guidance on any additional funding of budget items, including customer discounts, SVCE office building, and the decarbonization programs.

EXECUTIVE COMMITTEE RECOMMENDATION

This item will also be discussed with the Executive Committee on November 27, 2023. Any updates based on feedback received will be discussed with the Finance and Administration Committee.

BACKGROUND

In adopting the FY 2024 budget at the September 2023 Board meeting, the Board voted to maintain the current 4% customer discount rate until the CPUC makes the new PCIA and PG&E generation rates effective, which was expected to occur in January 2024. To set the budget, the Board adopted an effective discount of 2% starting January 2024. The 2 percent effective discount rate is composed of a 1 percent general discount relative to comparable PG&E generation rates for all customers and an additional 1 percent converted to dollar bill credits to the CARE and FERA customers, which amounts to \$3.14 million or about \$8.70 per month bill credit for 12 months. The Board also agreed to revisit the customer discount level and funding for additional expenditures when there would be more certainty on PCIA and PG&E generation rates.

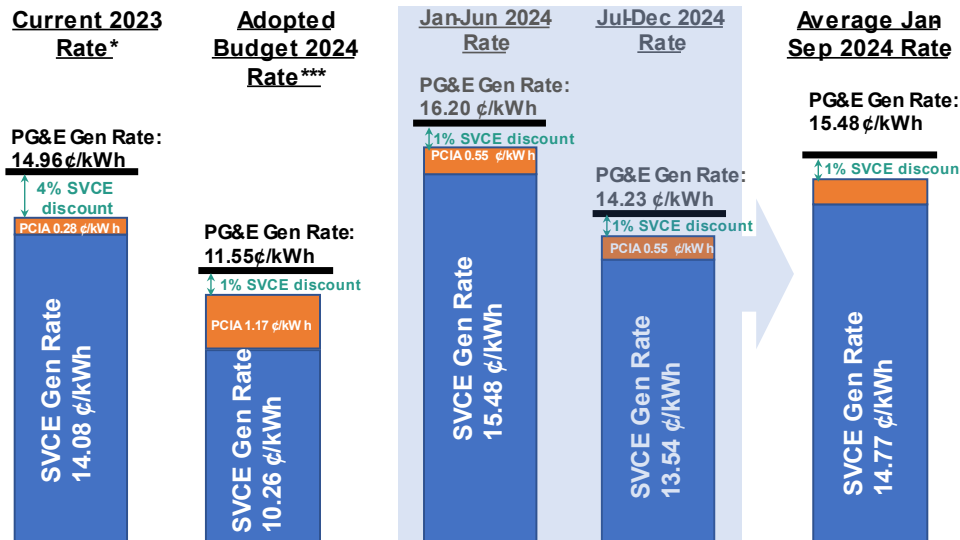
When the budget was adopted, staff informed the Board that the budget projections were conservative because the CPUC would likely adopt higher Resource Adequacy (RA) and Renewable Portfolio Standard (RPS) prices in adopting the market price benchmarks (MPB). Higher MPB decreases the PCIA and increases PG&E's generation charges. It was uncertain to what extent the CPUC would raise the MPB. Staff stated in the report that higher MPB could increase revenues by about \$100 million.

¹ [Public Utility Code Sections 366.1](#) and [366.2](#) require the CPUC to make sure that customers leaving PG&E do not burden remaining PG&E customers with costs which were incurred to serve them. To ensure customer indifference, CCAs and Direct Access, or departing load customers are required to pay a power charge indifference adjustment (PCIA).

² ERRA, the Energy Resource Recovery Account, is a balancing account utilized by PG&E to record and recover power costs associated with PG&E's authorized procurement plan. ERRA proceedings are used to determine fuel and purchased power costs which can be recovered in rates.

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The recently issued CPUC MPBs reflect the higher RA and RPS prices, significantly improving SVCE's financial projections. The 2023/2024 RA prices are up by 94%/79%, and RPS prices are up 140%/154%, respectively, compared to estimates staff used in generating the budget. Using the updated MPBs, in October, PG&E issued its revised ERRA rate forecast that shows its generation rates in January increasing on average by 8 percent from current rates and then from there dropping in July by about 4.5 percent while PCIA on average increases from 0.28 to 0.55 cents per kWh. The PG&E generation rate is about 34 percent higher than those used in developing the adopted budget, while the PCIA is 53 percent lower. On average, SVCE's margins improve by about 44 percent, which increases revenue projections by \$127 million. These changes are depicted in the chart below.

**ANALYSIS & DISCUSSION**

Based on the updated PG&E generation and PCIA rates included in PG&E's October ERRA update filing, which the CPUC is expected to vote on December 14, 2023, the projected net contribution to reserves is anticipated to increase from the adopted budget forecast of \$7.7 million to \$127.9 million as illustrated in the table below.

(\$ 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>

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The primary driver for the improved financials is the improvement to SVCE's margins resulting from lower PCIA and higher PG&E generation rates than those used in creating the adopted budget. The above projections reflect the current board-adopted assumptions of a 1 percent customer discount and an additional 1% discount converted to dollar bill credits for low-income customers.

The forecast of SVCE's reserves projection improves to 334 days of cash on hand (DCOH), above the target threshold of 300 but below the maximum level of 490 DCOH.

Uncertainty of CPUC Approval of Rates

The final 2024 PCIA and PG&E generation rates are unknown until the CPUC adopts them, which is expected to occur at its December 14, 2023, meeting. The CPUC could adopt the rates as PG&E has proposed, modify the proposal, or deny some or all the elements in PG&E's filing contributing to the overall rate increase. The CPUC could also delay the implementation of the rate changes, in which case SVCE's current rates will remain in effect. These rate changes are an annual process, and the rates adopted by the CPUC are usually not materially different from PG&E's fall ERRA updates. While certain assumptions in PG&E's filings could differ from those adopted by the CPUC, these are not expected to have a significant impact. These elements include having one blended rate increase instead of two rate changes. In the rare event of substantial changes, staff will delay implementing the proposed changes and will return to the Board with a revised proposal in January.

Discussion of Funding Scenarios

With improved financial projections, staff is proposing the following funding items for the Committee's consideration:

- Increasing the customer discount
- Trueing up the intended 1 percent bill credit to low-income customers to account for higher rates than anticipated in the adopted budget
- Setting aside funds for an SVCE office building
- Setting aside funds to maintain higher customer discounts over the next two years
- Increasing funding for programs that include grants for cities to support their local decarbonization efforts

The table below summarizes the cost of each item and the impact on financial reserve projections for the end of the current fiscal year and over the next 3 to 5 years. Under all these four funding scenarios, the high-level³ reserve estimates remain above the target level of 300 DCOH and well below the maximum level of 490 DCOH over the next five years. Based on these projections, staff recommends funding scenario 4.

\$ 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		1% -	4% 12.90	4% 12.90	4% 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
		21.16	34.06	68.26	88.26
**Resulting Financial Forecast Reserve Level (DCOH*)					
- End of Fiscal Year		333	322	322	322
- High-Level Estimate*** Reserve 3 years out		350	340	312	312
- High-Level Estimate*** 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.

³ The 5-year reserves projections were derived using approximations made from the last 5-year financial forecast.

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Planned Timing and Approach for 2023 Rate Updates

After the Board approves the rate changes, the applicable SVCE rate tables will be updated during the first three weeks of the month PG&E's new rates become effective, which is expected to be January 2024. The exact timing will depend upon when PG&E's updated rates are received and the required time window for implementing new generation rates in SVCE's billing system.

100% Renewable Energy Option

The GreenPrime rate for 2023, SVCE's 100% renewable energy option, will reflect the January 2024 default GreenStart rates plus the premium of \$0.015 per kWh adopted by the Board at the November 2023 meeting.

Accounting True-up of Program Dollars

The programs fund was created in the fiscal year 2019-2020. Before the fund's creation, the Board allocated program funds in each fiscal year's operating budget. The purpose of the program funds was to capture program dollars allocated by the Board that span multiple fiscal years because the timing of planning, implementing, and customer's utilization of program funds often extends beyond the fiscal year the funds are allocated. When the program's fund was created, \$10.125 million was allocated after adjustments for some grants received. The intent was that this amount was to roll over into the newly developed program's fund. Staff is now requesting the Board to explicitly authorize the rollover of these previously allocated funds of \$10.125 million⁴ to the programs fund. After the Board's approval, the accounting records and the program fund balance in the Treasurer's report will be updated.

STRATEGIC PLAN

Rate setting is directly supported by SVCE Strategic Plan Goal 12 – "Enact and maintain competitive service offerings for SVCE customers that deliver measurable economic and environmental benefits" and Goal 19 – "Commit to maintaining a strong financial position."

ALTERNATIVE

The table earlier in the report presents the Committee with several funding scenarios. Staff is open to feedback and suggestions from the Committee on any of these proposed or any other additional funding scenarios.

FISCAL IMPACT

The updated budget improves SVCE's financial performance, reflecting a net contribution to reserves increase from the adopted budget level of \$7.7 million to \$127.9. The table in the report summarizes the financial impact of additional funding scenarios for the Committee's consideration. All the proposed funding scenarios are expected to leave SVCE in a healthy financial position where reserves remain above the target level of 300 DCOH and below the maximum reserve level of 490 DCOH.

⁴ The reserve projections in the table summarizing the funding scenarios accounts for this rollover to programs funds.