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# SVCE's Planning & Budgeting Process and Financial Stress Test Cases

February 26, 2024  
Finance and Administrative Committee  
Amrit Singh



# Purpose

Informational Item:

1. Overview of SVCE's Planning and Budgeting Process and Future Committee Meetings
2. Seek Feedback on the Planned Financial Stress Test Scenarios

## Main Areas of Discussion

- FY 24-25 Budgeting & Planning Timeline
- Overview of Enterprise Risk Management (ERM) and Stress Test
- Review Key Drivers of Financial Risks
- Review Planned Financial Stress Test Scenarios
- Next Steps



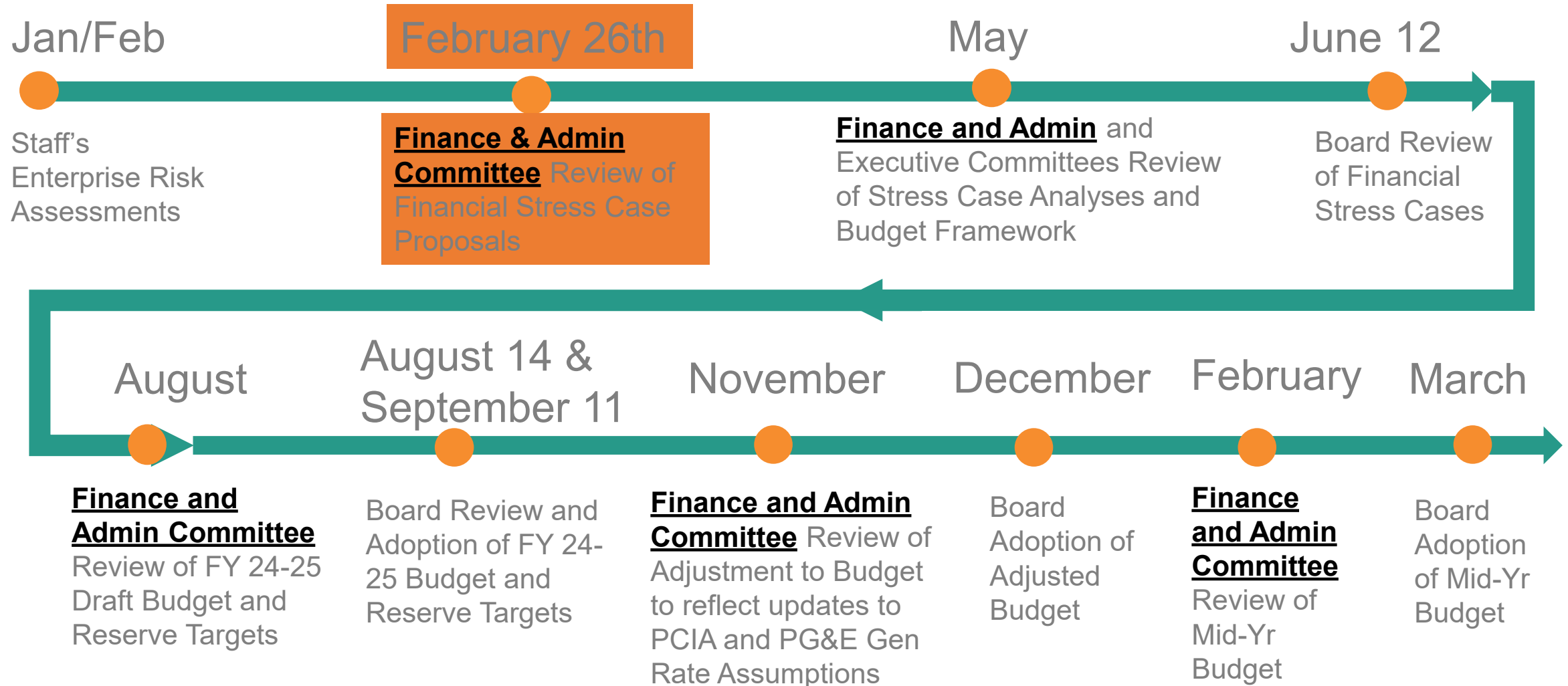


# SVCE's Planning & Budgeting Process





# FY24-25 Budgeting and Planning Process Timeline





## ERM

A comprehensive organization-wide assessment of risks and opportunities that leads to a more disciplined approach to achieving the organization's mission and objectives

- Ensure risks that can be optimally managed do not derail us from achieving the organization's objectives efficiently and effectively
- Aid in identifying opportunities that affect the organization's strategic priorities

## Stress Test

An essential component of ERM

- Assess the interrelatedness of risks in the ERM framework and model extreme but plausible scenarios resulting from one or more risks that can have major adverse consequences for SVCE
- Important for commodity trading portfolios because of the inherent weakness of market risk measures in assessing black swans, such as disruptions in markets



# Key Components of the ERM Framework

## Risk Register

- Record of organization's risks
- Identify current and additional planned mitigations
- Identify risk owner

Risk ID	Risk Description	Impact	Frequency	Overall Risk Rating	Current Mitigation	Planned Mitigation	Risk Owner
R001	Oil price volatility	High	High	Extreme	Price hedging	Advanced hedging strategies	Finance Dept
R002	Supply chain disruption	Medium	Medium	High	Diversification	Strategic sourcing	Operations
R003	Regulatory changes	Low	Low	Low	Monitoring	Proactive engagement	Legal

- Risk Rubric. Assess the likelihood and consequence of risk events
- Calibrate risks
- Identify risk tolerance – level of acceptance

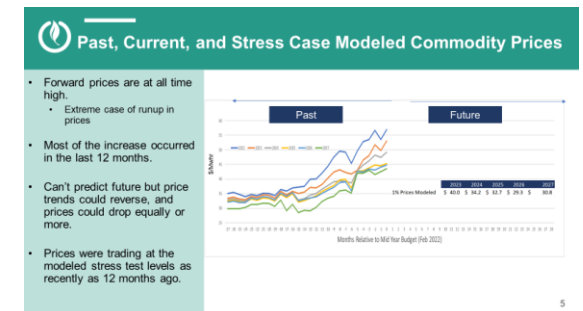
Impact/Consequence

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

## Risk Matrix

## Stress Tests

- Model scenarios (financial position, systems, and processes) of interrelated risks that are extreme but plausible
- Develop appropriate risk management strategies, including the adequacy of reserves





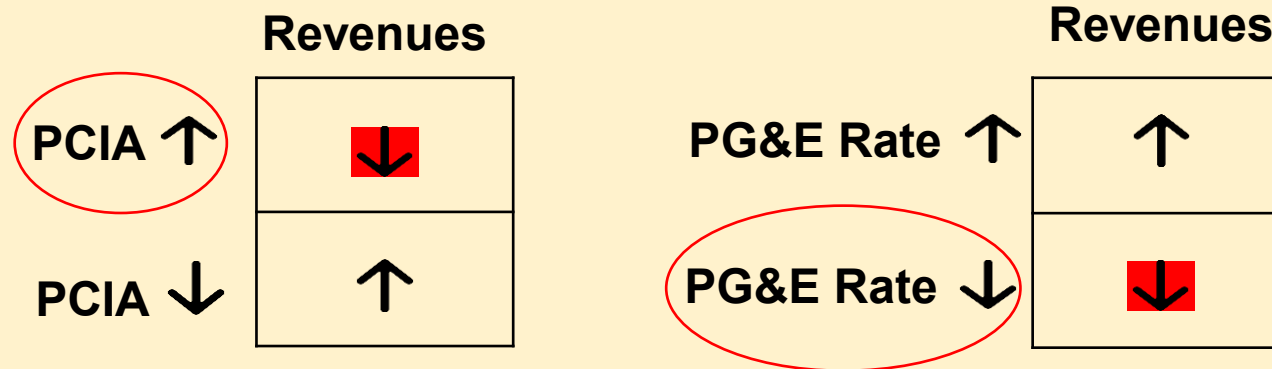


# Review of Key Financial Risk Drivers

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



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



Revenues decline when prices decline



# Price Uncertainty

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

**Next Year's PCIA &  
PG&E Gen Rate**



**Current Year's actual  
realized Prices**



**Forecast of Next  
Year's Market Prices**



Can't fully bank current year's margin

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

- $PCIA_{2025} = PCIA \text{ Balancing Account}_{2024} + \text{Forecast Balance}$ 
  - $\text{Balancing Account} = (\text{Prior Year's Forecast Prices}_{2024} - \text{Actual Prices}_{2024}) * PCIA \text{ Portfolio}$
  - $\text{Forecast Balance} = (\text{Legacy Contract Costs} - \text{Forecast Prices}_{2025}) * PCIA \text{ Portfolio}$
- PG&E Gen Rate Set Similarly
  - $PG\&E \text{ Gen Rate} = \text{ERRA Balancing Account} + \text{Forecast Costs}$

*\* Simplified representation of concepts*





# Price Uncertainty– Cont'd

*Price collapse poses biggest financial risk.*

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

	2025 Prices ↑	2025 Prices ↓
2024 Prices ↑	PCIA ↓ PG&E Rate ↑ SVCE Revenues ↑	
2024 Prices ↓		PCIA ↑ PG&E Rate ↓ SVCE Revenues ↓

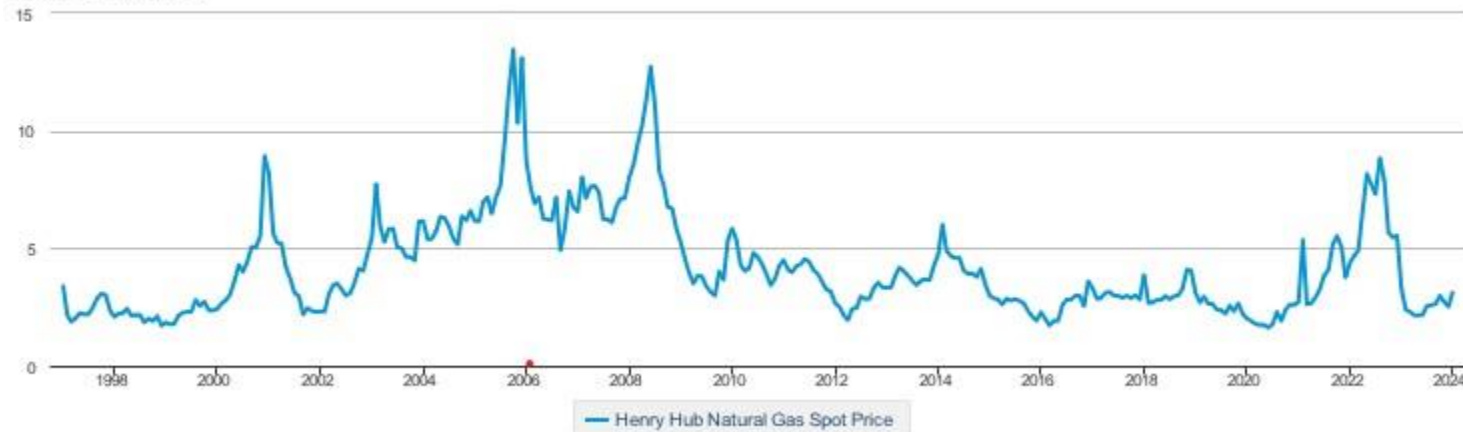


# 2024 Financial Stress Test Proposals

- Continue to model the price collapse scenario and use it to assess adequate reserve holdings
- Model long-term load growth uncertainty and implications on procurement planning and compliance obligations; potential stranded cost risks and competitiveness if planned scenarios do not materialize

Henry Hub Natural Gas Spot Price

Dollars per Million Btu



Source: EIA



# Next Steps

- Present financial stress test scenario analysis results at the May meeting
  - Present to the Board in June
  - Use the analyses to determine the adequacy of reserve-holding targets
- Other risks and opportunities identified from the ERM framework will help shape next fiscal year's strategic focus areas and workplan

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**Thank you! / Questions?**



# We face many risks and opportunities!

- *Do they all have the same impact?*
- *Where's the biggest gap?*
- *Which action moves the needle the most?*

- **Financial**
  - Price Volatility, PCIA goes up, Counterparties Default ...
- **Regulatory/Compliance**
  - POLR, CPE, RA Reform ...
- **Customer Opt-Out Risk**
  - Risk of Relevancy, “Let go of my gas stoves”, Customer Data Breach, “Make Coal Great Again!” ....
- **Operational and Business Continuity**
  - Staff turnover, Cyber Risks, Modeling Errors, Calpine System Failure, ....
- **Failure to Capture Opportunities**
  - Attracting DA Load, Leveraging IRA, Implementing VPP, & V2X, Scaling Decarb with Innovative Financing, ...



# Risk Matrix

- Assess the likelihood (frequency of occurrence) and consequence (impact)
- Calibrate risks/opportunities and optimally direct resources
- Identify risk tolerance or acceptable level of risk
- Assessment based on the subject matter expert's (SME) judgment
- Will continue to refine further and attempt to quantify risks
- Significant financial risks will be explicitly quantified and used for reserve planning, like last year's stress test analyses

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

# Risk Register

- Risk Register:
  - Records risks/opportunities
  - Briefly describes each risk/opportunity
  - Lists existing and planned mitigations
  - Ranks risks/opportunities
  - Identifies risk owner
- Cross-functional teams brainstormed and identified risks and opportunities
- Bucketed the risks into the following categories:
  - Financial
  - Regulatory and Compliance
  - Customer Opt-Out Risk
  - Operational and Business Continuity
  - Opportunities

## Draft and illustrative

Risk ID	Risk Category	Risk Description	Risk Owner	Current Mitigations	Additional Planned Mitigations	Risk Matrix Placement (Impact over 5-years)		
						Unmitigated	With Current Mitigations	With Additional Mitigations
1	Financial	Prices Collapse; PCIA Increases; Revenues Decrease	Amrit	Reserves to withstand the shocks; Stress Tests, Cashflow modeling	Reassess reserve adequacy	Extreme (15)	Extreme (14)	High (13)
7	Financial	Significant Number of PPAs Default/Delay/Renegotiate for higher prices	Monica	Supplier & Technology Diversity; Plan for Contingencies; Contractual language for delay damages and default provisions		Moderate (14)	Moderate (12)	Moderate (12)
12	Regulatory/Compliance	POLR Proceeding - Large Tie Up of Financial Reserves	Amrit	Hold Adequate Reserves	Manage and shape regulatory proceeding	Extreme (14)	High (13)	Moderate (18)
25	Customer Opt-Out	Ineffective or sluggish spending of approved program dollars	Justin	Program plans developed with stakeholders, ongoing feedback during design/management, increased staff/resources, and emphasizing larger-scale programs.	Additional staffing, new supporting systems, and public reporting on impacts.	Moderate (23)	Moderate (23)	Moderate (23)
28	Customer Opt-Out	Major disruption of the T&D/Grid operator, Grid Reliability - affects our mission	Girish	Shape Regulatory and Legislative Initiatives		Moderate (18)	Moderate (18)	Moderate (18)
29	Operational and Business Continuity	Natural Disaster Recovery (Earthquake, flooding) - Cover key business functions (procurement, scheduling, collateral calls ...)	Monica	System backups and desk procedures	Add'l Desk Procedures and Continuity Plans	Low (22)	Low (22)	Low (22)
34	Operational and Business Continuity	Calpine system failure	Adam			Moderate (23)	Moderate (23)	Moderate (23)

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# MY 23-24 Adjusted Operating Budget

Amrit Singh  
Finance and Administration Committee  
February 26, 2024



# Purpose

Action: Recommend that the Board Adopt Mid-Year 2023-2024 (MY 24) Adjusted Operating Budget

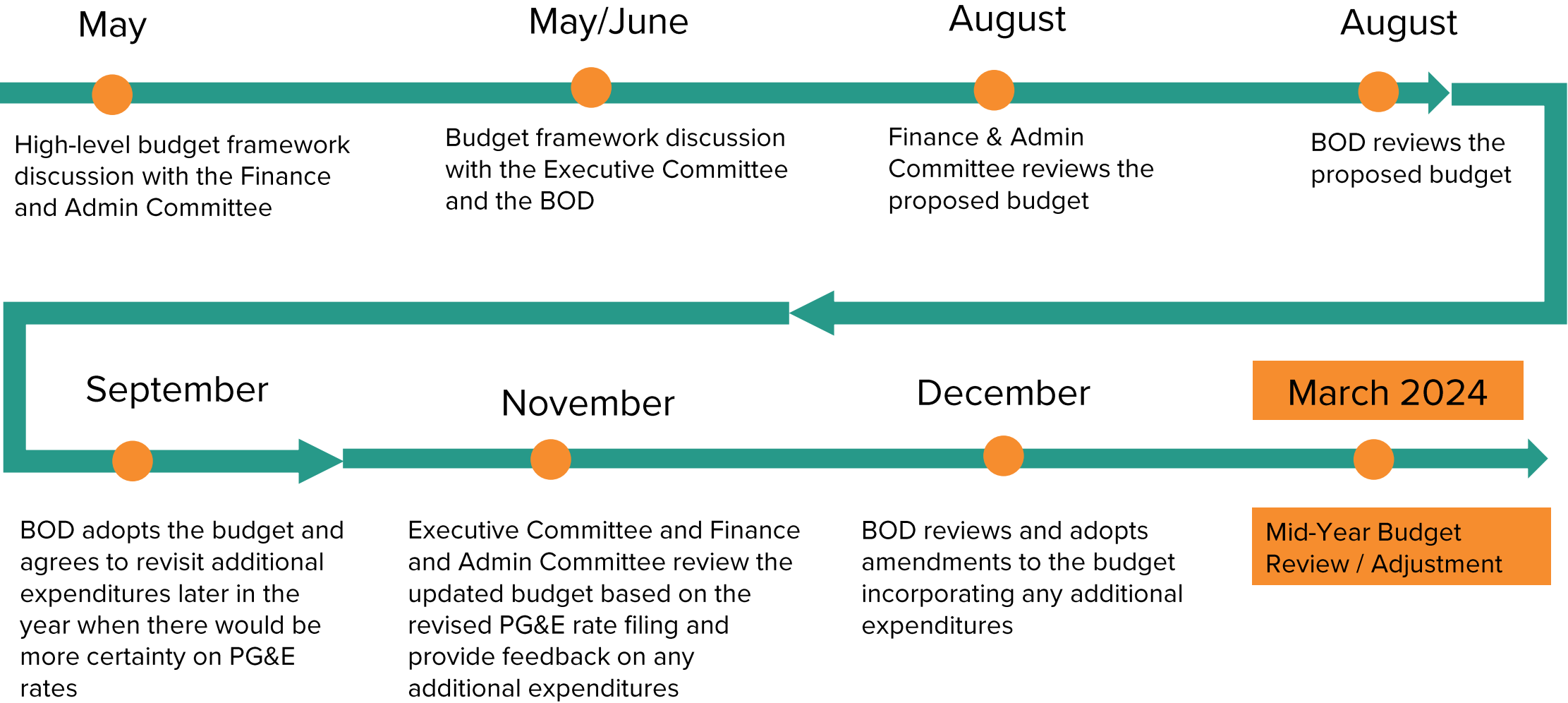
## Main Areas of Discussion

- Review the Budget Timeline
- Highlight Changes Since the Adoption of the Adjusted Budget in December
- Compare Mid-year and Adjusted Budget Key Line Items
- Review 5-yr Reserve Projections
- Provide Staffing Update
- Committee Vote





# Mid Year FY23-24 Budget Approval Timeline





# Mid-Year Budget Highlights

## Excellent FY24 But Softening Margins over 5-yr Outlook

- Healthy contribution to reserves of **\$112.6 million**
  - An Increase of ~ \$38.8 Million from \$73.8 Million at adjusted budget (approved in December 2023)
- Revenue forecast mostly remains unchanged
  - A slight uptick in 2024 offset by weaker sales in Oct.- Dec. 2023
- Key Drivers of an Increase:
  - Drop in Forward Energy Prices
    - Cal 24 prices dropped -13.6% since the adjusted budget
  - Power Supply cost for Oct-Dec 2023 was -\$21.2M or -21% below the adjusted budget, plus an additional \$12.7 million reduction projected for Jan-Sep 2024
  - \$6.4M higher Investment Income
- Operating expenses decreased slightly
  - Savings from staffing vacancies offset additional headcount costs
  - Slight increases in professional services and marketing expenses

- Softening energy prices negatively impacts 5-yr outlook
  - Negative contributions to reserves forecasted for FY 25 and 26.

## An Increase of ~\$38.8 Million vs Adjusted Budget:

Revenues	- \$1.8M
Power Supply Cost	- \$33.9M
Other Operating Expenses	-\$0.2M
Investment Income	+\$6.4M
<u>Reserve Balance</u>	<u>+\$38.8M</u>



# Annual Budget vs. Mid-Year Adjusted Budget

- Supports Overall Customer Discount of 5%
- Power Supply Expense decreased by 8.5%
- Higher non-operating revenue (Investment Income) due to higher interest rates

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

DESCRIPTION	FY 2023-24 ADJUSTED BUDGET	FY 2023-24 MID-YEAR BUDGET	Change	
			\$	%
Energy Revenues	554,685	552,864	(1,820)	-0.3%
Power Supply Expense	399,546	365,617	(33,929)	-8.5%
Operating Margin	<u>155,138</u>	<u>187,247</u>	<u>32,109</u>	<u>20.7%</u>
Operating Expenses	32,361	32,118	(243)	-0.8%
Non-Operating Revenue (Expense)	6,431	12,864	6,434	100.0%
Annual Transfers and Other Expenses				
Program Fund	28,874	28,874	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	4,300	4,300	0	0.0%
Building Fund	20,000	20,000	0	-
Other	50	50	0	0.0%
<b>BALANCE AVAILABLE FOR RESERVES</b>	<b><u>\$73,796</u></b>	<b><u>\$112,582</u></b>	<b><u>\$38,785</u></b>	<b><u>52.6%</u></b>





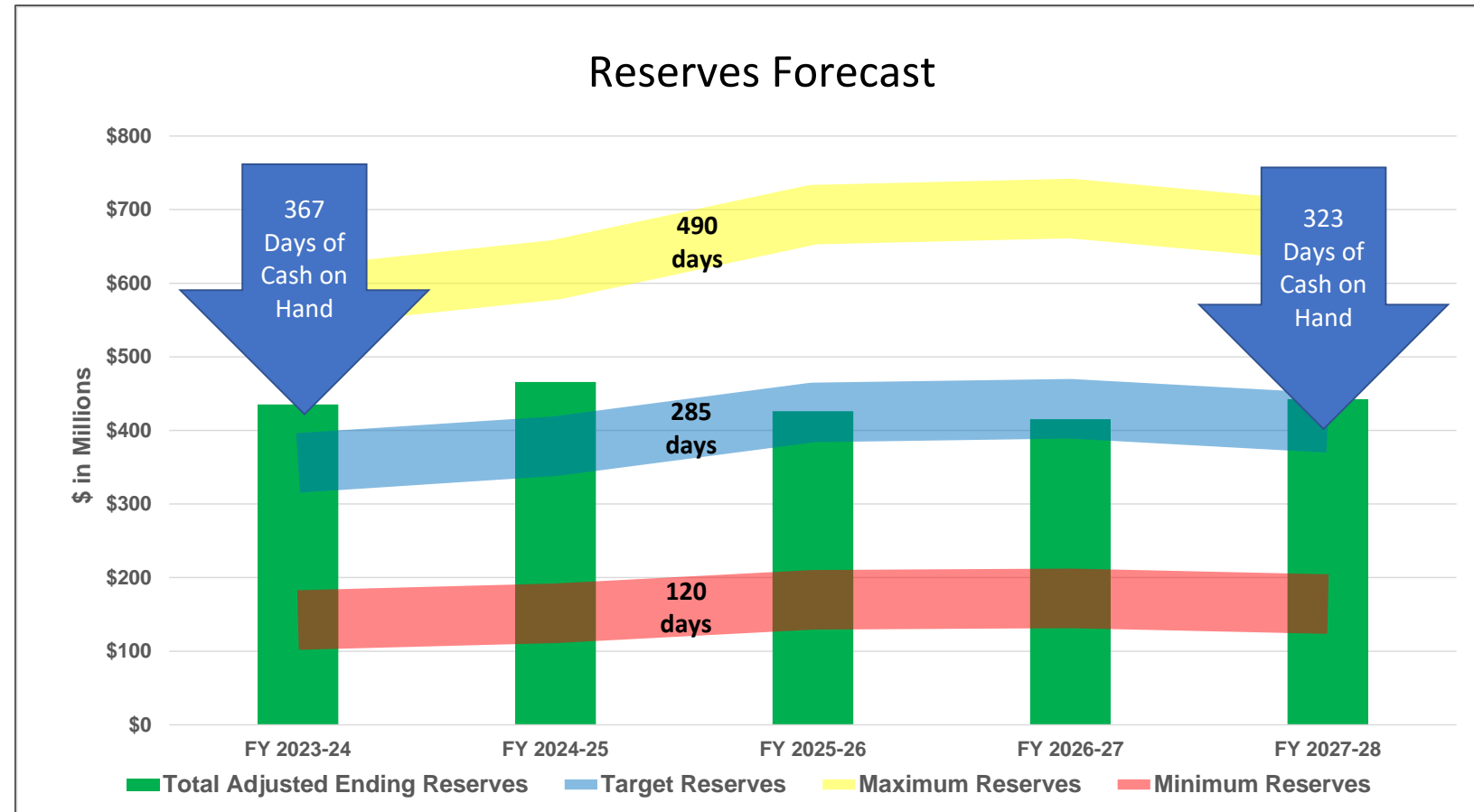
# Reserve Projection

Projected End of FY Reserves:

- \$435 Million
- 367 Days of Cash on Hand
- Includes Unspent Program Funds and Building Fund

If all Approved Programs Dollars and Building Fund were Spent :

- \$338 Million in Reserves
- 284 Days of Cash on Hand



Assumes \$20 million Building Fund spent in FY 2025-26.

## Current Budgeted Staffing

- 58 Full-time Employees (4 Vacancies)
- 3 Intern positions (2 Open)
- 4 Part-time Employees
- 3 Climate Corps Fellows
- 1 Long-term Independent Consultants

## Proposed Staffing

- 62 Full-time Employees (8 Vacancies)
- 3 intern positions (2 Open)
- 4 Part-time Employees (1 Open)
- 3 Climate Corps Fellows
- 1 Long-term Independent Consultants

**\*Currently being filled under the CEO personnel authority: General Counsel, Senior Program Specialist, and Board Clerk.**

- **EXEC (2)**
  - General Counsel (1)\* - to ensure adequate legal support both in complexity and volume as the agency grows and matures
  - Board Clerk/Executive Admin (1)\* - to assist with Board meetings and provide additional administrative support to the organization
- **DPP (1)**
  - Senior Program Specialist (1)\* - to further support the development of the agency's increasing Decarbonization Programs

**The proposed budget requests approval for an additional position**

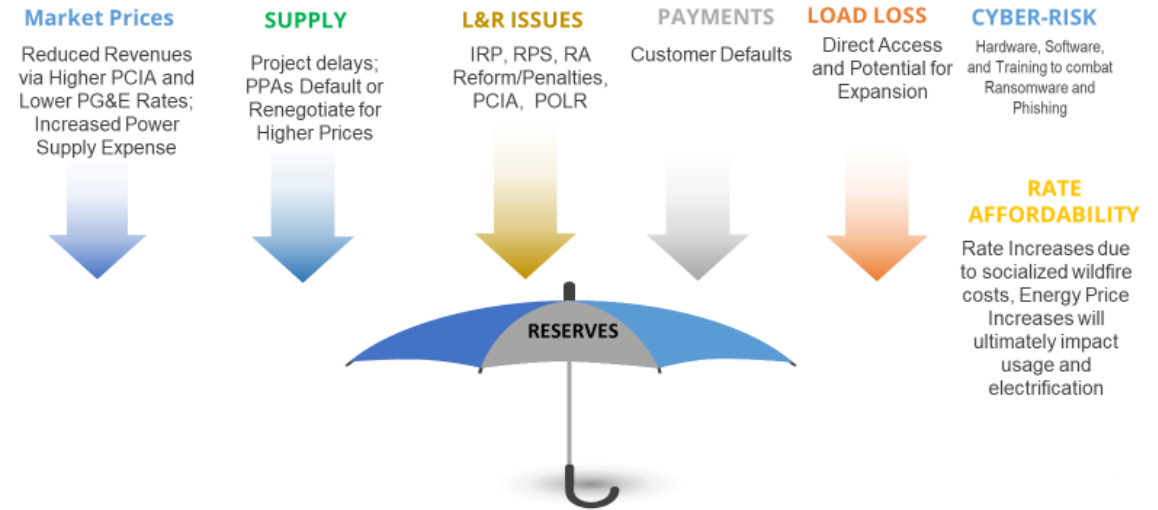
- **4PRO (1)**
  - Associate Power Analyst (1) – to support the increasing complexity of managing the energy procurement portfolio

Timeline	FTE
Authorized in the Annual Budget	58
Feb'24 CEO Personnel Authority	+3
Midyear Budget Request	+1
<b>Total</b>	<b>62</b>

# Summary - Despite ongoing uncertainty, the overall financial picture looks excellent for FY23-24

- Next Steps
  - Staff will conduct financial stress test analyses and recommend any updates to the reserve targets
  - Stress test results will be presented to the Finance and Admin Committee and the Executive Committee in May and to the Board in June
  - Staff will present the framework for developing the next fiscal year's budget to the Finance and Admin Committee in May
  - Draft budget for FY24-25 will be presented to the Finance and Admin Committee in August
  - Final FY24-25 budget will be presented to the Board in September

## Many Risks can Deplete Reserves





# Recommendation

Recommend that the Board of Directors adopt the Mid-year (MY) 2023-24 Adjusted Operating Budget that projects contributing \$112.6 million to the reserves.



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**Thank you! / Questions?**

# 2023-2024 Mid-Year Adjusted Operating Budget

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

Item 5  
PRESENTATION

DESCRIPTION	FY 2023-24 MID-YEAR ADJUSTED BUDGET
<b>ENERGY REVENUES</b>	
Energy Sales	550,852
Green Prime	1,962
Other Income	50
<b>TOTAL ENERGY REVENUES</b>	<b>552,864</b>
<b>ENERGY EXPENSES</b>	
Power Supply	365,617
<b>OPERATING MARGIN</b>	<b>187,247</b>
<b>OPERATING EXPENSES</b>	
Data Management	3,413
PG&E Fees	1,470
Salaries and Retirement	14,818
Professional Services	8,210
Marketing & Promotions	1,250
Notifications	315
Lease	551
General & Administrative	2,091
<b>TOTAL OPERATING EXPENSES</b>	<b>32,118</b>
<b>OPERATING INCOME (LOSS)</b>	<b>155,129</b>
<b>NON-OPERATING REVENUES</b>	
Interest Income	12,867
Grant Income	0
<b>TOTAL NON-OPERATING REVENUES</b>	<b>12,867</b>
<b>NON-OPERATING EXPENSES</b>	
Financing	3
Interest	0
<b>TOTAL NON-OPERATING EXPENSES</b>	<b>3</b>
<b>TOTAL NON-OPERATING INCOME (EXPENSES)</b>	<b>12,864</b>
<b>CHANGE IN NET POSITION</b>	<b>167,994</b>
<b>CAPITAL EXPENDITURES, INTERFUND TRANSFERS &amp; OTHER</b>	
Capital Outlay	50
Building Fund	20,000
Transfer to CRCR Fund	0
Program Fund	28,874
Nuclear Allocation	2,188
Multi Family Direct Install Program	0
Electrification Discount Program	0
Customer Bill Relief	4,300
Other	0
<b>TOTAL CAPITAL EXPENDITURES, INTERFUND TRANSFERS &amp; OTHER</b>	<b>\$55,412</b>
<b>BALANCE AVAILABLE FOR RESERVES</b>	<b>\$112,582</b>

# 5-Year Forecast

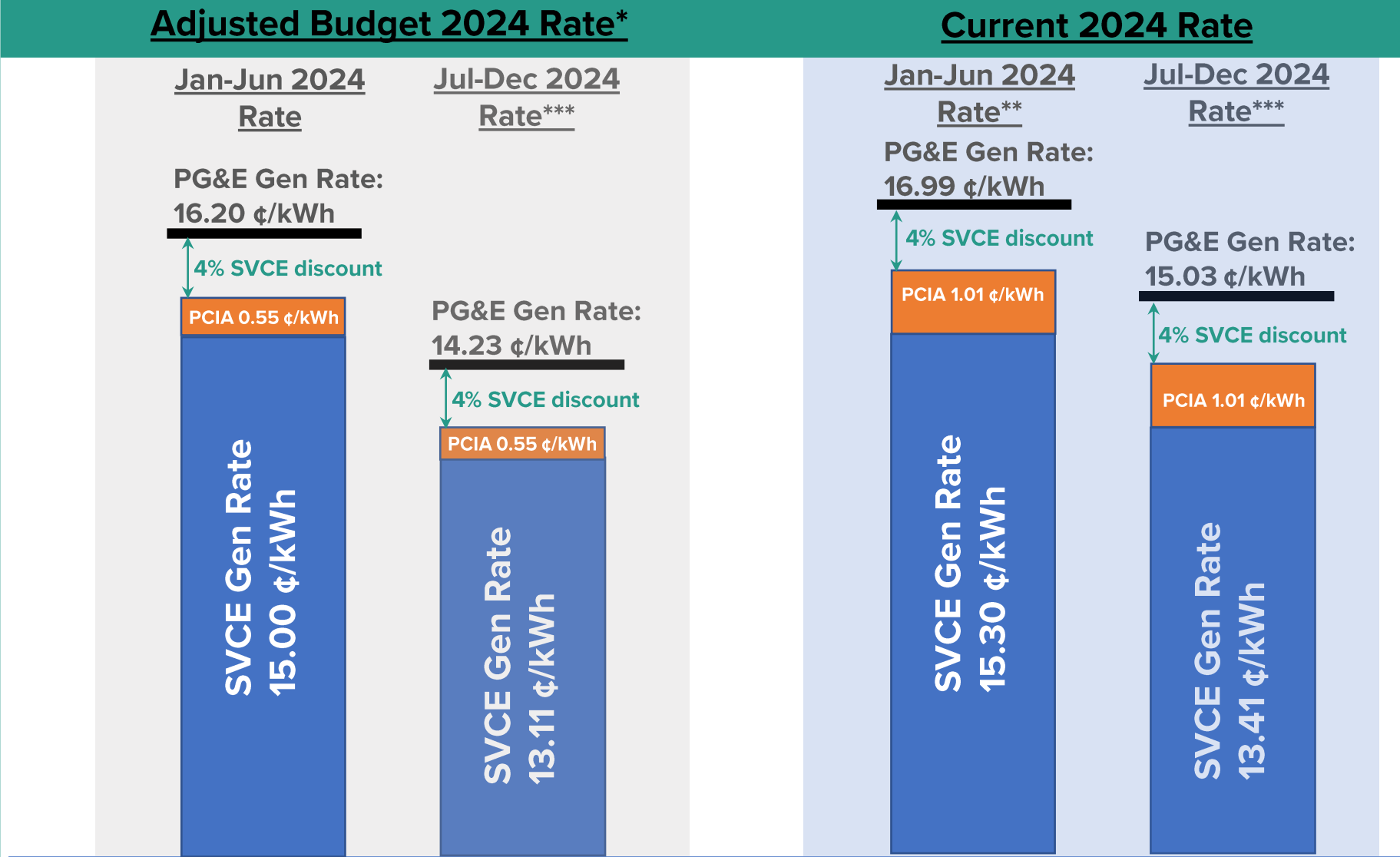
(\$ in Thousands)	FY23-24	FY24-25	FY25-26	FY26-27	FY27-28
	(Budget)	(Forecast)	(Forecast)	(Forecast)	(Forecast)
<b>Operating Revenue</b>					
Electricity Sales, Net <sup>1</sup>	\$ 550,852	\$ 485,338	\$ 494,921	\$ 508,590	\$ 515,415
GreenPrime Electricity Premium	1,962	2,236	2,248	2,264	2,283
<b>Total Operating Revenues</b>	<b>552,814</b>	<b>487,574</b>	<b>497,169</b>	<b>510,854</b>	<b>517,698</b>
<b>Operating Expense</b>					
Power Supply	\$ 365,617	\$ 417,018	\$ 470,894	\$ 474,812	\$ 449,466
<b>Operating Margin</b>	<b>187,197</b>	<b>70,556</b>	<b>26,275</b>	<b>36,041</b>	<b>68,232</b>
Data Management	3,413	3,583	3,762	3,950	4,148
PG&E Service Fees	1,470	1,544	1,621	1,702	1,787
Staff Compensation	14,818	15,559	16,337	17,154	18,011
Consultants and other Professional Fees	8,210	8,703	9,225	9,779	10,366
Communications and Noticing	1,565	1,643	1,725	1,811	1,902
General and Administration	2,643	2,775	2,913	3,059	3,212
Transfers to Programs Fund	35,362	9,751	9,943	10,217	10,354
<b>Total Operating Expenses</b>	<b>433,097</b>	<b>460,575</b>	<b>516,421</b>	<b>522,484</b>	<b>499,245</b>
<b>Operating Income</b>	<b>119,717</b>	<b>26,998</b>	<b>(19,252)</b>	<b>(11,631)</b>	<b>18,453</b>
<b>Nonoperating Revenue (Expense)</b>					
Other Income	50	51	51	52	52
Investment Income	12,867	13,811	9,819	9,028	8,808
Capital Outlay & Financing Costs	(20,053)	(53)	(53)	(53)	(53)
Grant Income	-	-	-	-	-
<b>Total Non-Operating Revenue (Expense)</b>	<b>(7,136)</b>	<b>13,808</b>	<b>9,817</b>	<b>9,026</b>	<b>8,807</b>
<b>Change in Net Position/Available for Reserves</b>	<b>112,582</b>	<b>40,807</b>	<b>(9,435)</b>	<b>(2,604)</b>	<b>27,260</b>
Begin, Net Position	324,536	463,208	493,784	454,236	443,240
Adjustment for Program Expenditure and Building Fund <sup>2</sup>	26,091	(10,231)	(30,113)	(8,392)	(52)
End, Net Position	\$ 463,208	\$ 493,784	\$ 454,236	\$ 443,240	\$ 470,448
<p><sup>1</sup> Assumptions: 4% overall discount relative to comparable PG&amp;E rates for FY 23-24, FY 24-25 and FY 25-26. FY 23-24 includes additional bill credit to low income customers totaling \$4.3 million. 1% discount for FY26-27 and FY27-28.</p> <p><sup>2</sup> Each year the Board transfers funds from the Operating Budget to the Decarbonization Programs Fund as shown in the above forecast under line item Transfers to Programs Fund. The line item Adjustment for Program Expenditure accounts for the difference between <i>forecasted spend</i> for programs versus the amount transferred to the fund. This adjustment is needed because program spending to date has been less than the amount transferred to the programs fund. The \$20 million in building Fund is assumed to be spent in FY25-26.</p>					
<b>Days Cash On Hand (DCOH) at Year End</b>	<b>\$ 435,187</b>	<b>\$ 465,763</b>	<b>\$ 426,215</b>	<b>\$ 415,219</b>	<b>\$ 442,427</b>
Days of cash on hand	367	369	301	290	323

## For forecast years FY23-24 onward:

- Revenues are based on SVCE's load forecast and CalCCA NewGen Model for SVCE margin analysis using market data as of 2/10/2024
- The NewGen Model headroom output was reduced by -5% to account for the modeling error
- Power Supply Costs are based on updated portfolio positions and latest market data
- Operating Expenses are assumed to grow 5% / year

# Final PG&E Rate Improved SVCE Margins

- Relative to Assumptions in the December Adjusted Budget:
  - PG&E’s average 2024 generation rate increased by about 5%
  - PCIA increased from 0.55¢/kWh to 1.01¢/kWh
- Relative to Adjusted Budget, SVCE’s 2024 margin improved by about 2%
- The rate changes were effective Jan 1, 2024.



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

\*\* PG&E Jan-Jun 2024 Average Rate, effective January 1, 2024 (Weighted for SVCE Portfolio Load)

\*\*\* Estimated rate, based on PG&E filings.

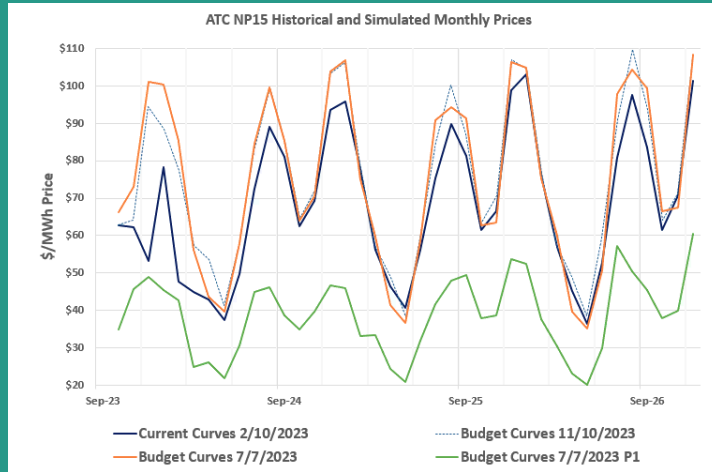
Above margin analyses ignores minor reductions for franchise fees (0.09 ¢/kWh)



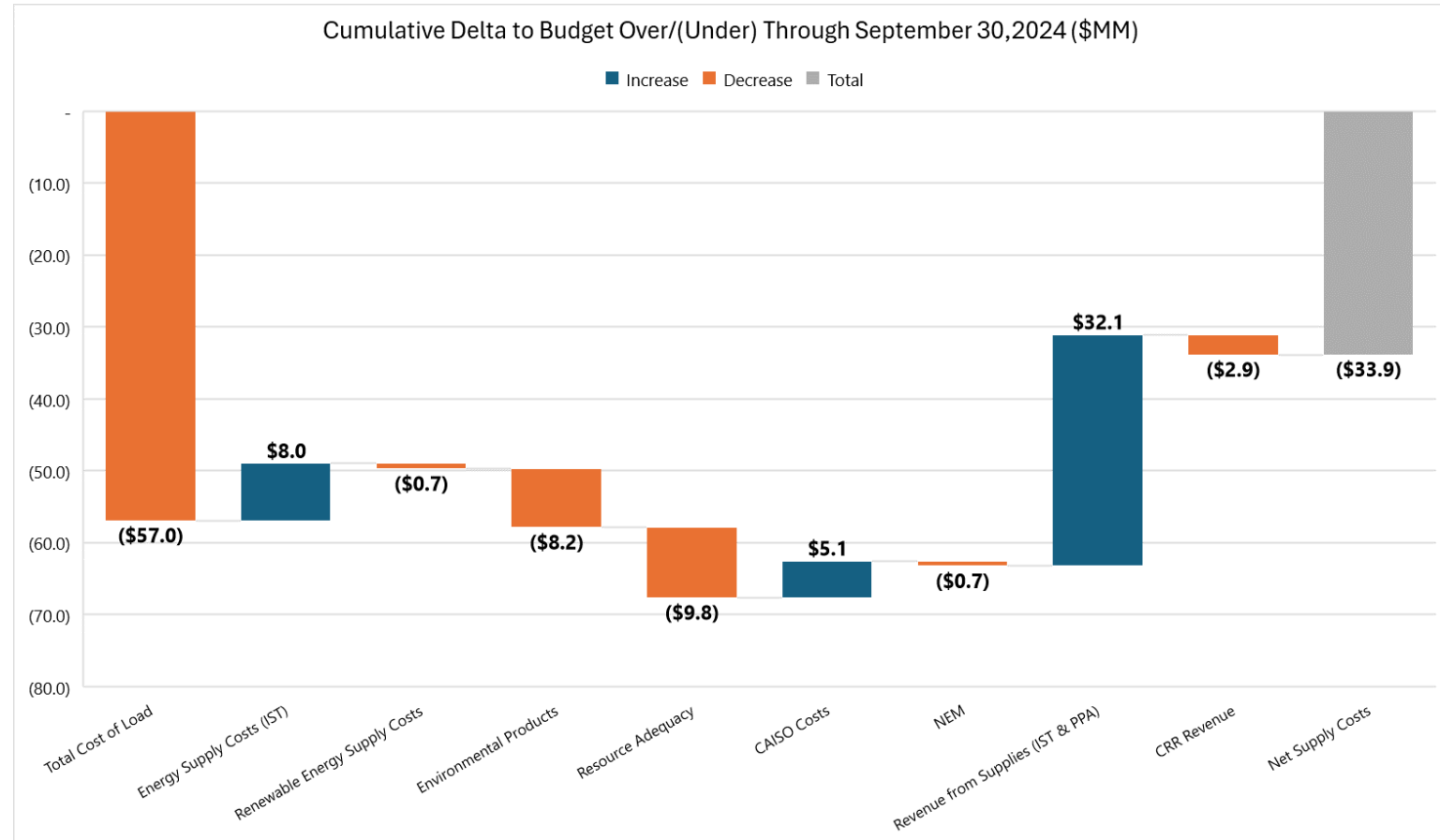
# Power Supply Variance

Item 5  
PRESENTATION

- Energy Prices are Extremely Volatile (expanded slide in appendix)



- Cost of load decreased with falling prices, and reduced sales volume
- Energy supply costs increase due to new ISTs
- Renewable Energy Supplies: Settled PPA volumes differ slightly from forecast
- CAISO Costs: Settled costs include accrued expenses from summer months and energy buy-backs, exceeding ISO charge forecast
- Environmental Products: Decreased VAMO forecast; product flows vary monthly.
- Resource Adequacy: Update to RA price assumptions surrounding the BESS fleet
- Revenue from Supplies: MTM of fixed-price contracts fall as energy prices fall

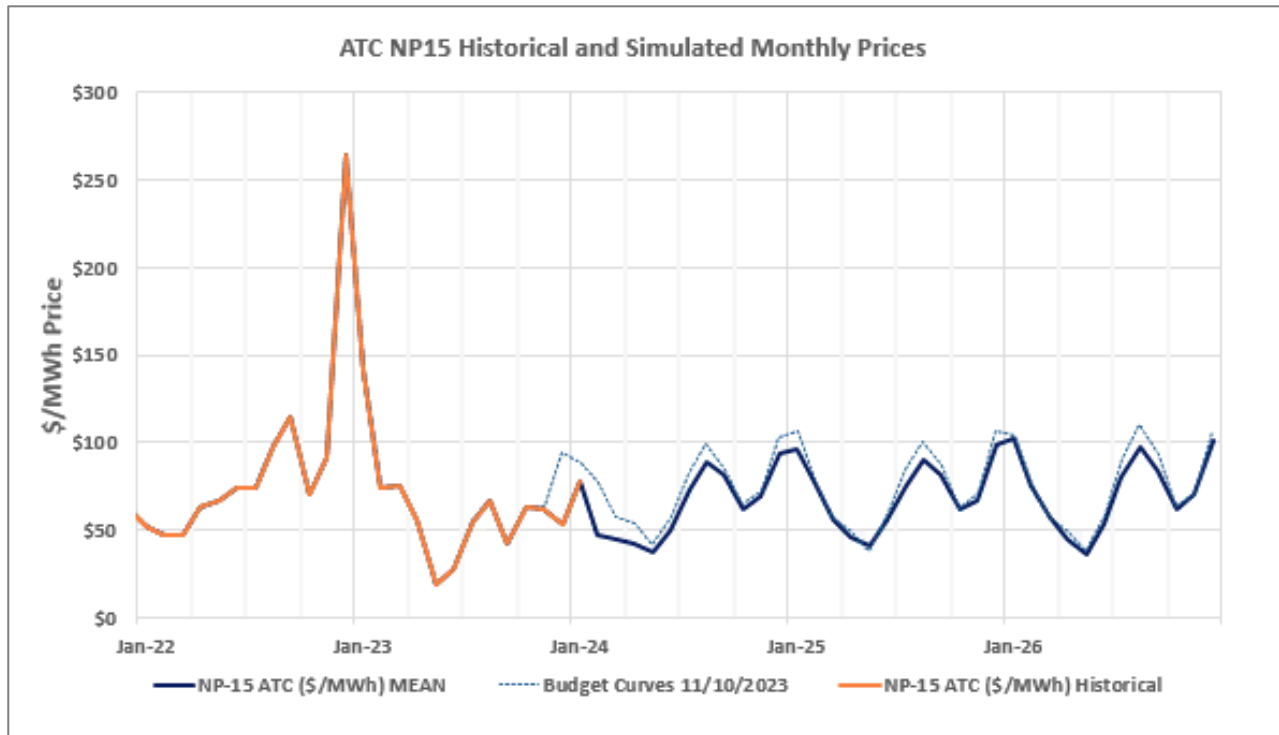


Decrease of **\$33.9M** since budget



# Power Market Price Volatility

Prices as of the mid-year budget run 2/10/2024 are decreasing from adjusted budget assumptions from 11/10/2023, with a 5-year average decrease of 7%.



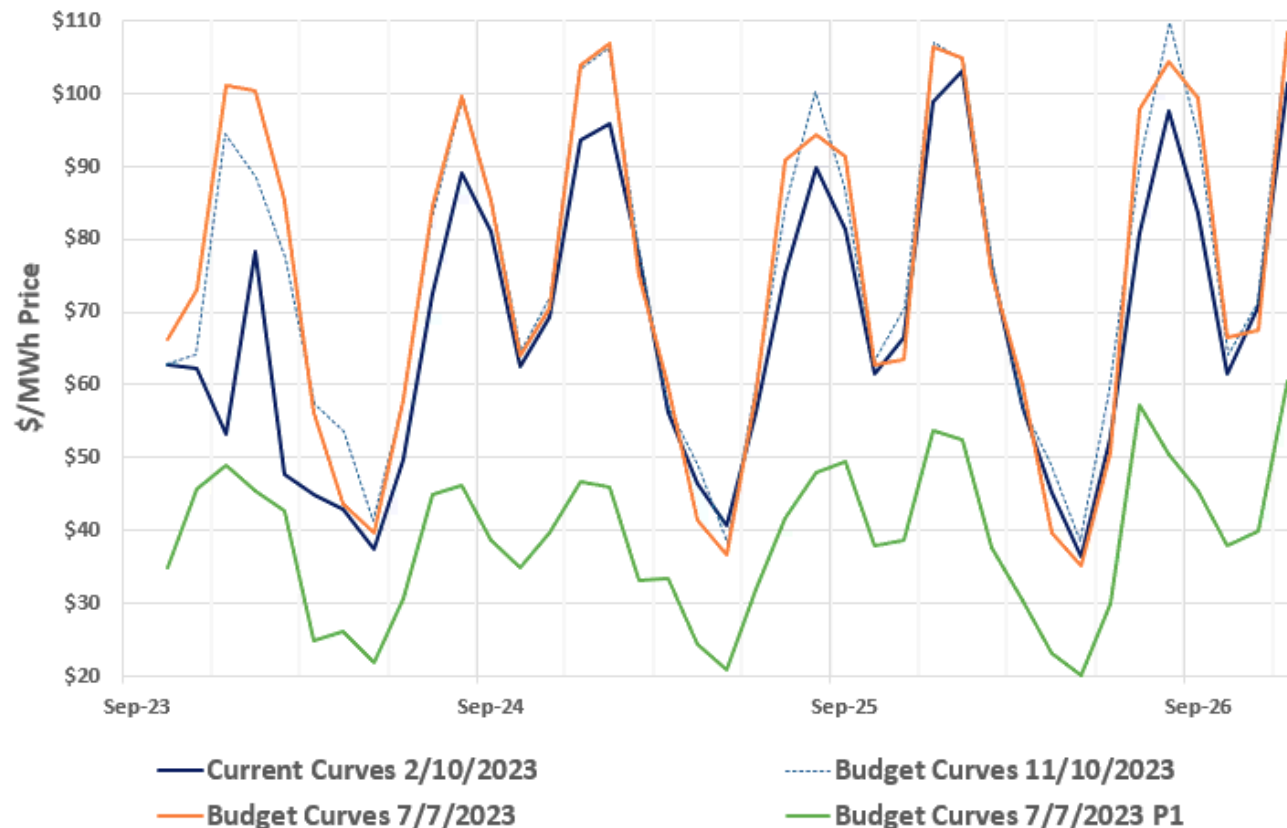
NP15 ATC \$/MWh	FY2024	FY2025
Adjusted Budget 11/2023	\$72.81	\$74.41
MY Budget 2/2024	\$60.21	\$70.39



# Power Market Price Volatility

Prices as of the mid-year budget run 2/10/2024 are decreasing from adjusted budget assumptions from 11/10/2023, with a 5-year average decrease of 7%

ATC NP15 Historical and Simulated Monthly Prices



NP15 ATC \$/MWh	FY2024	FY2025
Adjusted Budget 11/10/2023	\$72.81	\$74.41
MY Budget 2/10/2024	\$60.21	\$70.39



# 5-Year Forecast – Shifts in Power Supply Cost

## **FY Differences:**

- Energy costs continue to remain mostly flat due to fixed Power Purchase Agreements (PPA) coming online and forward energy prices staying flat
- FY2025-2026:
  - Environmental Products: Increase in Carbon Free (CF) costs (\$8-~\$25/MWh) with increase in net open position (NOP)
  - Resource Adequacy (RA): Increase in RA NOP with high market prices
- FY 2027-2028:
  - Environmental products prices beginning to fall; increased PPA volumes increases RPS volumes and decreases CF volume needs
  - Resource Adequacy: Increase in RA NOP with High market prices

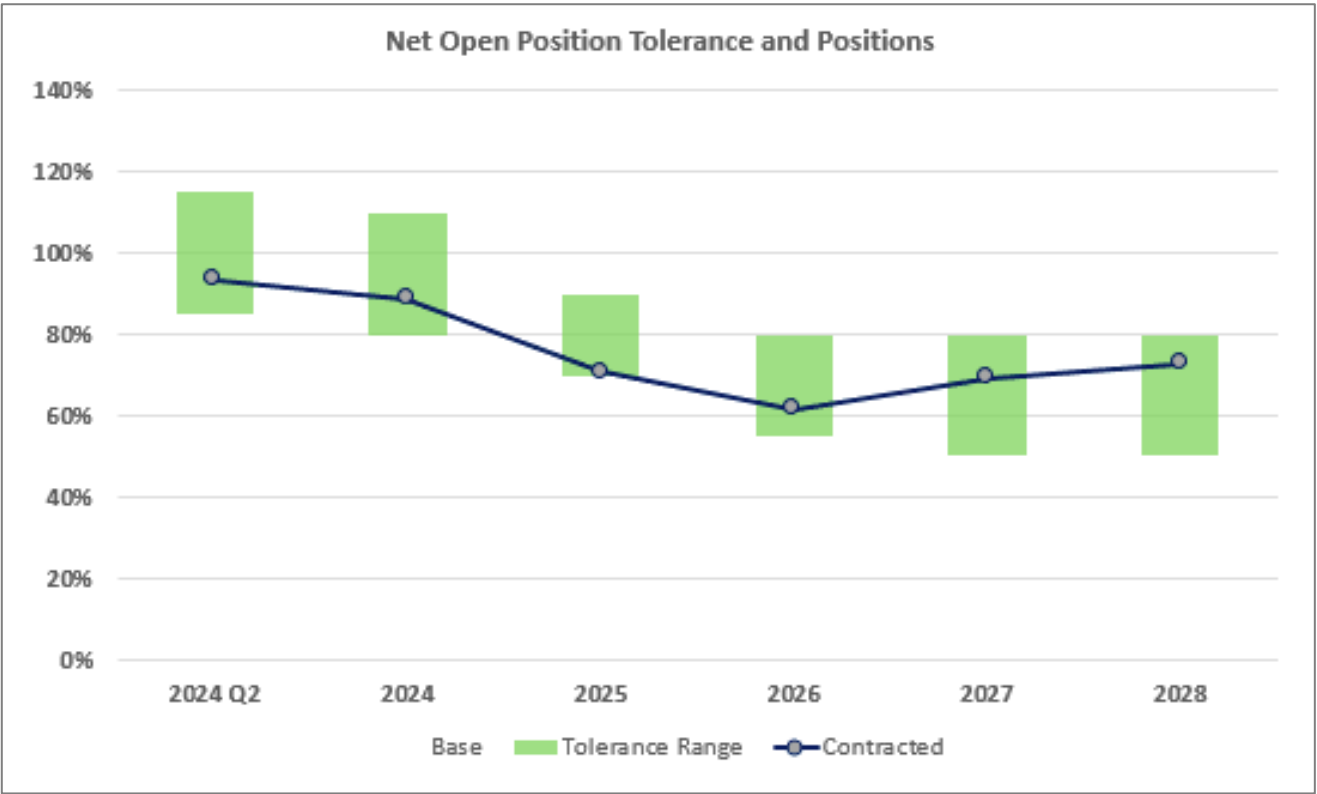




# Energy Risk Management Min/Max Bands

We hedge to manage market price risk. 95% of balance of Fiscal Year 24 load is hedged; 89% of balance of Calendar Year 24 is hedged.

Period	Year	ERM Min Tolerance	ERM Max Tolerance	SVCE Total Hedge %
Balance of Year	2024	80%	110%	89%
Year 2 – 2025	2025	70%	90%	71%
Year 3 - 2026	2026	55%	80%	62%
Year 4 – 2027	2027	50%	80%	69%
Year 5 – 2028	2028	50%	80%	73%





# Operating Expenses

	FY Budget	MY Budget Changes
Updated Costs	<ul style="list-style-type: none"><li>Data Management (Calpine)<ul style="list-style-type: none"><li>\$3.4MM</li></ul></li></ul>	<ul style="list-style-type: none"><li>Unchanged</li></ul>
	<ul style="list-style-type: none"><li>Billing (PG&amp;E)<ul style="list-style-type: none"><li>\$1.5MM</li></ul></li></ul>	<ul style="list-style-type: none"><li>Unchanged</li></ul>
	<ul style="list-style-type: none"><li>G&amp;A / Lease<ul style="list-style-type: none"><li>\$2.6MM</li></ul></li></ul>	<ul style="list-style-type: none"><li>Slight increase of \$25k for additional membership fees</li></ul>
	<ul style="list-style-type: none"><li>Staffing<ul style="list-style-type: none"><li>\$15.4MM</li></ul></li></ul>	<ul style="list-style-type: none"><li>Decreased by \$588k due to<ul style="list-style-type: none"><li>Oct'23-Dec'23 vacancies savings of \$1M</li><li>Additional 4 FTE expense offsetting savings by -\$412k</li></ul></li></ul>
	<ul style="list-style-type: none"><li>Professional Services<ul style="list-style-type: none"><li>\$8MM</li></ul></li></ul>	<ul style="list-style-type: none"><li>Increased by \$126k for additional professional consulting services</li></ul>
	<ul style="list-style-type: none"><li>Communications / Noticing<ul style="list-style-type: none"><li>\$1.3MM</li></ul></li></ul>	<ul style="list-style-type: none"><li>Increased by \$194k for additional program marketing materials and increased postage</li></ul>

# Review of Completed 3<sup>rd</sup> Prepay Transaction

Amrit Singh

Finance and Administration Committee

February 26, 2024



# Purpose

Informational Item: Report Out of the Completed Third Prepay Transaction

## Main Areas of Discussion

- Goals of Prepay
- Board Authorized Execution Parameters
- Summary of Executed Transactions
- Next Steps



# Review of Prepay Goal and Benefits

- Goal
  - ✓ Reduce the cost of power purchases by leveraging SVCE's ability to fund low-cost tax-exempt debt
    - Prepays grant CCA's competitive advantage relative to IOUs
- Target Benefits
  - ✓ Savings over the 30-year term around 8% - 10% per year on power quantities delivered under the pre-pay structure
  - ✓ Approximately 3 MM to \$4 MM per year in savings
  - ✓ Favorable risk allocation where SVCE only pays for energy that is delivered (same as contracts today)
  - ✓ Debt is non-recourse to SVCE



# Board Authorized Execution Parameters

- Aggregate Principal Amount of bonds to not exceed \$1.5 billion
- Execution contingent on achieving savings of at least 8 percent under the power supply contract for the initial bond reset period
- Bonds not be guaranteed obligations of SVCE



# Summary of Transaction

New Prepay:  
Series 2024A

Prior Prepays:  
Series 2021B

- ~\$1.2bn total
- \$4.38/MWh savings
- 46% share; split with Ava

Series 2023B

- ~\$850M total
- \$9.77/MWh savings

- \$1.1bn deal size
- 13.1% discount (BOD authorization was 8%)
  - \$11.31/MWh
  - **\$7.7M annual average savings through 2032**
- 18% of load coverage
- Combined, all three prepaes provide:
  - 41% of load coverage
  - **\$14.3M in annual average savings during initial bond reset periods**

# Next Steps

- Work with CCCFA on ongoing annual disclosure requirements
- Assign existing or new Power Purchase Agreements (PPA) into the Prepay before the end of this year, when the initially assigned contract ends
- Analyze the Power Procurement Portfolio and Continue to monitor the Prepay Market for Additional Opportunities

---

**Thank you! / Questions?**



# Review of Prepay Background Info.

*Goal: Reduce the cost of power purchases*

- Savings achieved by leveraging SVCE/CCCFA's ability to fund low-cost tax-exempt interest rates
- Used since the 1990s for natural gas transactions
- Codified in the US Tax law
  - Municipal electric and gas utilities (and tax-exempt entities such as CCAs) in the US can prepay for a supply of electricity or natural gas from a taxable (corporate) entity and fund that prepayment with tax-exempt municipal bonds:
    - Must sell that commodity to retail end-users within their traditional service area.
  - Since the first prepayments of natural gas were done in the early 1990s, the IRS issued rules allowing tax-exempt prepayments, and Congress enacted legislation specifically allowing the transactions (National Energy Policy Act of 2005; Section 1327).
- A seasoned team of professionals will help to guide, negotiate, and structure the transactions. Fees for professionals are contingent on the completion of the deal and paid from the deal proceeds.

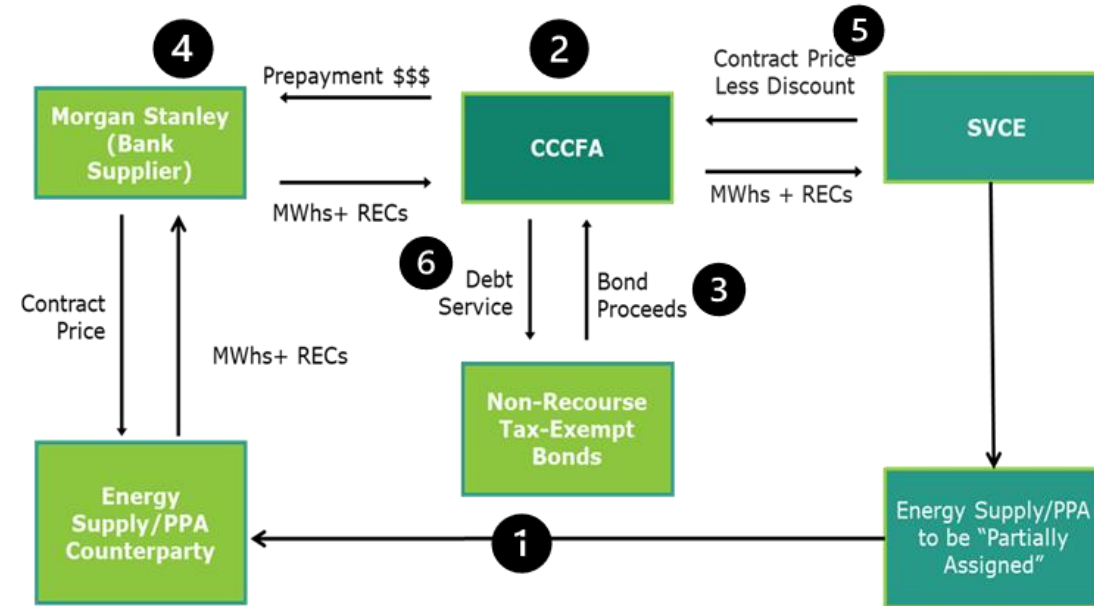


# Overview of Prepay Structure

Term: 30-year with bonds repricing every 5-10 years depending on the optimal spread between taxable and tax-exempt interest rates.

Process:

- SVCE partially assigns, using Limited Assignment Agreement, energy contract to Morgan Stanley (MS), Prepay Supplier. MS agrees to pay contract price to energy supplier.
- CCAs created CCCFA, a separate legal entity that can issue tax-exempt debt.
- CCCFA issues non-recourse tax-exempt bonds.
  - Bonds not guaranteed by SVCE or CCCFA.
  - Bonds secured by the contractual rights and transaction cashflows; Bonds carry MS credit ratings.
- CCCFA pays bond proceeds, net of transaction fees, to MS as prepayment for energy and related products that MS will provide over the 30-year term. Executes Prepaid Agreement.
- SVCE and CCCFA execute Power Supply Agreement, where SVCE pays CCCFA contract price less discount for energy delivered by CCCFA.
- CCCFA uses payments from SVCE to pay interest and principal payments to bondholders.



Complicated financially-engineered structure. The Essence:

- Take advantage of our tax-exempt status without taking debt on our balance sheet
- Capture the value derived from the spread between taxable and tax-exempt interest rates and use it to reduce the cost of power purchases
- Substantial savings with minimal risks

# Policy Review Update

Finance and Administration Committee  
February 26, 2024



## Policy Maintenance

**To ensure compliance, good business practices and transparency, policies are approved by the board and shared publicly on our website.**

***Regular maintenance on these policies is required to ensure continued compliance, adherence and updates as needed.***

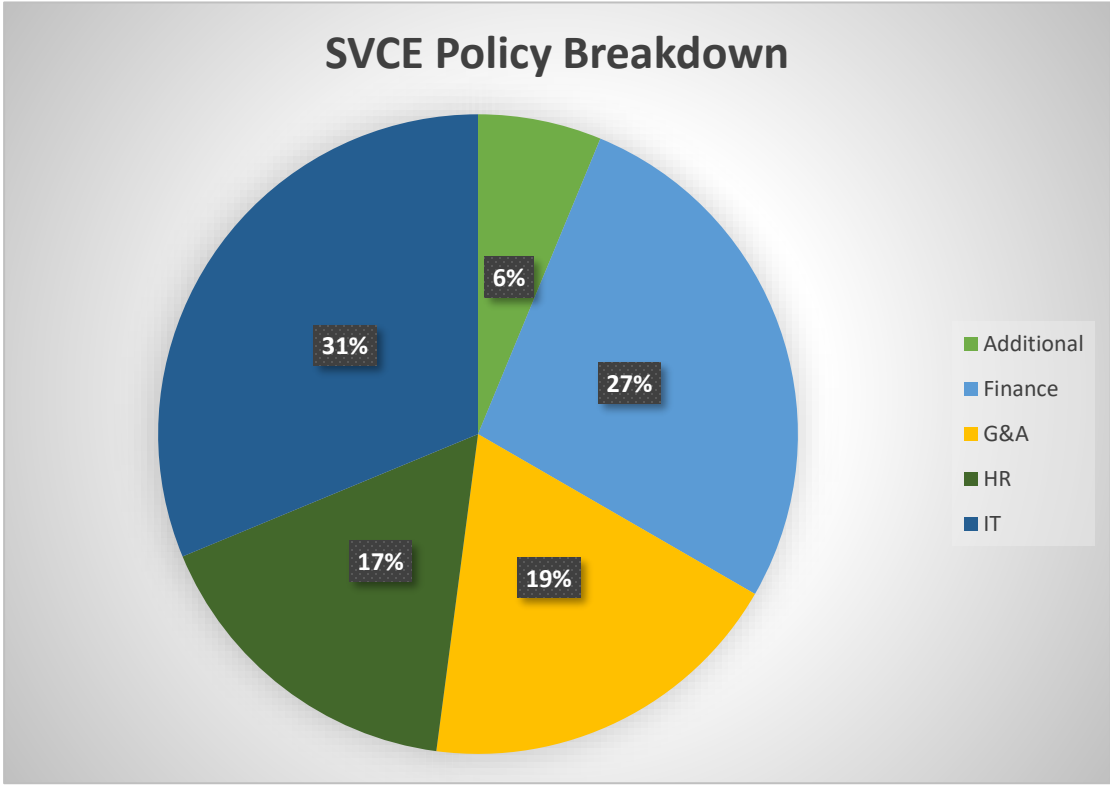
***Setting an annual cadence for review & revision, as well as prioritizing time and space for this requirement is a priority***



# Current Policy Metrics

## SVCE’s Public Facing, Board Adopted Policies – Current State

Row Labels	Count of Policies
Additional	3
Finance	13
G&A	9
HR	8
IT	15
Grand Total	48

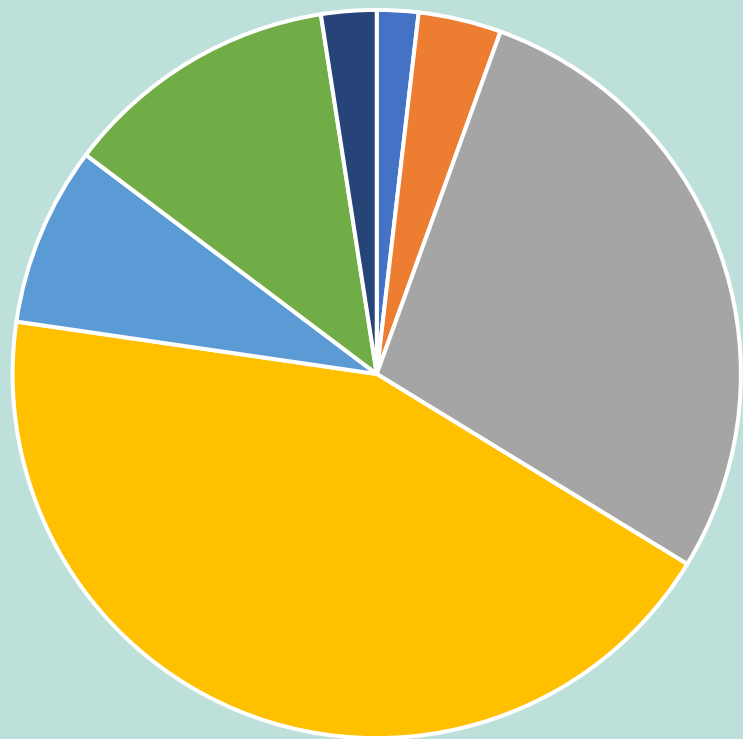




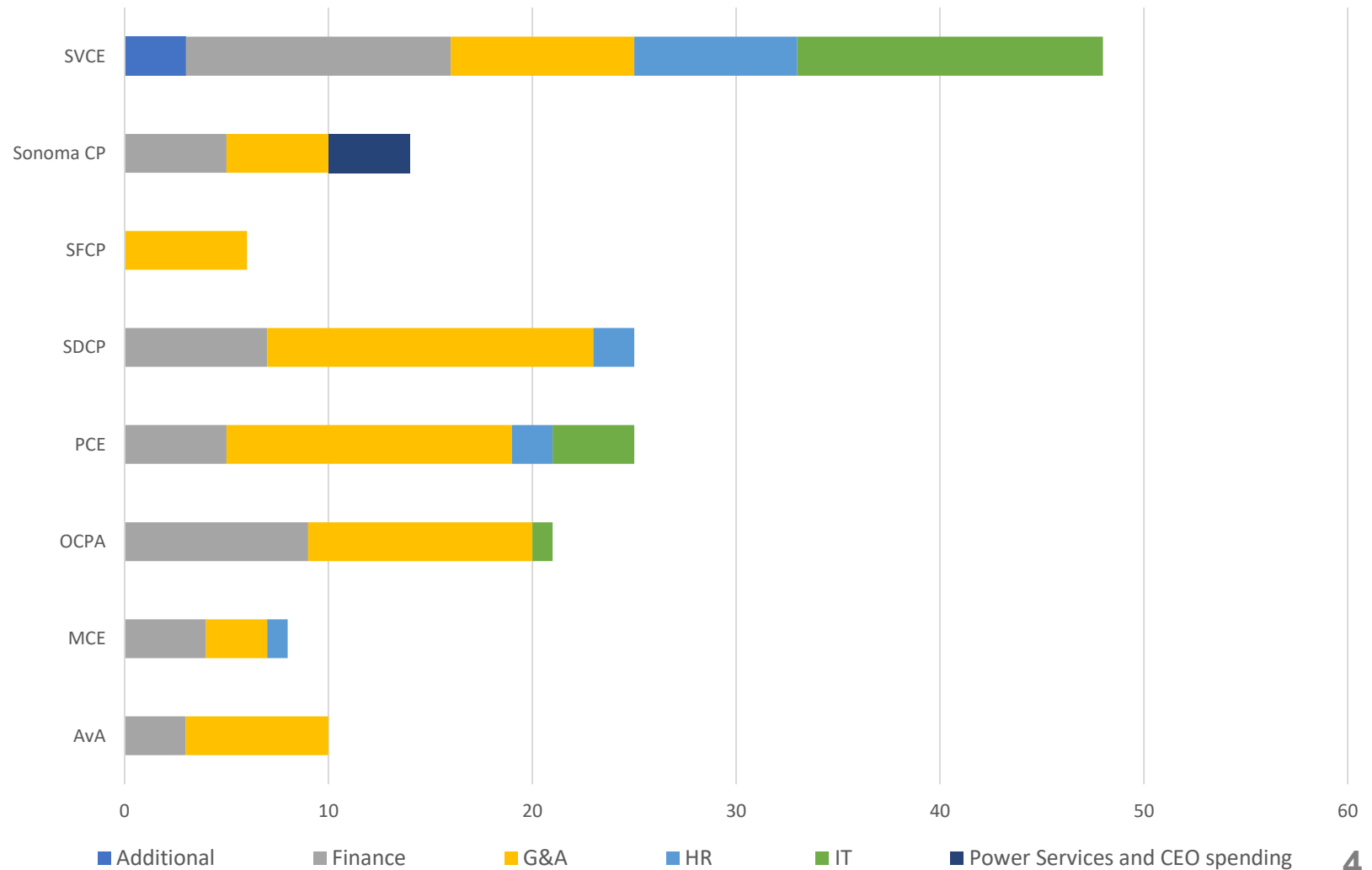


# CCA Comprehensive Policy Metrics

## Policy Categories



■ Additional  
■ Finance  
■ HR  
■ Power Services and CEO spending  
■ Customer Service  
■ G&A  
■ IT



■ Additional ■ Finance ■ G&A ■ HR ■ IT ■ Power Services and CEO spending



# How Many Policies *Should* We Have?

## The Right Ones

**Policy** - a general written document that establishes a standard by which the institution manages its affairs

- **mandates, specifies, or prohibits conduct** in order to enhance the institution's mission, ensure coordinated compliance with applicable laws and regulations, promote operational efficiency, and/or reduce institutional risk
- *Ex: Energy Risk Management, Procurement Policy, Investment, Financial Reserves, Customer Confidentiality*

# Policies, Standards and Procedures

Approval	Document	Characteristics
Board	Policy	<ul style="list-style-type: none"> <li>• Transparency: Public</li> <li>• Purpose: Mandates or prohibits guiding agency standards</li> <li>• Detail: Low</li> <li>• Significant importance (risk, fiscal, customer impact)</li> <li>• Few details on execution</li> </ul>
Executive Staff	Standard	<ul style="list-style-type: none"> <li>• Transparency: workforce</li> <li>• Purpose: Outlines an operational rule, mandate, or expectation</li> <li>• Detail: Medium</li> <li>• May change often under operational authority to keep up with needs</li> </ul>
Executive Staff	Procedure	<ul style="list-style-type: none"> <li>• Transparency: workforce</li> <li>• Purpose: details the means, tools, and process to meet the standard or policy</li> <li>• Detail: Very high</li> <li>• Changes very frequently</li> </ul>

Additional

Customer Confidentiality Policy  
Non-Standard Pricing Agreement Policy  
SVCE Risk Management Policy

Finance

Accounting Policy  
Budget Adoption, Control, and Reporting Policy  
Capital Projects Policy  
Capitalization Policy  
Chart of Accounts Policy  
Customer Generation Rates  
Debt Limitations  
Delinquent Accounts & Collections Policy  
Files & Records Management Policy  
Financial Reserves Policy  
Investments Policy  
Purchasing Card Policy  
Purchasing Policy

G&A

California Public Records Act Policy  
CEO Absence Policy  
Chair and Vice Chair Vacancy Policy  
Charging Station  
Code of Ethics  
Hybrid Meetings Policy  
  
Ticket and Pass Distribution Policy Pursuant to FPPC Regulation 18944.1  
  
Travel and Meeting Expense Reimbursements for Employee Policy  
Vehicle Use Policy

HR

Cash In Lieu Of Health Benefits  
Fitness Reimbursement Benefit  
Paid Time Off (PTO) Cash-Out Option Policy  
Recruitment Policy  
Smartphone Stipend Policy  
Tuition Assistance Policy  
Unpaid Personal Leave Policy  
Volunteer Time Off Policy

IT

Access Control Policy  
Clean Desk Policy  
Data Breach Policy  
Disaster Recovery Policy  
E-mail Use Policy  
Information Systems Use Policy  
Internet Usage Policy  
IT Asset Management Policy  
IT Satisfaction Policy  
IT Security Plan Policy  
Malware Defense Policy  
Password Protection Policy  
Security Audit Policy  
Threat-Risk Assessment Policy  
Workstation Security for HIPPA Policy

SVCE has 2 to 3  
times more  
public facing  
policies than  
other CCAs

# Policies, Standards and Procedures

Examples – Future State - HR

Board

Personnel  
Authority

Exec Staff

Benefits  
Standard

Recruitment  
Standard

Exec Staff

Cash in Lieu  
Procedure

Fitness  
Reimbursement  
Procedure

Recruitment  
Incentive  
Procedure

# Policies, Standards and Procedures

Examples – Future State - IT

Board

Information  
Technology  
Policy

Exec Staff

IT Security  
Plan  
Standard

Informations  
Systems Use  
Standard

Exec Staff

Password  
Protection  
Procedure

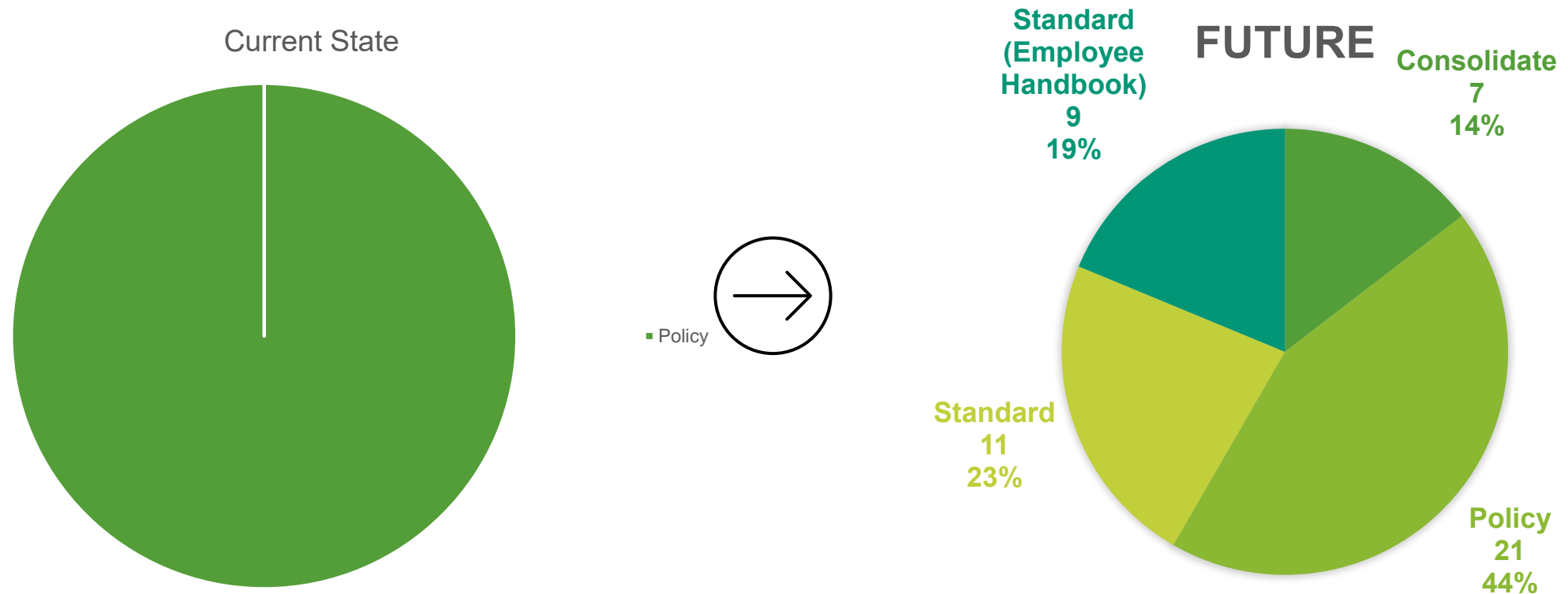
Clean Desk  
Procedure

Email Use  
Procedure



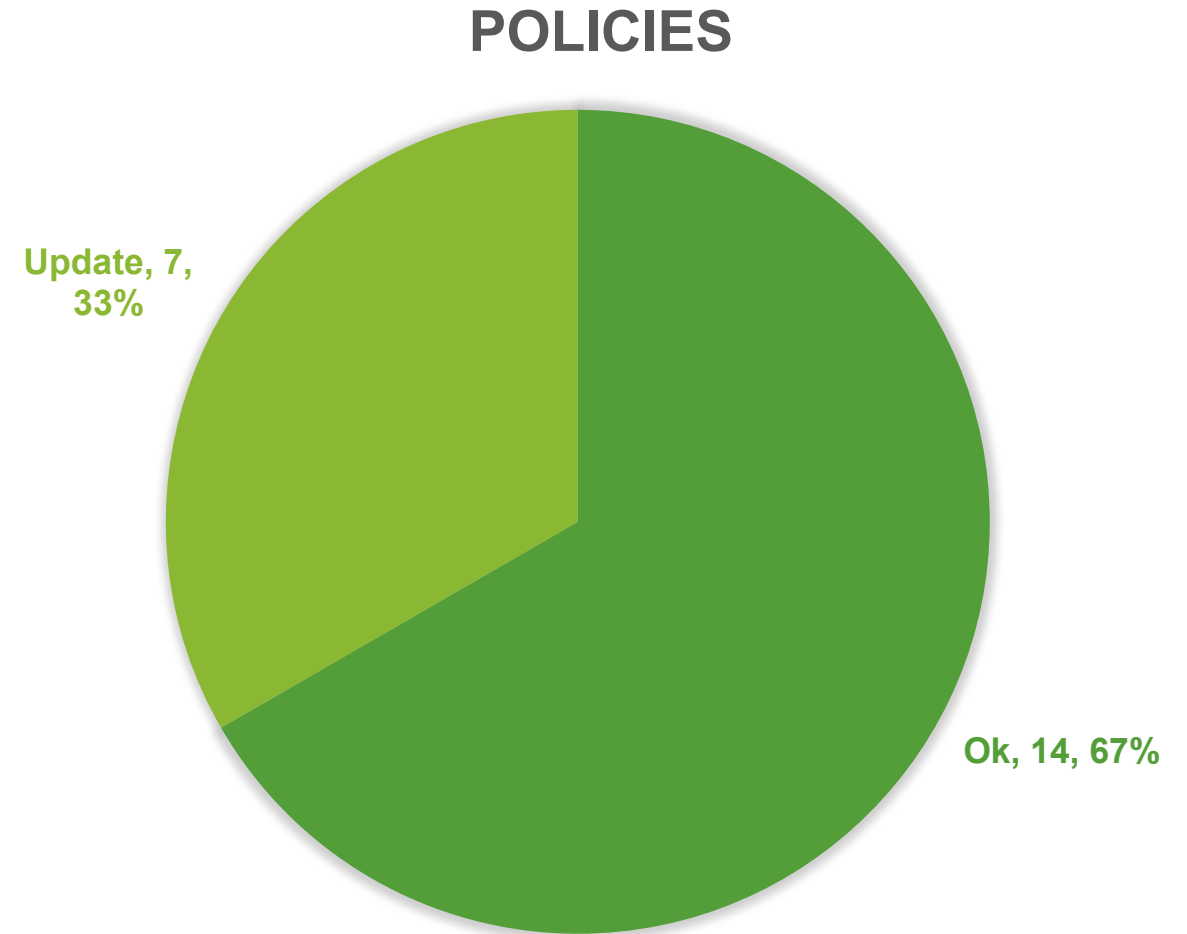
# Next Steps Part I

- ✓ Review, revise, realign, reassign
- 👁 48 policies become ~21 policies + standards + procedures



# Next Steps Part II

- ✓ Revised policies will be brought for board adoption
- 👁️ List of retired, realigned policies will be reviewed
- 🕒 Return annually for policy updates and review



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Questions?  
Feedback?

