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Larry Klein
City of Sunnyvale

Otto Lee
County of Santa Clara

svcleanenergy.org

333 W El Camino Real
Suite 330
Sunnyvale, CA 94087

Silicon Valley Clean Energy
Finance and Administration Committee Meeting

Monday, May 13, 2024
3:00 pm

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

Teleconference Meeting Information:
https://svcleanenergy-org.zoom.us/j/88372046420

Or by Telephone (Audio only):
US: +1 669 219-2599
Webinar ID: 883 7204 6420

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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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.

Consent Calendar (Action)

1) Approve Minutes of the February 26, 2024 Finance and Administration Committee Meeting

Regular Calendar

2) Results of Stress Test Analyses (Discussion)
3) FY 2024-25 Budget Framework (Discussion)

Committee/Staff Remarks

Adjourn

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Silicon Valley Clean Energy
Finance and Administration Committee Meeting
Monday, February 26, 2024
2:00 p.m.

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

DRAFT MEETING MINUTES

Call to Order

Chair Wei called the meeting to order at 2:05 p.m.

Roll Call

Present:
Chair Hung Wei, Cupertino
Director Pat Showalter, Mountain View
Alternate Director Murali Srinivasan, Sunnyvale

Absent:
Director Elliot Scozzola, Campbell

Public Comment on Matters Not Listed on the Agenda

No speakers.

Consent Calendar

Chair Wei opened public comment.
No speakers.
Chair Wei closed public comment.

MOTION: Director Showalter moved and Alternate Director Srinivasan seconded the motion to approve the Consent Calendar.

The motion carried with Director Scozzola absent.

1) **Approve Minutes of the November 30, 2023, Finance and Administration Committee Meeting**

Regular Calendar

2) **CEO Update (Discussion)**

CEO Girish Balachandran spoke to the budgeting process, financial stress test scenarios, best practices, and reserves.

Committee members thanked CEO Balachandran for his service to SVCE, given this would be his last Finance and Administration Committee meeting.

Chair Wei opened public comment.
No speakers.
Chair Wei closed public comment.

3) Selection of 2024 SVCE Finance and Administration Committee Chair and Vice Chair (Action)

Sr. Executive Assistant and Board Clerk Andrea Pizano reviewed the process for selection of Chair and Vice Chair of the Committee.

Chair Wei requested nominations for the position of Chair.

MOTION: Director Showalter moved and Alternate Director Srinivasan seconded the motion to nominate Alternate Director Hung Wei to serve as Chair of the 2024 Finance and Administration Committee.

The motion carried with Director Scozzola absent.

Chair Wei requested nominations for the position of Vice Chair.

MOTION: Director Showalter moved and Chair Wei seconded the motion to nominate Alternate Director Srinivasan as Vice Chair of the 2024 Finance and Administration Committee.

The motion carried with Director Scozzola absent.

Chair Wei opened public comment.
No speakers.
Chair Wei closed public comment.

4) SVCE's Planning and Budgeting Process and Proposed Financial Stress Test Cases (Discussion)

Amrit Singh, CFO and Director of Finance and Administration, presented the item to review the planning and budgeting process, in addition to highlighting the role of the Finance and Administration committee in planning for the upcoming fiscal year. The main areas of discussion included:

- FY 24-25 budgeting and planning timeline;
- Overview of Enterprise Risk Management (ERM) and Stress Test;
- Review key drivers of financial risks;
- Review planned financial stress test scenarios; and
- Next steps

Staff responded to questions regarding the stress test, SVCE's planning and budgeting process, SVCE's mission, operating expenses, rates, energy prices, SVCE's discount to PG&E and customer pricing.

Chair Wei opened public comment.
No speakers.
Chair Wei closed public comment.

5) Midyear Update on the 2023-24 Fiscal Year Operating Budget (Action)

CFO and Director of Finance and Administration Singh presented an update on the 2023-24 Fiscal Year operating budget, with a request for the Finance and Administration Committee to recommend the Board of Directors adopt the mid-year adjusted operating budget. The presentation included:

- Budget timeline review;
- Highlighted changes since the adoption of the adjusted budget in December;
- Comparison of mid-year and adjusted budget key line items;
- Review of five-year projections; and
- Staffing update.

Staff responded to questions regarding the personnel update.

Chair Wei opened public comment.
No speakers.
Chair Wei closed public comment.

MOTION: Director Showalter moved and Vice Chair Srinivasan seconded the motion to recommend the SVCE Board of Directors adopt the Mid-year (MY) 2023-24 Adjusted Operating Budget that projects contributing $112.6 million to the reserves.

The motion carried with Director Scozzola absent.

6) Review of SVCE's Third Power Prepay Transaction (Discussion)

CFO and Director of Finance and Administration Singh provided a report out of the completed third prepay transaction, addressing: the goals of the prepay; review of the Board authorized execution parameters; a summary of executed transactions; and next steps.

The transaction summary included:

- $1.1bn deal size;
- 13.1% discount; and
- 18% of load coverage.

Chair Wei opened public comment.
No speakers.
Chair Wei closed public comment.

7) SVCE's Policy Review Update (Discussion)

Gia Ilole, Director of Human Resources, presented an update on SVCE's policy maintenance project, reviewing:

- Project outline;
- Policy metrics for SVCE and CCAs;

- An overview of policies, standards and procedures; and
- Next steps in the project.

Staff responded to questions regarding the audit of policies and the Audit Committee's role, internal review, and the process of approving the amendments.

Chair Wei opened public comment.
No speakers.
Chair Wei closed public comment.

Committee/Staff Remarks

CFO and Director of Finance and Administration Singh noted the Audit Committee would be meeting February 29, 2024 to review the findings of the external auditors for SVCE's financial audit which would be presented at the March 13, 2024 Board of Directors meeting.

Adjournment
Chair Wei adjourned the meeting at 3:53 p.m.

ATTEST:

____
Andrea Pizano, Board Secretary

Staff Report – Item 2

Item 2:	**Results of Stress Test Analyses**
From:	Monica Padilla, CEO
Prepared by:	Amrit Singh, CFO and Director of Administrative Services
Date:	5/13/2024

RECOMMENDATION

Receive the results of the Stress Test analyses. This report provides background information that staff will use in developing recommendations for the Board to adjust reserve levels for the next fiscal year (2024-2025) and discusses portfolio procurement risks stemming from long-term load growth uncertainty.

BACKGROUND

At the February 26th, 2024, Finance and Administration Committee meeting, staff reviewed the Enterprise Risk Management (ERM) framework for comprehensively assessing and managing the organization's risks and opportunities. SVCE's fiscal year planning begins using the ERM framework that attempts to assess risks and opportunities that impact SVCE's mission. Staff explained that stress tests are an essential component of the ERM because of the inherent weakness in standard market risk measures in assessing "black swans" or extreme but plausible events such as market disruptions caused by, for example, an economic recession. Staff proposed a financial stress scenario that can have severe and direct financial consequences for the organization and whose mitigations are prudent to account for in developing the fiscal year budget. Staff also proposed assessing the risks of longer-term load growth uncertainty. The other risks and opportunities identified from the ERM process shape the next fiscal year's strategic focus areas and department work plans.

ANALYSIS & DISCUSSION

Staff used lessons and insights from past analyses to construct the stress test scenarios. The past analyses included both increase and collapse of market prices, insufficient financial liquidity, load losses, and loss or delay of resources under Power Purchase Agreements. The key finding from these analyses is that the most significant financial risk facing SVCE over the next 5 years is a collapse in energy prices. A collapse in energy prices will significantly reduce SVCE's revenues because of higher PCIA[1] and lower PG&E generation rates. However, this price drop will not substantially reduce SVCE's energy purchase costs because the prices for most of the forward energy purchases are locked because of existing hedges, with more hedges in the earlier years aligned with the Energy Risk Management Policy hedging targets. The hedges also include contracts for the fixed-price purchase of renewable energy. The impact of price collapse overwhelms all other stress factors. This year's analysis assesses price collapse risks over the next five years.

In this year's analyses, staff has also started to assess the risks associated with load growth uncertainty. If load growth is higher than anticipated, SVCE can face difficulty meeting procurement and compliance targets,

[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 that 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).

among other risks. On the other hand, if load growth is lower than expected, SVCE can face stranded cost risks that can erode its competitiveness and ability to carry out its mission.

The 5-yr Price Collapse Financial Stress Scenario

The 5-year financial stress test scenarios include these fundamental assumptions.

1) Energy price drop to statistical one percentile level
To provide customers with competitive rates, SVCE sets its generation rates such that customers receive an effective discount, currently set at four percent for 2024 and 1% after that, to comparable PG&E rates. Because CCA customers must pay PCIA charges to provide the effective discount rate, SVCE reduces its rate by the PCIA amount. As a result of the price collapse, PCIA will increase, and PG&E generation rates will likely decrease, thereby reducing SVCE's generation rates.

2) Price drop stresses financial liquidity
The standard credit risk management practice, except for long-term Power Purchase Agreements (PPAs), is the requirement to post collateral, usually cash or letters of credit, when the exposure to the counterparty reaches the negotiated credit limit. The stress test models how much SVCE's collateral posting requirements can increase with price collapse. The results show that price collapse does not significantly impact liquidity because of SVCE's active management of collateral posting requirements, including placing key counterparties in a lockbox mechanism in return for not having posting requirements and long-term PPAs not being subject to this requirement.

3) Other business operating and regulatory risks
In the past stress test analyses, staff modeled regulatory uncertainty from the potential changes to the Financial Security Requirement (FSR) that, under some proposals, would have required SVCE to post collateral equivalent to the cost of procuring energy over the two highest calendar months. The recently issued CPUC decision significantly mitigates this risk. This year's stress test continues to model the requirement of a one-time cash draw equivalent to the two highest months of procurement under the very low-price scenario as a proxy for other potential business operating and regulatory risks.

4) Increased bad debt and load loss due to a recession.
Economic recession often entails contraction of load and an increase in bad debt losses. The analyses assume a 5% load loss for 12 months of the forecast. The 5% estimate is derived from the average load loss experienced at Covid. The bad debt assumption is 1% of the revenues.

The attachments to this report provide the summary tables with financial results under the current base case scenario and the modeled stress case scenario. The base case shows that reserves fall from the forecast level of $420 million at the end of the current fiscal year (September 30, 2024) to $368 million at the end of the next fiscal year. Reserves continue to fall in subsequent years and then rise to $360 million towards the end of the 5-year forecast period.

There's considerable uncertainty in developing the base case scenario. While energy prices have always been volatile, resource adequacy (RA), carbon-free, and renewable portfolio standard (RPS) prices have recently become highly volatile. Energy prices, including those for the forward months, have declined significantly, and this decline has reduced SVCE's financial margin projections because of the resulting increase in PCIA. However, recent record-high RA and RPS prices are helping offset and potentially more than offset the declining margins from lower energy prices. The actual impact of these prices will not be known until the CPUC issues its market price benchmarks (MPBs) in the fall. Unlike energy prices for which the CPUC uses forward prices, RA and RPS are based on load serving entities (LSEs) actual transactions, thus making forecasting more difficult. Staff developed the following three RA and RPS price scenarios for forecasting MPBs:

1. Using incremental market observed RA and RPS prices

2. Adjusting market-observed RA and RPS prices using an adjustment factor staff imputed by comparing last year's MPB RA and RPS prices published by the CPUC with those then observed in the market.
3. Using RA and RPS prices in the NewGen consultant's model, based on last year's MPBs.

The revenue forecast using the above three scenarios results in a range from $385 million (scenario 3) to $600 million (scenario 1)[2]. Given this is a stress test analysis, staff used scenario 3 assumptions.

If the stress scenario were to occur and, at a minimum, SVCE maintained a 1% customer discount to comparable PG&E rates, reserves would be drawn down by about $128 million. The resulting days cash on hand (DCOH) in fiscal years ending from 2026 to 2029 would fall below the minimum threshold of 120, and in the fiscal year ending 2029, SVCE would run out of cash.

The modeled results are based on the highly uncertain MPB price assumptions. PCIA and PG&E generation portfolio assumptions are based on public data as best modeled by the California Community Choice Association (CalCCA) consultant NewGen Strategies and are also highly uncertain. In addition to not knowing the contents of the PCIA portfolio and PG&E's generation portfolio, PG&E's portfolio management strategy may change from those modeled, and the California Public Utilities Commission (CPUC) may moderate future PG&E generation rate increases. All these uncertainties make the absolute value of the results highly unreliable. Nevertheless, the relative differences between the base case and the modeled stress test scenario are more pertinent to understanding our strategic risks.

Staff will present the results of the stress test analysis to the Board in June. Like last year, the stress test analysis, updated for market prices in alignment with those used to develop the next fiscal year's budget, will be used to update the reserve monitoring and reporting thresholds. The proposed methodology for updating the reserves thresholds is to build reserves such that if the modeled stress scenario were to occur, reserves do not fall below the minimum reserve threshold of holding 120 Days of Cash on Hand (DCOH) over the next two fiscal years and 90 DCOH over the remaining five fiscal years.

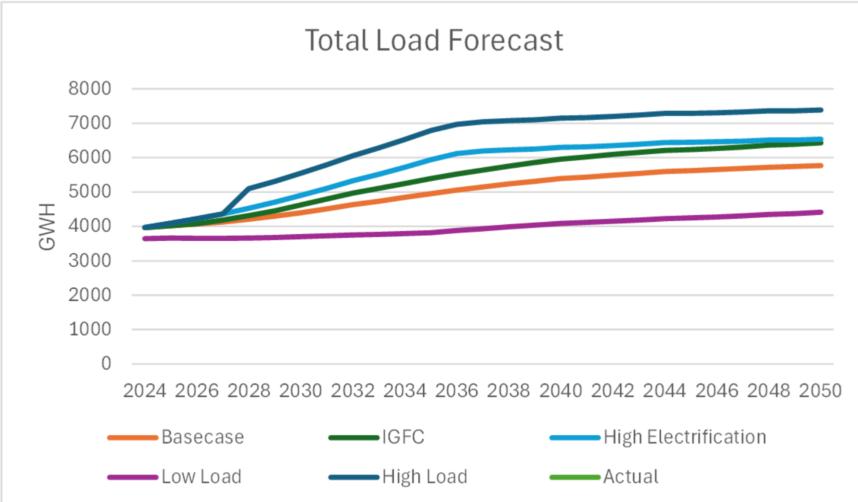
The table below summarizes what the update would look like if we were to do so at the current prices:

	Current	Illustrative New Targets
Minimum	120	120
Goal (Target)	300	315
Maximum (Upper Target)	490	420

Portfolio Management with Long-Term Load Growth Uncertainty

In the past, per capita electricity consumption in California has remained relatively stable, mainly due to the state's energy efficiency measures. We anticipate that the future will be unlike the past, and over the longer term, significant load growth is expected from drivers such as electric vehicles, building electrification, and data centers, including those resulting from growth in artificial intelligence. As shown in the chart below, SVCE's load growth scenarios range from cumulative base case growth of 46% to a high of 86% from 2024 to 2050.

[2] SVCE's current fiscal year revenue forecast is $552.9 million.



The attachment to this report summarizes the load forecast scenarios.

To manage the long-term load growth uncertainty, SVCE built an internal team to develop and monitor load growth in the agency's service territory.

One of the key risks is procuring long-term resources at prices that later become above-market. This is a similar risk to that of Investor Owned Utilities (IOUs) with load departure to CCAs. However, the PCIA mechanism protects the IOUs, but CCA's do not have such protection.

SVCE's current portfolio risk management strategy includes 5-yr board-approved laddered hedges and longer-term hedges with power purchase agreements (PPAs). The long-term PPA strategy is designed to meet SVCE's internal target of procuring 75% RPS by 2030, comply with CPUC procurement orders for reliability, and comply with legislative mandates from SB 350 and SB100, which require a 100% clean portfolio by 2045 with 65% of RPS from long-term contracts of 10 years or longer.

SVCE is continuously assessing longer-term risks and devising longer-term risk management strategies accordingly. These efforts include working with consultant Energy Environmental Economics (E3) to develop long-term clean targets. Staff plans to present results from this study in late summer or early fall. SVCE will continue with laddered procurement of long-term resources to reduce risks from technological advances and load uncertainty. To further diversify its portfolio of PPA risks, SVCE is working with CC Power to assess the economics and risks of direct ownership of resources and to take advantage of Inflation Reduction Act (IRA) benefits.

In addition to the above activities, SVCE will revisit the hedging targets in the Energy Risk Management Policy. As illustrated in the financial stress test scenario, impacts from PCIA and PG&E generation rates on SVCE's revenues depend on the same market prices as SVCE's power procurement costs. Accounting for this financial impact will reduce the amount of hedges and overall financial risks. Because PCIA and PG&E generation rates are essentially black boxes, quantifying their level of hedge impact is difficult.

STRATEGIC PLAN

The analyses support SVCE Strategic Plan Goal 19 – "Commit to maintaining a strong financial position" and Goal 20 – "Avoid failures in the management of market risk, credit risk, liquidity risk, operational risks, and enterprise risks."

FISCAL IMPACT

The stress test analyses show that the key financial risk facing SVCE in the near term is a collapse in energy prices that can significantly reduce revenues and require a substantial draw of funds from the reserves. The best mitigation of this risk is to hold sufficient funds in reserves. Staff will use the results of these analyses to recommend reserve levels for the Board to consider in setting the Fiscal Year 2024-25 budget.

ATTACHMENT

1. Summary of Base Case Results & Stress Test Results
2. Load Forecast Scenario Descriptions

Attachment 1 – Summary of Base Case and Stress Test Results

Base Case Results

	2025	2026	2027	2028	2029
Revenues	$ 384	$ 459	$ 416	$ 450	$ 438
Power Supply Costs	$ 397	$ 485	$ 360	$ 370	$ 360
Operating Margin	$ (13)	$ (26)	$ 56	$ 80	$ 78
Other Costs	$ 40	$ 66	$ 47	$ 41	$ 43
Net Contribution to Reserves	$ (53)	$ (91)	$ 9	$ 39	$ 35
Reserve Balance	$ 368	$ 277	$ 286	$ 325	$ 360
Days Cash on Hand	307	183	257	289	326

Stress Test Results

Operating with period of 5% load loss	2025	2026	2027	2028	2029
Revenues	$ 167	$ 225	$ 239	$ 288	$ 308
Power Supply Costs	$ 277	$ 308	$ 249	$ 282	$ 309
Operating Margin	$ (110)	$ (84)	$ (10)	$ 6	$ (1)
Other Costs	$ 40	$ 66	$ 47	$ 41	$ 43
Counterparty Collateral Outflow	$ (10)	$ (11)	$ -	$ -	$ -
Net Contribution to Reserves	$ (140)	$ (138)	$ (57)	$ (35)	$ (43)
Reserve Balance	$ 292	$ 154	$ 97	$ 62	$ 18
Reserve after Risk Adjustment	$ 237	$ 99	$ 42	$ 7	$ (37)
Days Cash on Hand	**274**	**97**	**52**	**8**	**(38)**

Attachment 2 – Load Forecast Scenario Descriptions

Base Case Results

The 2024 stress scenario load forecasts are based on the Operating Forecast presented to the Board at the April Meeting. All changes described below are relative to that forecast. The scenarios include income-graduated fixed charge (IGFC), high electrification, high load, and low load.

1. The IGFC scenario is based on the possible impacts of the "income-graduated fixed charge." Under AB 205 (2022), policymakers directed the CPUC to adopt an "income-graduated fixed charge" that reduces power bills for lower-income customers as well as benefits households' transition to electric vehicles (EV), water heaters, and more. This scenario accounts for the possible impacts on the load, with higher building electrification (BE) and EV growth and lower behind-the-meter photovoltaic (PV) growth. The total load under this scenario is projected to grow by 2.8% per year to 2035, compared to 2.0% under the base case.

2. The High Electrification scenario assumes customers in SVCE's territory replace all equipment on burnout with electric technologies, following proposed Bay Area Quality Management District (BAAQMD) rules. This scenario also assumes an accelerated EV adoption trajectory relative to the operating forecast, with 90% of the vehicles in SVCE's service territory as EVs by 2035 in response to the state's ban on internal combustion engine sales starting in 2035. The total load is projected to grow by 3.7% annually by 2035.

3. The High Load scenario assumes data center load coming in 2028 in response to the high growth of artificial intelligence (AI) development on top of the High Electrification scenario. It assumes 11% of SVCE's load is from the new data center, which is likely a high target given development time. The total load is projected to grow by 5.0% annually by 2035.

4. The Low Load scenario combines several factors that could lower SVCE's load growth. First, it assumes electrification policies will get rolled back, resulting in an 11% decrease by 2035. Additionally, it assumes 12% of SVCE's load is lost to new direct access (DA) load opening and additional customer opt-out by 2035. This scenario is considered as the lower bound of load growth. The total load is projected to grow by 0.4% annually by 2035.

Scenario	Load Modifier						
	BTM PV	EV	EE	BE	BTM ESS	Opt-Out	Others
Base	12% CAGR	61% by 2035	12% CAGR	68% space heating and 19% water heater by 2035	13% CAGR	No	No
IGFC	11%	67% by 2035	Base	75% space heating and 55% water heater by 2035	Base	No	No
High Electrification	Base	90% by 2035	Base	86% space heating and 81% water heater by 2035	Base	No	No
High Load	Base	90% by 2035	Base	86% space heating and 81% water heater by 2035	Base	No	Data Center 3*Current large sized load by 2035
Low Load	Base	30% by 2035	Base	53% space heating and 14% water heater by 2035	Base	4%	DA Open ~400 GWh by 2035

SILICON VALLEY CLEAN ENERGY

Staff Report – Item 3

Item 3:	**FY 2024-25 Budget Framework**
From:	Monica Padilla, CEO
Prepared by:	Andrea Pizano, Sr. Executive Assistant/Board Clerk
Date:	5/13/2024

This item will be addressed in the form of a presentation to the Finance and Administration Committee regarding the preliminary framework for the FY 2024-25 operating budget.

ATTACHMENT
The presentation for this item is posted to SVCE's website.