
Budget Update, 2024 Customer Rate Setting, and Additional Funding Items

Amrit Singh
Board of Directors
December 13, 2023

Purpose

Adopt new customer generation rate discounts and fund additional budget items given improved budget projections.

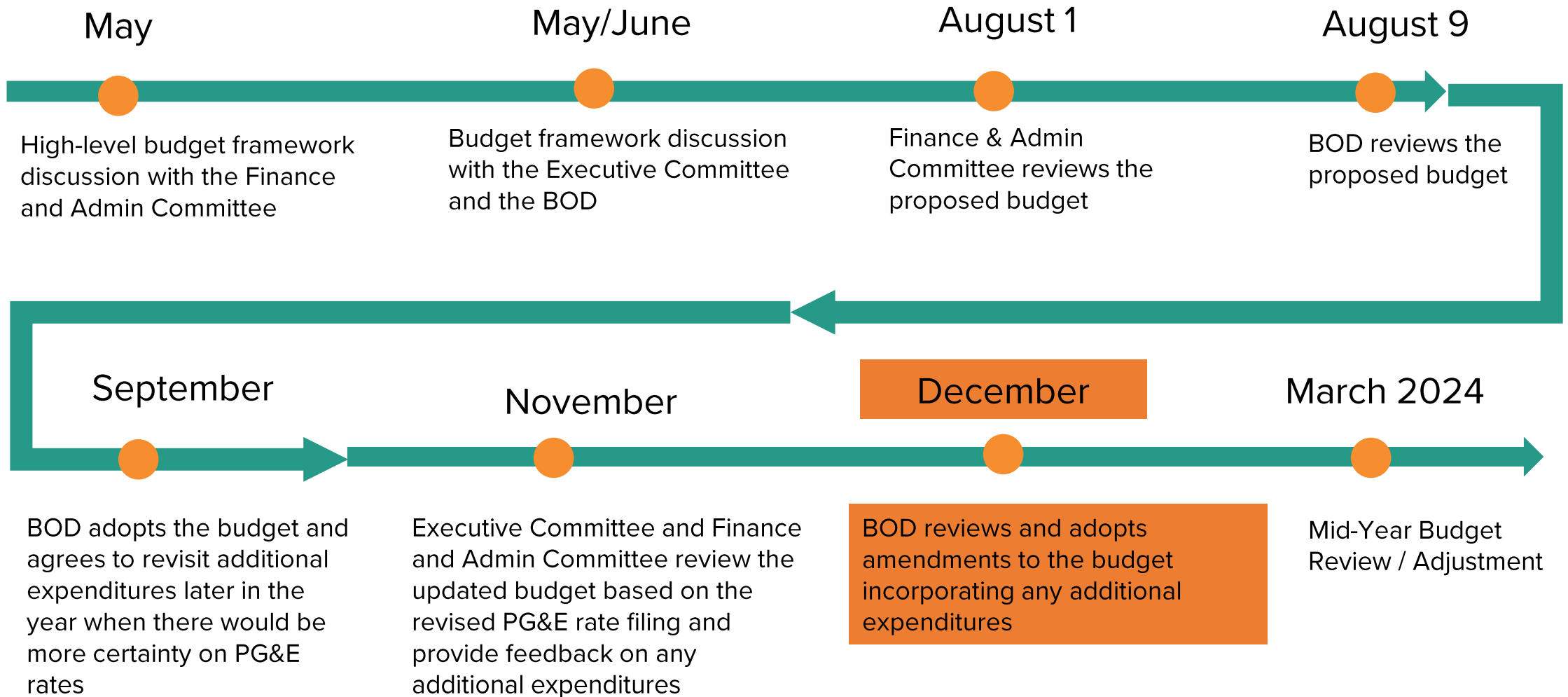
Main Areas of Discussion

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. Additional Funding Items
5. Accounting True-Up of Programs Fund Balance





FY23-24 Budget Development Timeline





Key Messages

Recap of Adopted Budget Assumptions

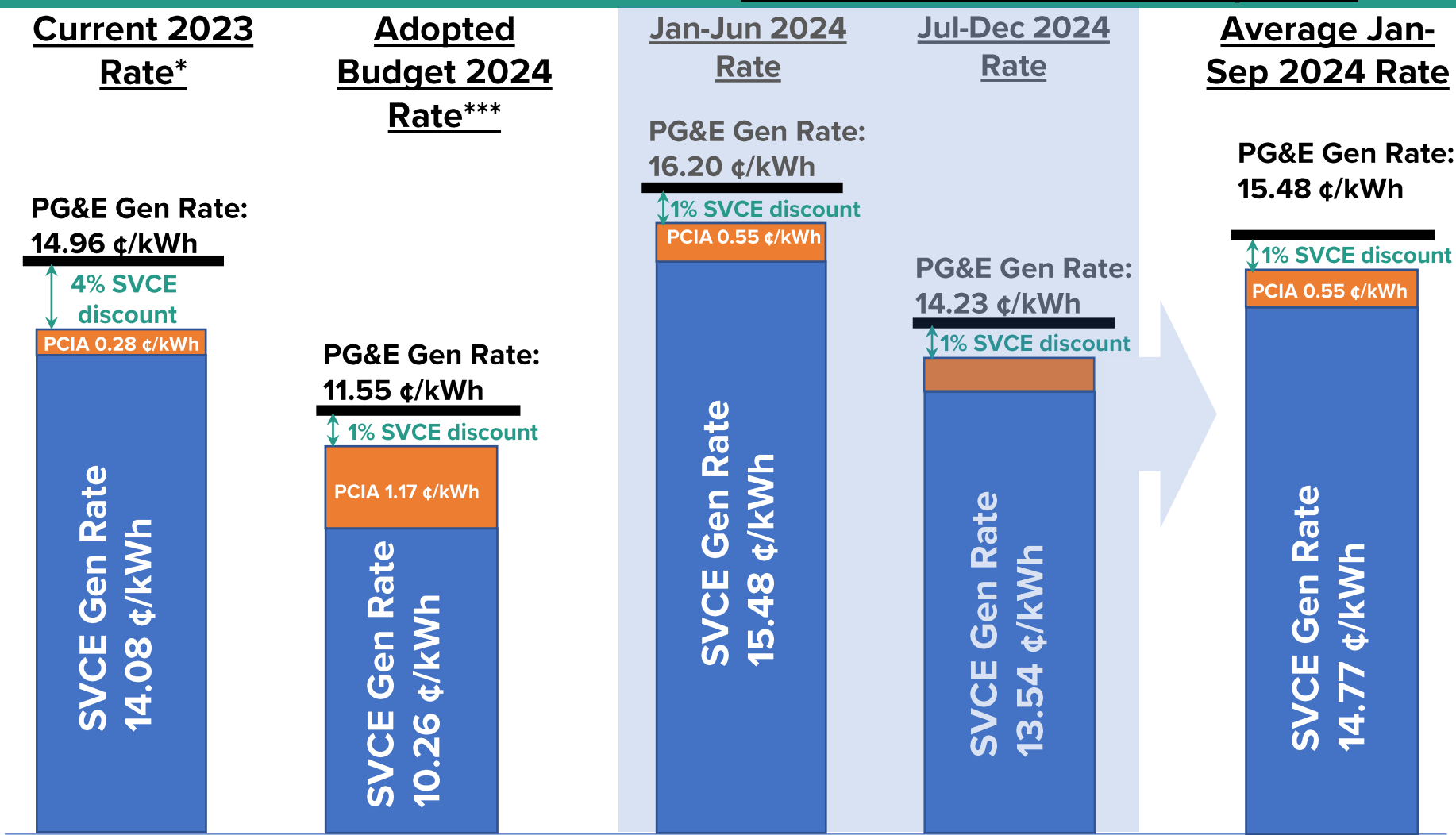
- Conservative assumptions used in estimating revenues
 - CPUC's updating of RA and RPS prices in setting the Market Price Benchmark (MPB) was highly uncertain
 - MPB prices are used in calculating PCIA and PG&E generation rates
- Staff had estimated a potential increase in revenues of \$100 million 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, the reserve projection increases 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 issued a Proposed Decision on 11/28, which is aligned with PG&E's filing.



FY 24 Adopted and Updated Budget

Primarily Revenues and Power Supply Expenses are Updated

The updated budget projections are before accounting for any additional expenditures. The adjusted budget, incorporating additional expenditures, is shown in the appendix.

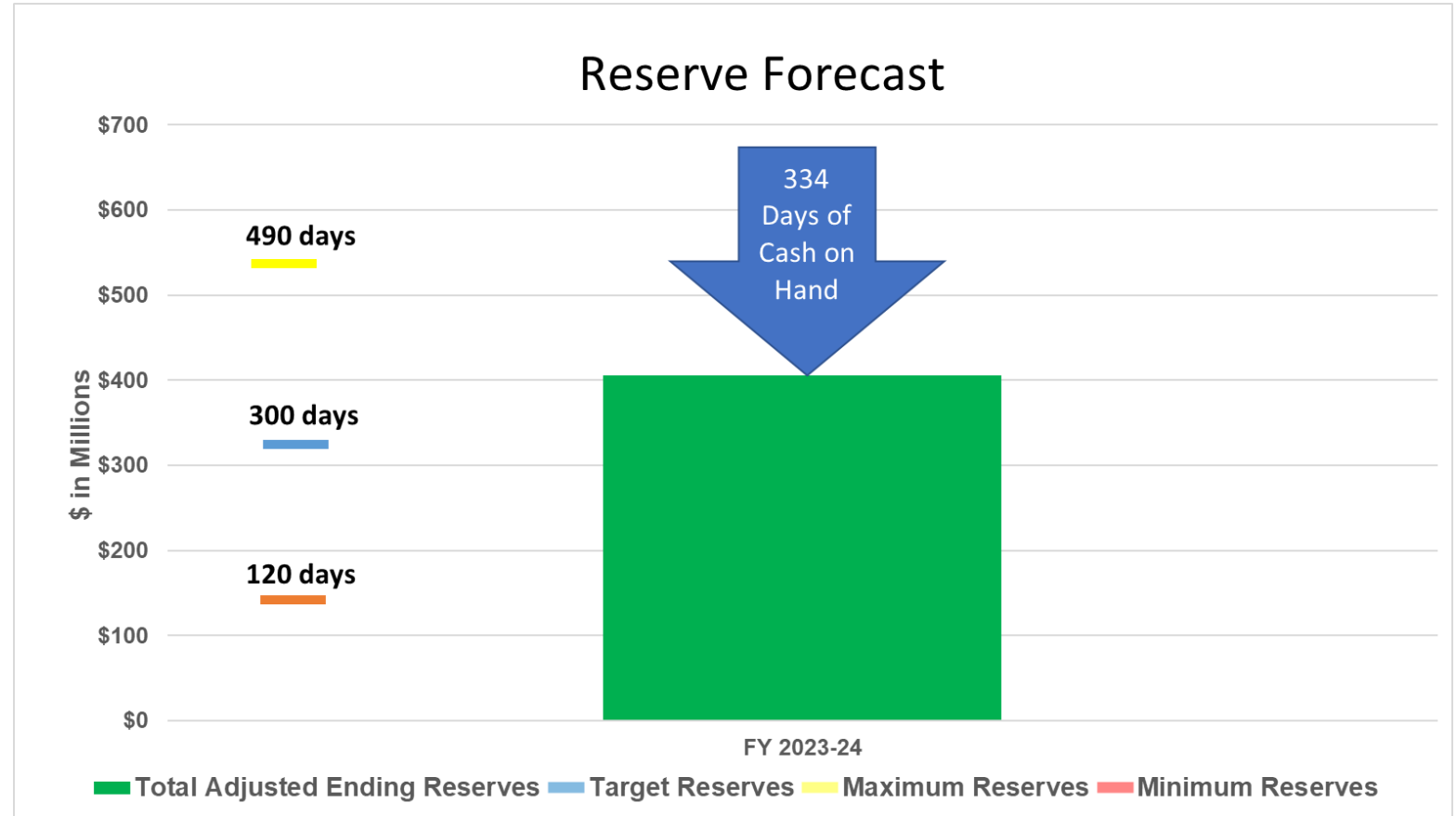
(\$ in thousands)

DESCRIPTION	FY 2023-24 ADOPTED BUDGET	FY 2023-24 Updated 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>

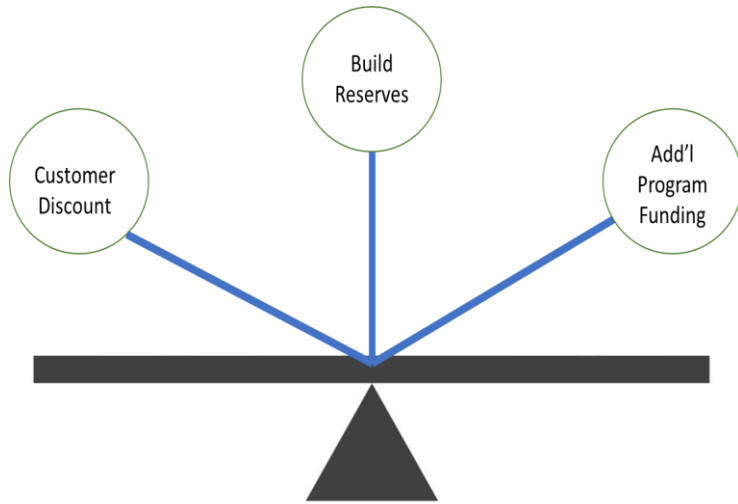
Reserve Projection

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



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 ERRA Forecast

Based on staff proposals, the Executive Committee (EC) and the Finance and Administration Committee (F&A) evaluated the following funding items:

1. Adjusting general customer discount level
 - a) Keeping the adopted budget level of 1%
 - b) Increasing to the current level of 4%
 - c) Increasing to ~7.2% with the intent of keeping customer generation rate, inclusive of PCIA, at current levels
2. Trueing up the intended 1%-dollar 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 in reserves to maintain higher customer discounts over the next two years
5. Increasing funding for programs that include decarbonization grants for cities



EC, F&A, and Staff Recommendation

- The recommended funding scenario maintains projected reserves above the target level of 300 days cash on hand (DCOH) and well below the maximum level of 490 DCOH over the next 5 years
- The EC's second consideration was increasing customer discount (~7.2%) such that, inclusive of PCIA, the generation rates stay at current levels
 - Greater emphasis on affordability, given the expected large increases in PG&E transmission and distribution charges
- Additional funding scenarios are summarized in the appendix

Funding Items	Additional Fiscal Impact (\$ Million)	Consideration
1. General Customer Discount Level of 4% (in addition to bill credits for low-income customers)	12.9	Provides for a meaningful discount
2. True-up 1% Bill Credit to Reflect Higher Rates	1.16	Aligns with original budget intention
3. Transfer to Building Fund	20	Builds assets and potentially better economics over the longer term
4. Set Aside, <u>in reserves</u> , to Fund 4% Discount for 2 Additional Years	34.2	Supports rate stability and provides direction on future rate setting
5. Additional Program Funding Including Grant to Cities	20	Furtheres the organization's mission
Total	88.26	

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
 - After the Board's approval, the accounting records and the program fund balance shown in the Treasurer's Report will be updated

Board Approval

Adopt Resolution 2023-20

- 1) Authorizing the CEO to implement SVCE generation rate changes to establish a 4 % discount to PG&E's applicable generation rates when PG&E's updated rates are implemented, expected to be January 1, 2024, or after allocation of the sufficient time window for implementing new generation rates in SVCE's billing system, expected to be within three weeks of PG&E's release of the new 2024 rates
- 2) Adopting the adjusted fiscal year 2023-2024 operating budget that projects depositing \$73.8 million into the reserves, considering the above increase in customer discount; updated revenue, power supply, and interest-earning forecasts; and the following additional allocations"
 - a) \$1.16 million towards bill credits for CARE/FERA customers,
 - b) \$20 million towards the purchase of an SVCE office building, and
 - c) An additional \$20 million to the Programs Fund, which includes grants to cities' decarbonization programs.
- 3) Authorize previously budget-allocated but not explicitly approved rollover of \$10.125 million to the Program Funds from reserves

Thank you! / Questions?

Comparison of Adopted and Adjusted 2023-2024 Operating Budget

SILICON VALLEY CLEAN ENERGY FY 2023-24 OPERATING BUDGET (\$ in thousands)

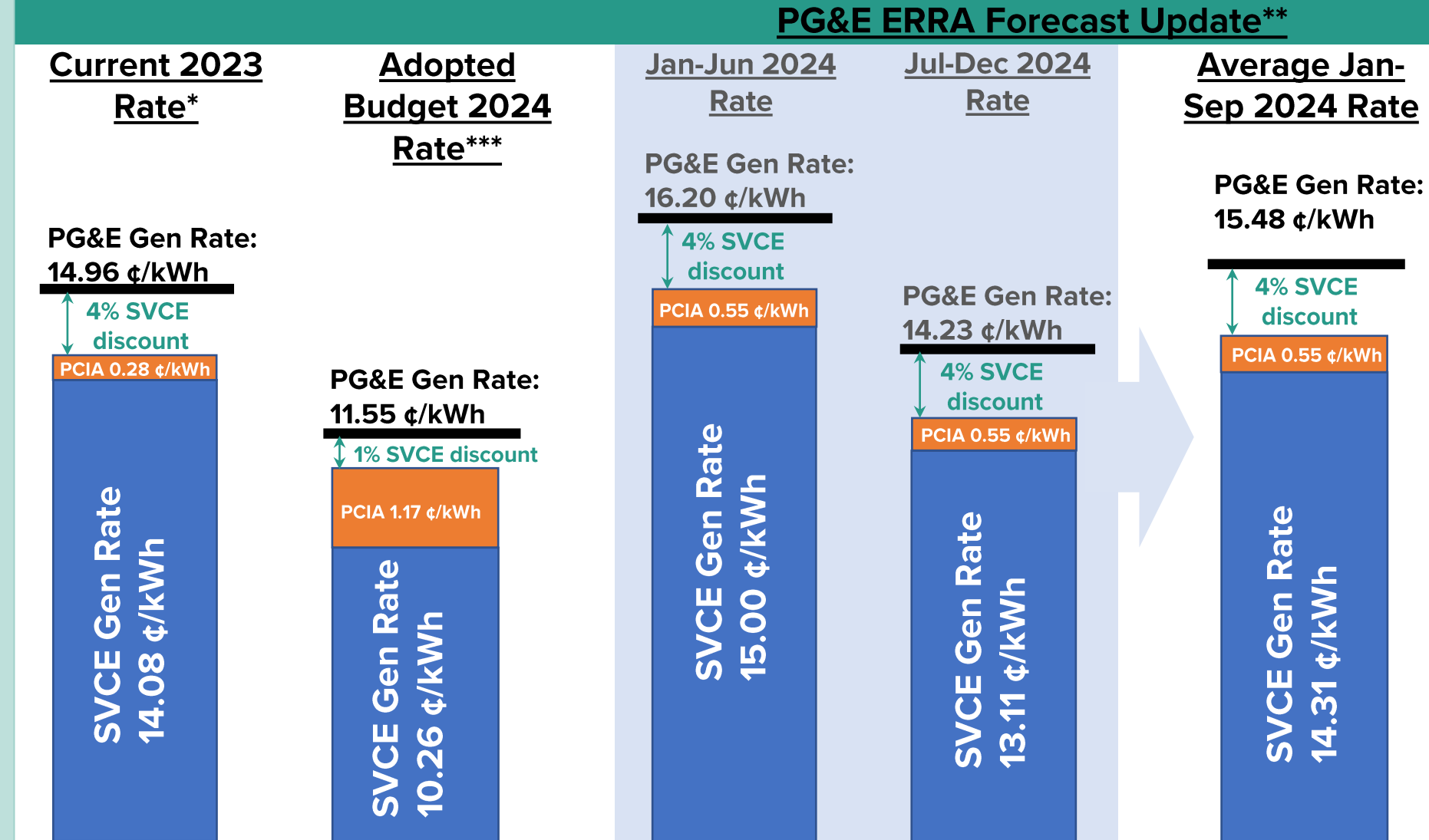
DESCRIPTION	FY 2023-24 ADOPTED BUDGET	FY 2023-24 ADJUSTED BUDGET	Change	
			\$	%
ENERGY REVENUES				
Energy Sales	438,342	552,667	114,325	26.1%
Green Prime	2,012	1,968	(44)	-2.2%
Other Income	50	50	0	0.0%
TOTAL ENERGY REVENUES	440,404	554,685	114,281	25.9%
ENERGY EXPENSES				
Power Supply	391,624	399,546	7,922	2.0%
OPERATING MARGIN	48,780	155,138	106,359	218.0%
OPERATING EXPENSES				
Data Management	3,413	3,413	0	0.0%
PG&E Fees	1,470	1,470	0	0.0%
Salaries and Retirement	15,406	15,406	0	0.0%
Professional Services	8,084	8,084	0	0.0%
Marketing & Promotions	1,349	1,349	0	0.0%
Notifications	21	21	0	0.0%
Lease	551	551	0	0.0%
General & Administrative	2,067	2,067	0	0.0%
TOTAL OPERATING EXPENSES	32,361	32,361	0	0.0%
OPERATING INCOME (LOSS)	16,419	122,778	106,359	647.8%
NON-OPERATING REVENUES				
Interest Income	5,501	6,434	932	16.9%
Grant Income	0	0	0	-
TOTAL NON-OPERATING REVENUES	5,501	6,434	932	16.9%
NON-OPERATING EXPENSES				
Financing	3	3	0	0.0%
Interest	0	0	0	-
TOTAL NON-OPERATING EXPENSES	3	3	0	0.0%
TOTAL NON-OPERATING INCOME (EXPENSES)	5,498	6,431	932	17.0%
CHANGE IN NET POSITION	21,917	129,208	107,291	489.5%
CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER				
Capital Outlay	50	50	0	0.0%
Building Fund	0	20,000	20,000	0.0%
Transfer to CRCR Fund	0	0	0	-
Program Fund	8,874	28,874	20,000	225.4%
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	4,300	1,164	37.1%
Other	0	0	0	-
TOTAL CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER	\$14,248	\$55,412	\$41,164	288.9%
BALANCE AVAILABLE FOR RESERVES	\$7,669	\$73,796	\$66,127	862.2%

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.



* 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
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.

** 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">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 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

Funding Scenarios

All scenarios maintain projected reserves at or 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					
		A. Build Reserves	B. Increase Rate Discount	C. Longer-term Affordability	D. Add'l Set Aside for Programs	E. Keep Rates Unchanged	F. Rates Unchanged with Lower 5th Yr Reserves
1. General Customer Rate Discount Level		<u>1%</u> -	<u>4%</u> 12.90	<u>4%</u> 12.90	<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	1.16	1.16	1.16
3. Transfer to Building Fund		20.00	20.00	20.00	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	34.20
5. Additional Program Expenditures Including Grant to Cities					20.00	6.24	20.00
		<u>21.16</u>	<u>34.06</u>	<u>68.26</u>	<u>88.26</u>	<u>88.26</u>	<u>102.02</u>
**Resulting Financial Forecast Reserve Level (DCOH*)							
- End of Fiscal Year		333	322	322	322	311	311
- High-Level Estimate*** Reserve 3 years out		350	340	312	312	300	300
- High-Level Estimate*** Reserve 5 years out		379	369	341	324	324	313

* Days cash on hand.

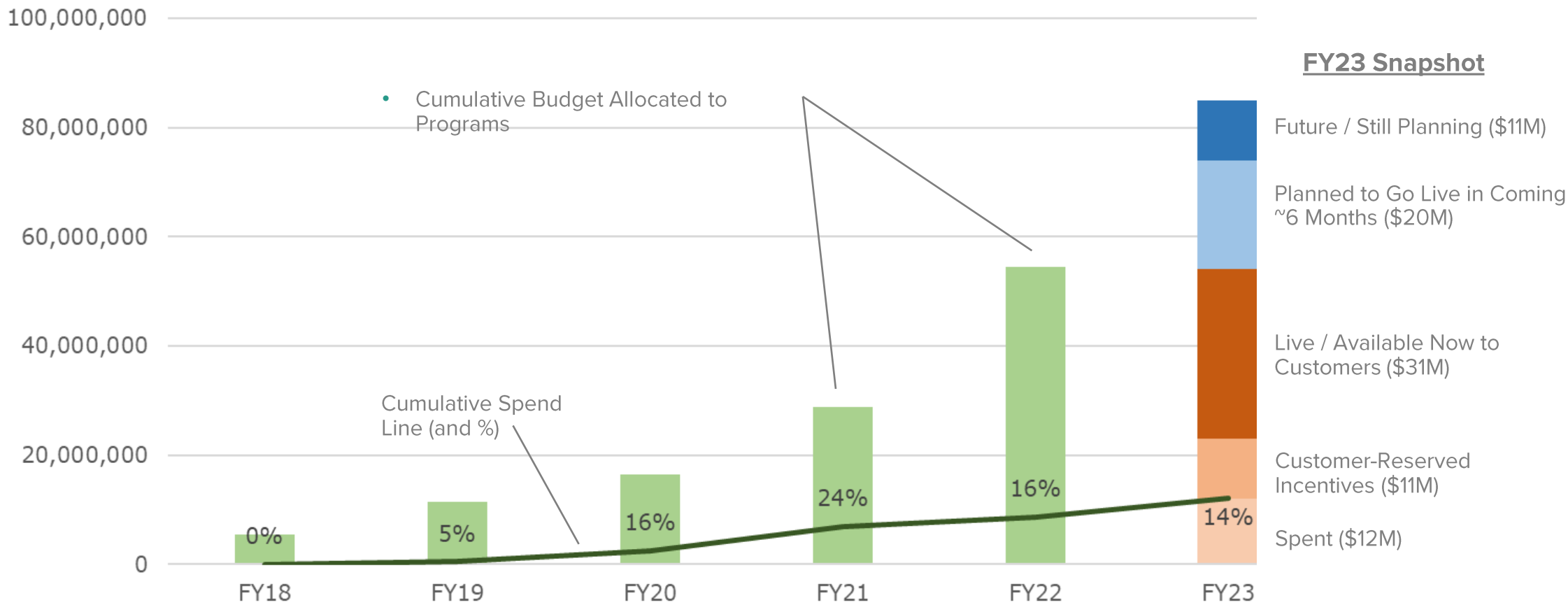
****Not expected to have any significant impact on forecast of the current fiscal year financial reserves since expenditure is likely delayed to future years.**

*** High-level estimates derived from the annual budget 5-year forecast with current fiscal year cash burn rate.



Program Fund Budget Allocation

Programs Fund Over Time



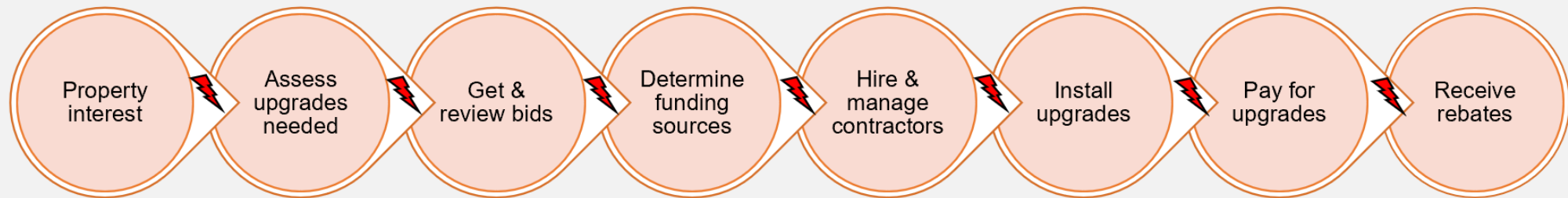
Multifamily Direct Install Program

Board of Directors Meeting
December 13, 2023



Direct installation is a one-stop solution for electrification

Currently, a property owner must take these steps to electrify:



A direct installation program addresses these pain points . . .



. . . but requires a high level of investment.



The program budget is a fraction of the investment needed to electrify all affordable multifamily units

Still, this “first of its kind” program can identify solutions for scalability

8,000

Affordable multifamily
units in SVCE

\$27,000

Per unit cost to fully
electrify*

\$200-250M

Investment needed to
electrify all units

\$12.5M

Multifamily Direct Install
program budget



Clean & Healthy Affordable Multifamily Properties (CHAMP), a direct install program

Target Market

Existing deed-restricted affordable multifamily properties
(5+ units)

Budget

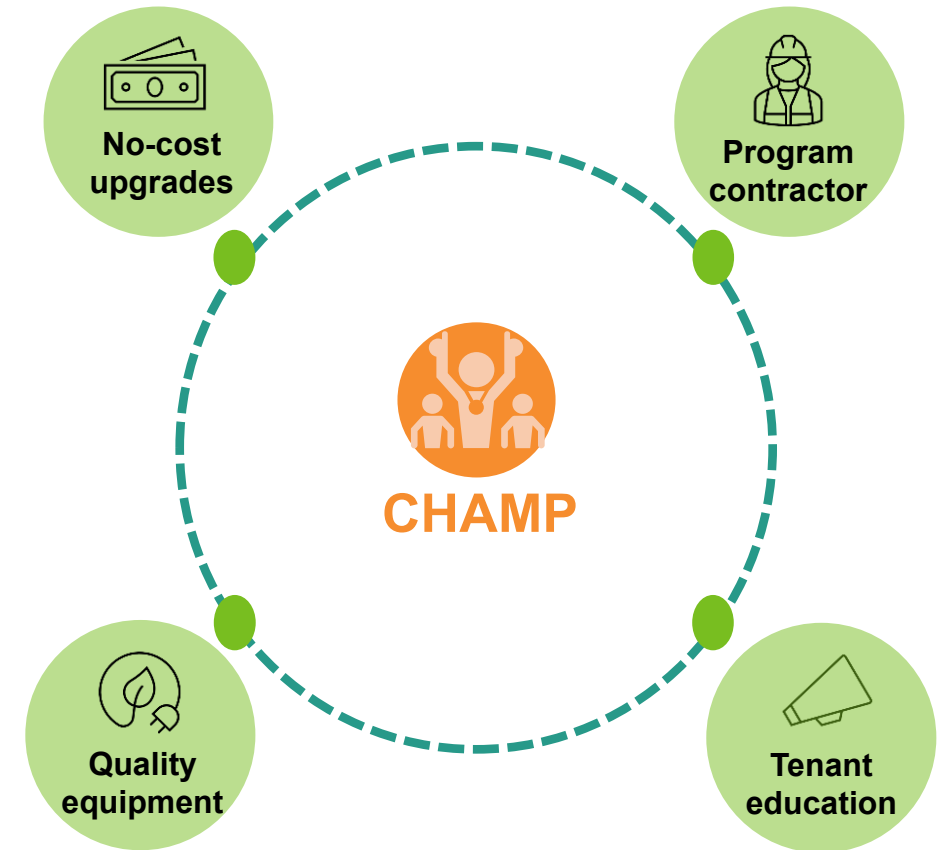
\$12.5M

Goals

- 300 – 1,000 all-electric dwelling units
- 125 electric vehicle charging ports

Objectives

- **Property owners:** Easy installation option for building & transportation electrification
- **Tenants:** Healthy, all-electric housing with lower energy costs





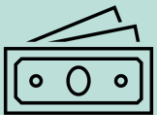
Properties can participate based on the support they need



**White glove
support**

Direct Installation

Budget:	\$11M
Services provided:	<ul style="list-style-type: none">• Conduct outreach to property owners• Develop electrification plans & technical assistance• Design & install building & transportation electrification equipment• Educate tenants & building staff on installed equipment• Enroll properties in E-ELEC rate



**Financial
support**

Gap Funding Grants

Budget	\$1.5M
Services provided:	<ul style="list-style-type: none">• Incentives to “fill the gap” after third-party funding sources are exhausted• Must have prevailing wage contractor & project under design



Each consultant on this team brings unique skills & resources to deliver CHAMP

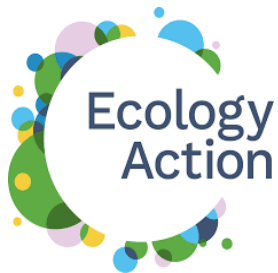


Program operator & building electrification

Subconsultants



Standardized
retrofit packages



Transportation
electrification



Electrical
engineering



Tenant
engagement



Stakeholders & experts informed key design decisions

AEA will finalize program design with stakeholder focus group

Needs & Considerations

Address non-energy barriers



Maximize properties served



Develop sustainable workforce



Tenant protections



Program Elements

Pay for ancillary upgrades (e.g., asbestos/lead abatement)

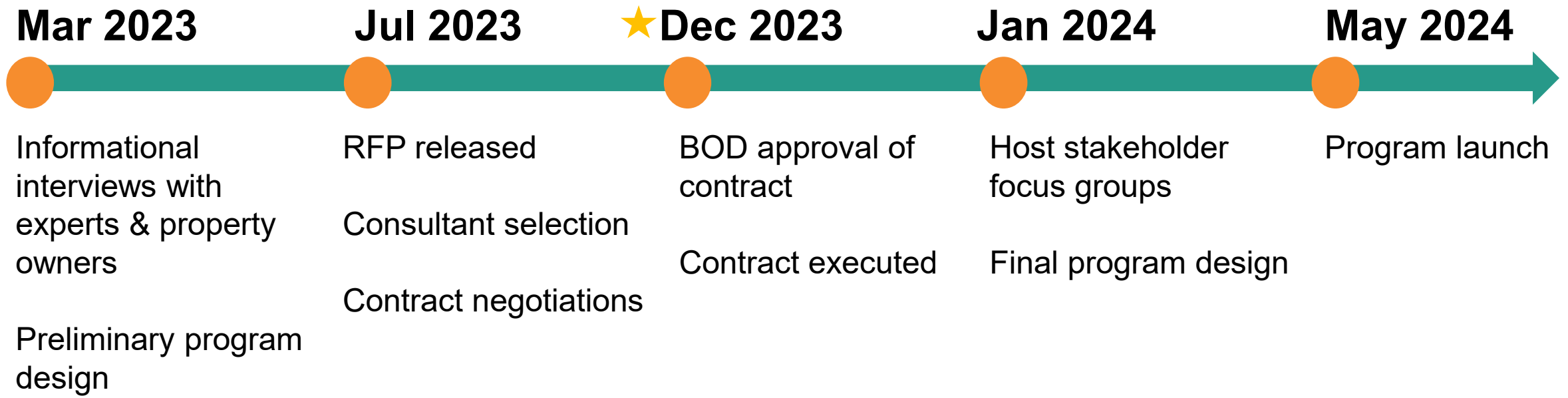
Pursue third-party incentives

Pay prevailing wage

Ensure no “renovictions” & explore bill protection



Timeline & next steps





Recommendation

Authorize the CEO to execute an agreement with the Association for Energy Affordability Inc. (“AEA”) for program design and implementation support services for SVCE’s multifamily residential electrification program for a period of five years for an amount not to exceed \$11 million.

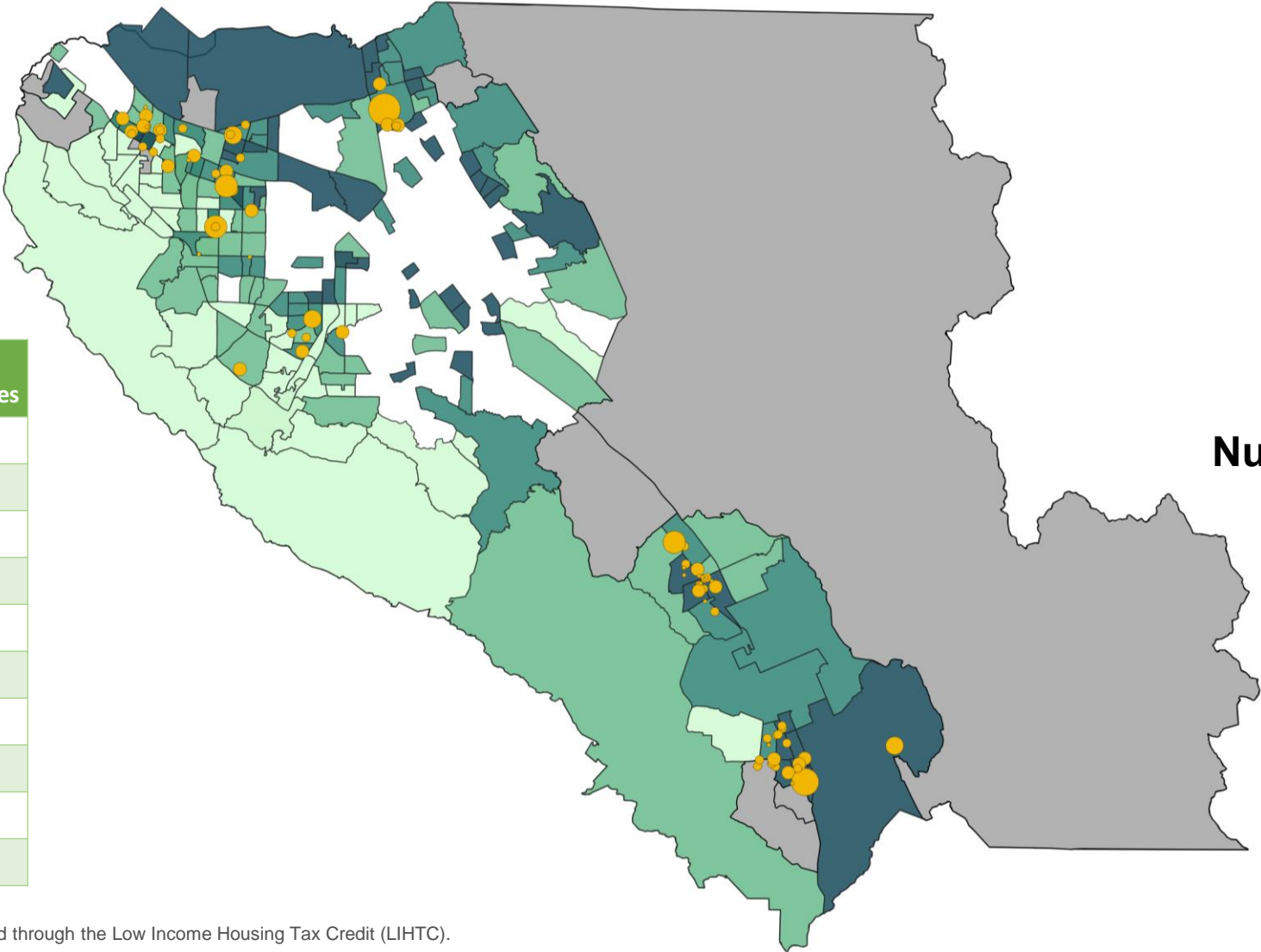
Appendix

Multifamily Data

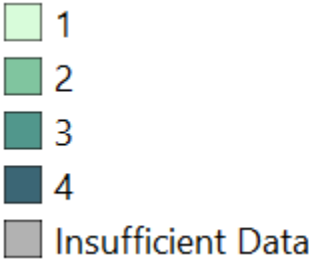


SVCE Affordable Housing Stock

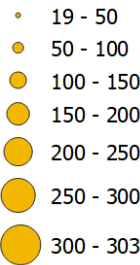
City	# Low Income Units	# Properties
Campbell	565	5
Cupertino	65	2
Gilroy	1,770	23
Los Gatos	222	3
Milpitas	550	5
Morgan Hill	1,576	25
Mountain View	1,434	17
Saratoga	148	1
Sunnyvale	1,299	14
Total	7,629	95



SEVI Quartiles



Number of Affordable Housing Units



[Data Source:](#) Only includes multifamily properties funded through the Low Income Housing Tax Credit (LIHTC).

2024 SVCE Board Elections Information

Board of Directors Meeting
December 13, 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 15th:

- 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)

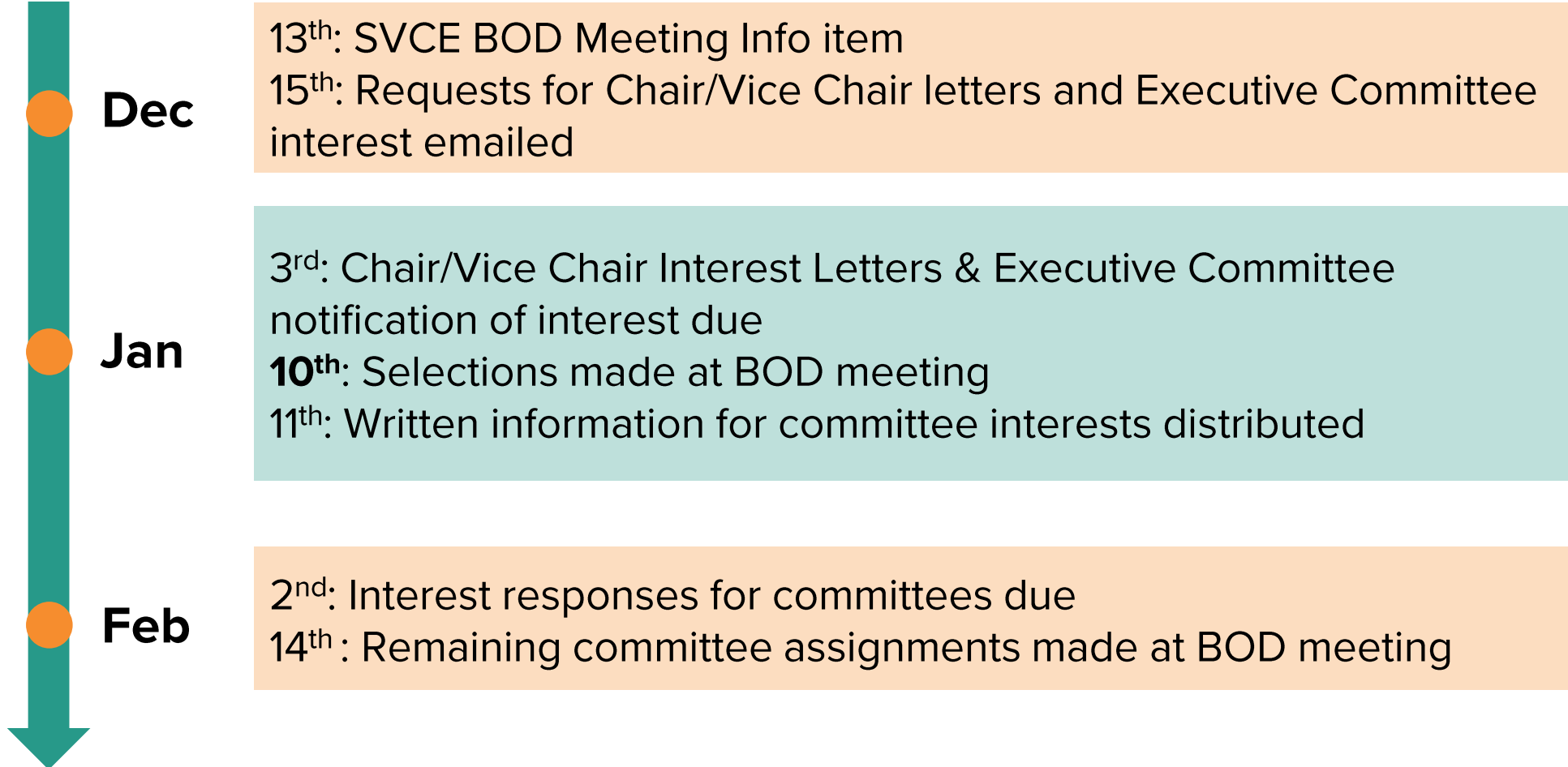
January 11th:

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



Thank you