
Stress Test Analyses

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Finance and Administration Committee

May 28, 2026

Purpose

Present findings of the stress test analyses

Main Areas of Discussion

1. Review of the enterprise risk management (ERM) framework and key drivers of financial risks
2. 5-yr Financial Base Case Forecast Update
 - Updated projections compared to Mid-Year
 - Uncertainties surrounding the financial projections
3. Stress test construction
 - By design, extreme but plausible
4. Compare the updated base case with the stress test scenario
5. Recommendations



**1. Stress Test is Part
of SVCE's
Enterprise Risk
Management
(ERM) framework**





Key Components of the ERM Framework

Risk Register

- Record of the organization’s risks and opportunities – “Living Document”
- Identify current and additional planned mitigations
- Identify risk owner

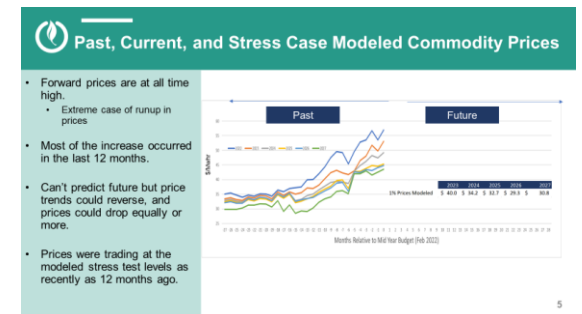
Risk Matrix

- 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)	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)

Stress Tests

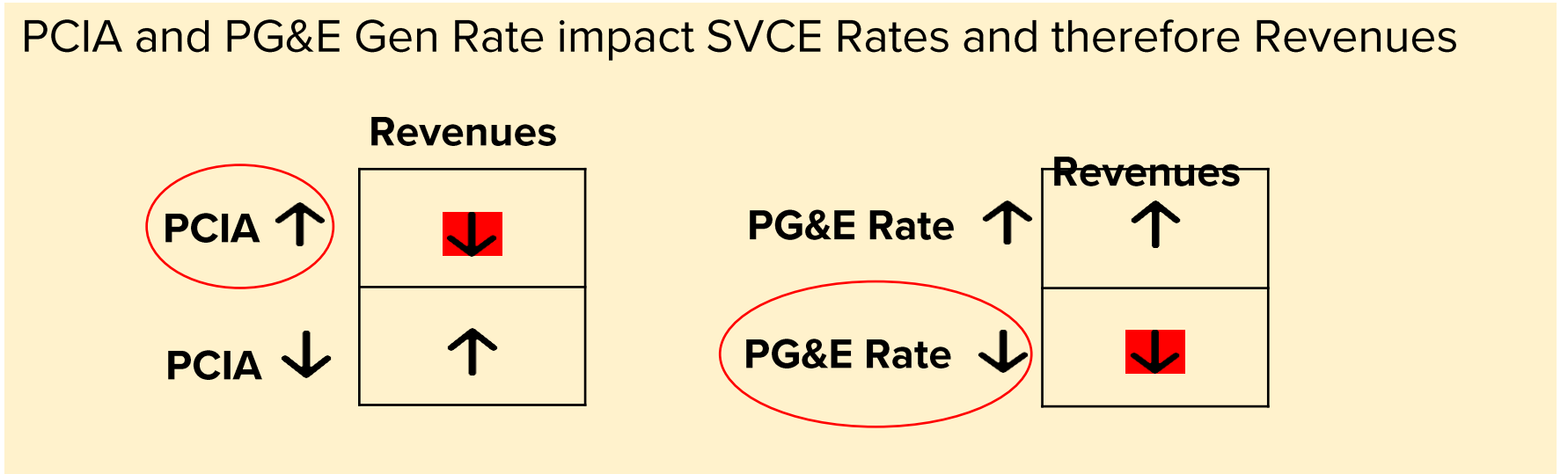
- Model scenarios (financial position, systems, and processes) of interrelated risks that are **extreme but plausible**
- Develop appropriate risk management strategies, including the adequacy of reserves





Review of Key Financial Risk Drivers

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



- Revenues decline when prices decline
- Loss of revenues far exceeds savings from power purchases
 - Power procurement savings dampened by existing hedges
 - SVCE has adjusted its energy portfolio to mitigate this impact to the extent possible, and as best estimated by SVCE



Big Contributor to PCIA and PG&E Generation Rate Uncertainty is Market Prices

For the most part, this year's actual prices and the forecast of next year's Market prices will impact next year's rates.

Next Year's PCIA
& PG&E Gen Rate



Current Year's actual
realized Prices



Forecast of Next
Year's Market Prices

- **Can not bank the current year's margin**

- Current year's gain may be returned the following year through higher PCIA and lower PG&E generation rates

- Deviations between actual and forecast costs are tracked in balancing accounts and trued up the following year

- **For financial/reserve planning, greater focus is placed on the next two years' projections**

	2027 Prices ↑	2027 Prices ↓
2026 Prices ↑	PCIA ↓ PG&E Rate ↑ SVCE Revenues ↑	
2026 Prices ↓		PCIA ↑ PG&E Rate ↓ SVCE Revenues ↓

2. 5-yr Financial Base Case Forecast Update

- Updated projections compared to Mid-Year



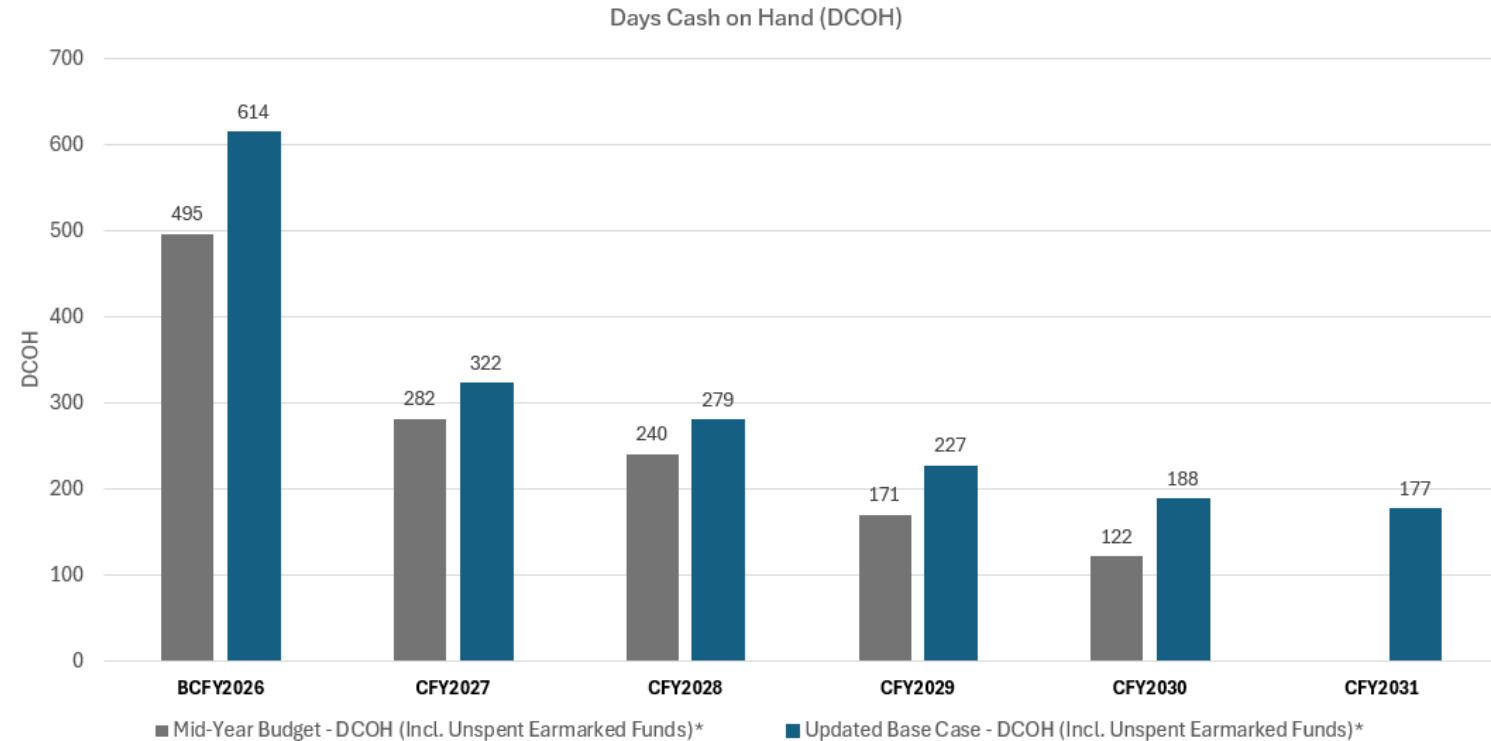


Reserve Outlook Change from Mid-Year Budget

Comparing Base Cases

- Mid-year budget converted to calendar fiscal year (CFY) convention
- Reserves and Days Cash on Hand (DCOH) improve from the Mid-year projections
 - 2026 projections improve from lower expected Financial Security Requirement (FSR)* and power supply costs resulting from lower market prices
 - Future years' improvements result from a reduction in power supply expenses from updated portfolio positions

* SVCE provides FSR to PG&E because PG&E serves as the Provider of Last Resort (POLAR) for SVCE customers



* Earmarked funds are unspent SVCE Program Funds and Remaining Building Funds.

\$ Millions	BCFY 2026	CFY 2027	CFY 2028	CFY 2029	CFY 2030	CFY 2031
Updated Base Case Reserve Balance	544	316	308	268	228	228
Mid-Year Budget Reserve Balance	492	292	271	205	154	N/A
Change	52	24	37	63	74	N/A



Other Uncertainties: Modeling & Other Risks

- Financial projections are made with the best available data and information
 - Market (Forward) Prices
 - NewGen Strategies & Solutions model to forecast PCIA and PG&E Generation Rates
 - PCIA is a “black box”
 - PG&E generation portfolio data needed to forecast PG&E generation rates are not available
 - SVCE power supply portfolio positions and other operating expenses can change
- PG&E, with PCIA and its generation portfolio data, cannot accurately predict next year’s rates when it issues its mid-May ERRA forecast
- Regulatory and Legislative changes have a significant impact
 - PCIA Order Instituting Rulemaking (OIR) Proceeding
 - Track One decision had a significant impact on 2026 rates due to change in rules around RA MPBs
 - Track Two and Track Three decisions could further introduce changes affecting PG&E rates for future years

3. Stress Test Construction

- By design, they are extreme, but plausible scenarios



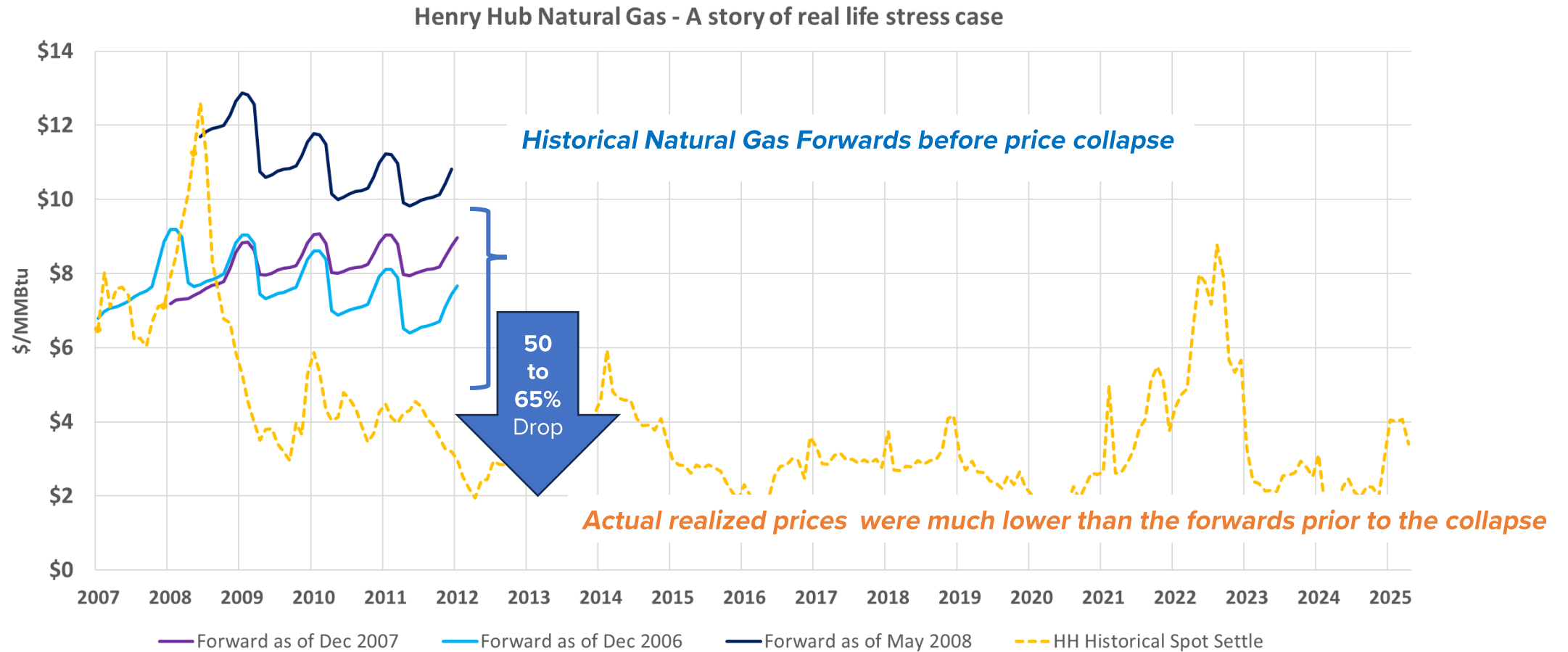


Financial Stress Test Description & Key Assumptions

- Forward Energy Prices Collapse
 - Around one percentile level or less (P1)
 - **44% drop from the current low forward prices**
 - Reasonable in terms of relative comparison to observed commodity price drops from the 2008 financial crisis
- Renewable Portfolio Standard (RPS) and Resource Adequacy (RA) Prices Drop as well
 - **72% drop for RPS and 24% drop for RA from the current low forward prices**



2008 Financial Crisis Period Natural Gas Price Collapse



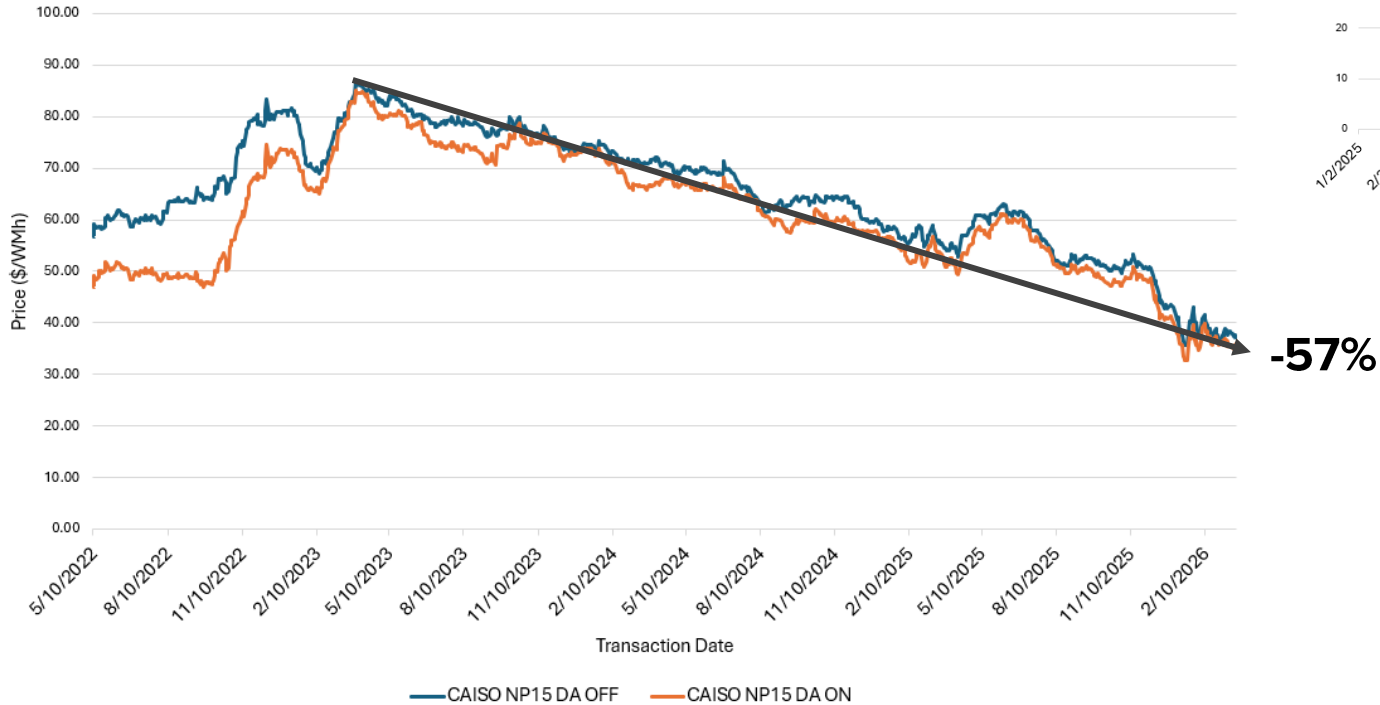


Current Market Price Collapse

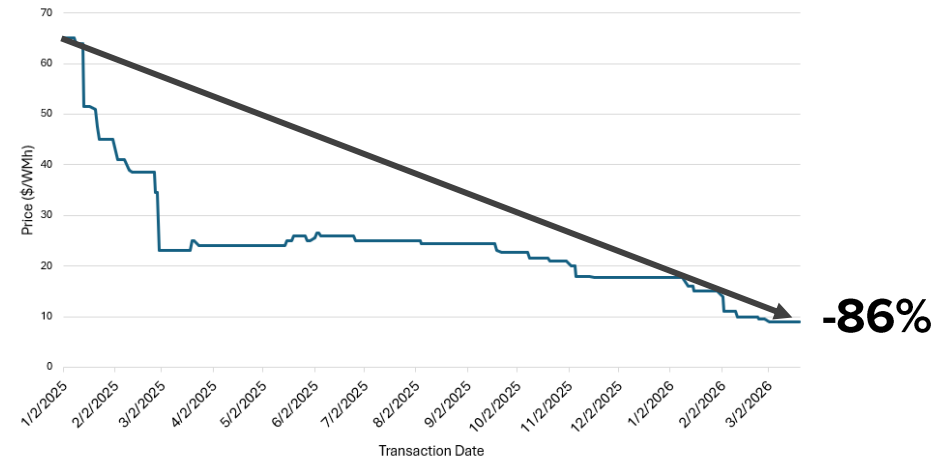
Prices are currently in a drawdown roughly equivalent to the 2008 financial crisis.

Product	High Price	Current Price	Drawdown	High Price Year
Energy	\$85.89	\$36.51	57%	2023
RPS	\$65.00	\$9.00	86%	2024/2025
System RA	\$30.00	\$6.25	79%	2024

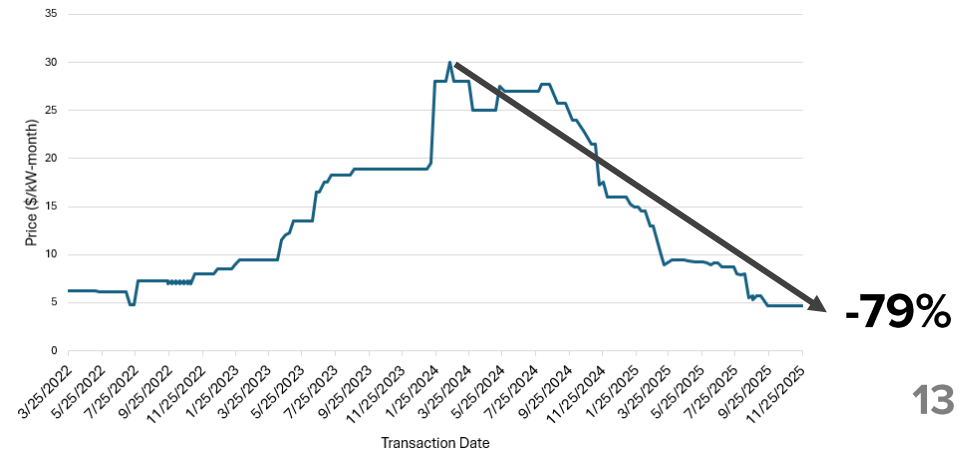
CY 2026 NP15 Forward Price



Cal 26 PCC1 Price



Cal 26 System RA Price





Are Current Market Prices Already at Stressed Level?

- Previous slides demonstrate that, from recent high prices, the current market prices are at stressed levels
 - At these current prices, our base 5-year financial projections have deteriorated significantly
- **Why the additional stress test with further collapse in prices?**
 - Prudent risk management should consider the possibilities that financials can still worsen
 - Do not know if prices have reached a bottom
 - During the 2008 crisis, prices kept falling beyond what appeared initially as low
 - “Black Swan” events can cluster and cascade
 - New market dynamics – renewables with zero marginal cost
 - Stress scenarios are to test our financial resiliency and are **not** a prediction or forecast
 - Stress tests are designed to be **extreme but plausible**
 - **Current collapse in prices demonstrates the plausibility of our past stress tests**



Financial Stress Test Description- cont'd

- **PCIA Uncertainty**
 - Ongoing PCIA proceeding further increases financial uncertainty
 - Both stress and base case are based on the current methodology
- **Customer Discount for both the Base Case and Stress Case**
 - Customer discount is modeled at 1%
- **FSR**
 - Staff modeled the FSR postings based on the maximum within each year and assumed cash wasn't returned until the following year
 - Maximum posting of \$69m in the base case and \$46m in the price collapse scenario (both in 2027)
- **Customer Un-collectibles Increase**
 - Bad debt is 0.75% in the base case and 2% in the stress case



CPUC Procurement Order Stress Scenario

- CPUC procurement order for expected data center load growth
- Stress scenario assumes that the load doesn't materialize, leading to stranded costs
- In this case, the order would negatively affect power market prices, causing MTM losses
- Added hypothetical portfolio of PPA's to portfolio assuming a ramp up of 33% requirement in 2030, 67% in 2031, and 100% from 2032 onwards





Affordability Focus Stress Discussion



- Heightened discussion in recent years on the importance of power affordability to customers
- Increasing public pressure to decrease electricity rates
- Political, Regulatory, Legislative and/or Customer interests
- Can occur both in isolation and in conjunction with other stress scenarios
- Risk mitigation: monitor sentiment closely, especially as 2026 election approaches

Note: Staff determined that too much uncertainty remains to assert a quantitative stress on this topic.



PCIA Reopening Stress Discussion

- Ongoing CPUC proceedings on amendments to PCIA calculation
- Currently three tracks that address RA MPB, REC's vintages, and wholesale changes
- Impacts could be across a spectrum of positive to negative for CCAs
- Relatively uncorrelated with other stress scenarios
- Risk mitigation: SVCE staff actively engaged in OIR proceedings

Note: Staff determined that too much uncertainty remains to assert a quantitative stress on this topic.



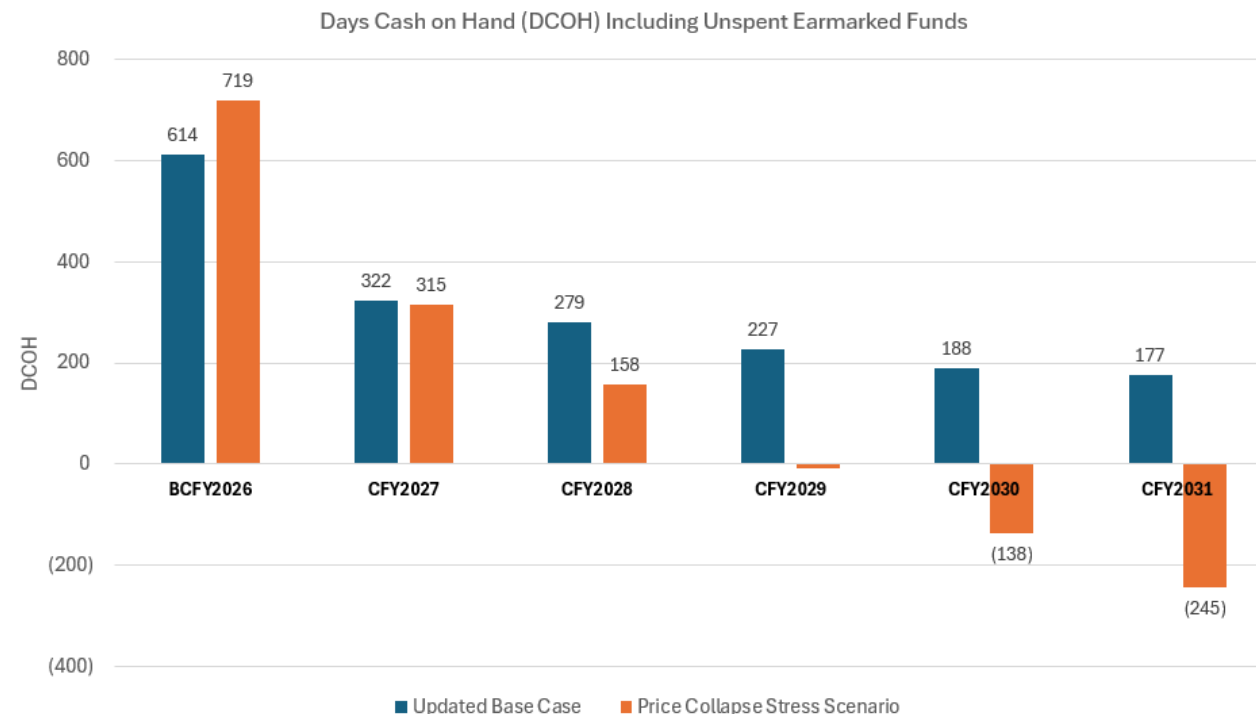
4. Comparing the Updated Base Case with the Stress Test Scenarios





Reserve Outlook Under Base and Primary Stress Scenario: P1 Price Collapse

- Updated Base Case - SVCE draws ~\$63 million a year on average from reserves under the current operating framework
- Financially, SVCE is well-positioned to continue to monitor market developments and implement any of the financial levers that staff have been developing with the Finance and Administration and the Executive Committees and with the Board of Directors.
- Under the base case scenario
 - DCOH remains above the minimum threshold of 120
 - DCOH remains ~279 through the end of 2028
- Under the stress case scenario
 - DCOH remains above the minimum only through the end of 2028 and falls below it from 2029 onwards



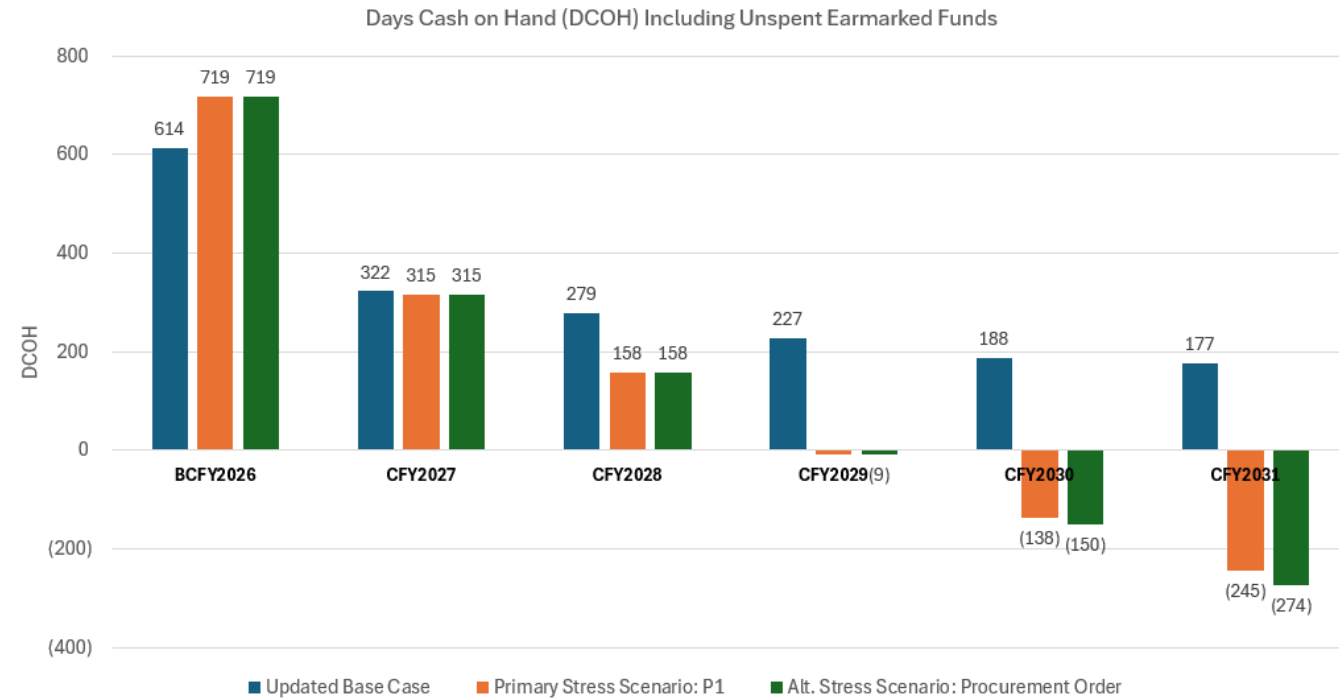
\$ Millions	BCFY2026	CFY2027	CFY2028	CFY2029	CFY2030	CFY2031
Primary Stress Scenario: P1 Price Collapse Reserve Balance	564	264	147	(9)	(136)	(251)
Updated Base Case Reserve Balance	544	316	308	268	228	228
Change	20	(53)	(162)	(276)	(364)	(479)

Note: DCOH and reserve balances exclude cash from projected FSR postings.



Reserve Outlook Under Alt. Stress Scenario: Procurement Order

- Identical assumptions to price collapse stress scenario (P1 prices) except for the addition of hypothetical PPA's
 - 33% of total order MW in 2030 and 67% in 2031
- Added hypothetical PPA's to current portfolio:
 - Geo: 20 MW
 - Solar: 130 MW
 - OOS Wind: 20 MW
 - BESS: 130 MW
 - Modeled after current PPA assets
- Stranded cost impact of the unfulfilled load:
 - ~\$20m increase in power supply costs in 2030 and ~\$38m in 2031
 - 2032 and beyond (ongoing) is approximated at ~\$57m/yr based on P1 price collapse scenario prices
- Under the stress case scenario
 - Lower reserves than the price collapse scenario from 2030 onwards
 - DCOH remains above the minimum only through the end of 2028 and falls below it from 2029 onwards



Reserve Balance (\$ Millions)	BCFY2026	CFY2027	CFY2028	CFY2029	CFY2030	CFY2031
Updated Base Case	544	316	308	268	228	228
Primary Stress Scenario: P1	564	264	147	(9)	(136)	(251)
Alt. Stress Scenario: Procurement Order	564	264	147	(9)	(157)	(309)

Note: DCOH and reserve balances exclude cash from projected FSR postings.

5. Recommendations





Recommendations

- With 2027 projected to be the worst financial year, monitor market developments shaping the outcome of 2027 PCIA and PG&E generation rates and changes in 5-year forward market prices
- The 2027 budget will also be up for approval in December, when there's more certainty on next year's rates
- Seek Board approval of the Financial Levers Playbook and implement as Necessary

Appendix



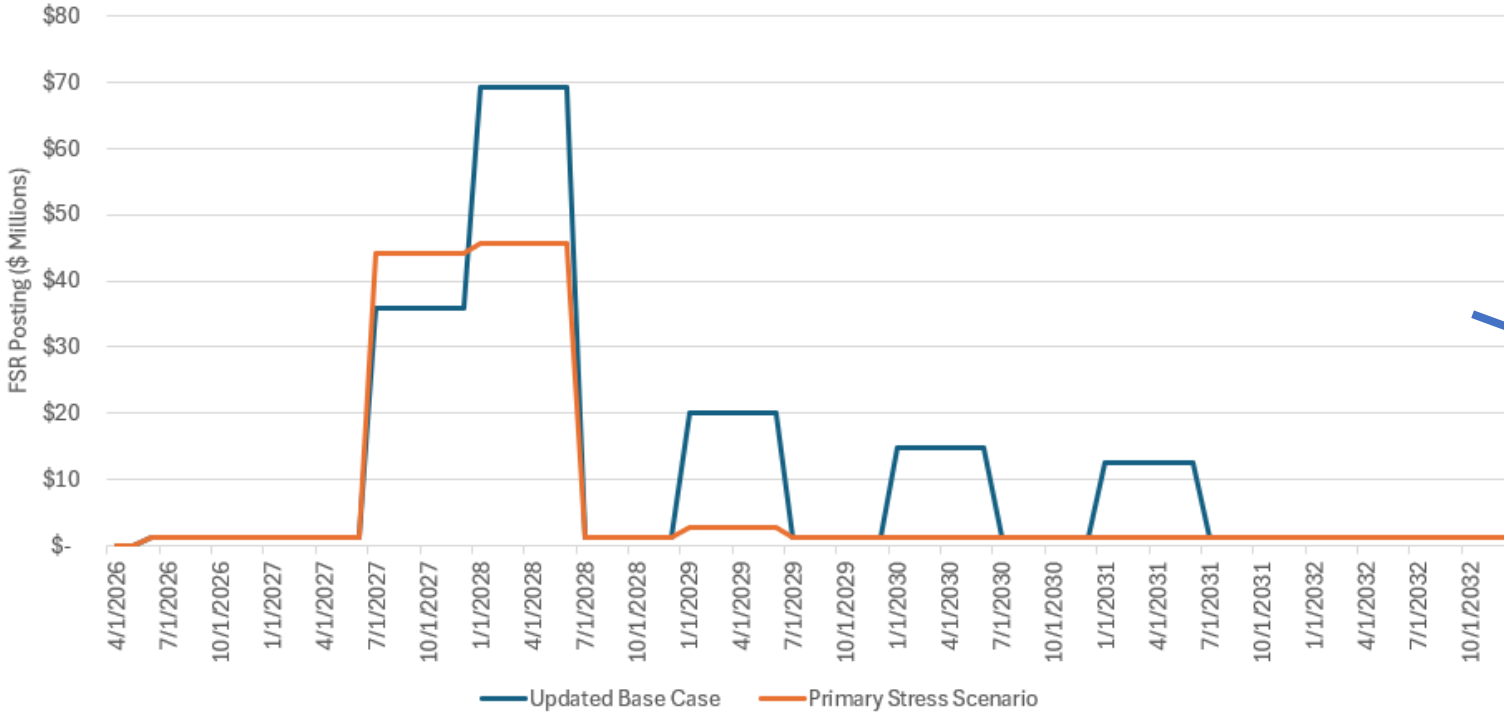
SVCE's Planning & Budgeting Process





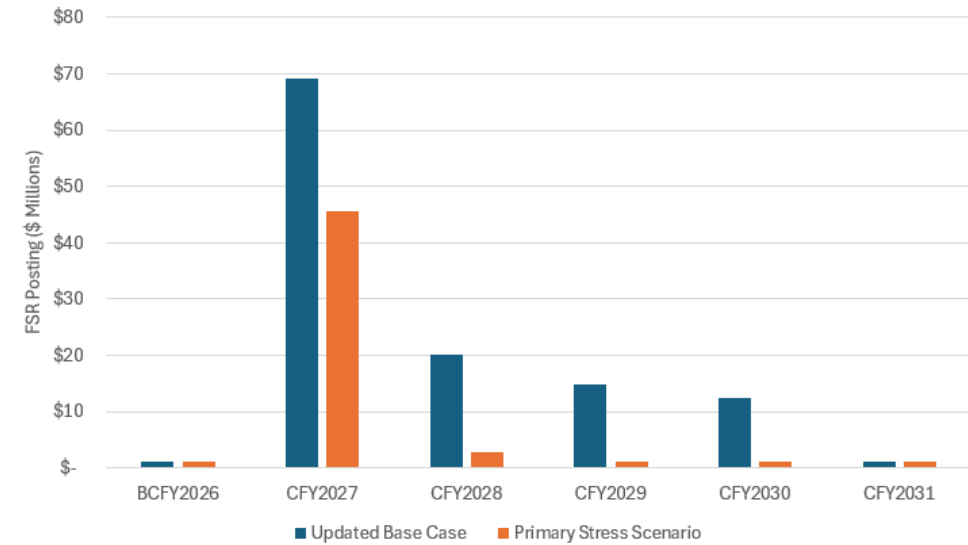
FSR Assumptions

Intra-year FSR Posting Projections



In the updated base case and all stress tests, EOY FSR postings are based on the required postings from January 1st in the following year

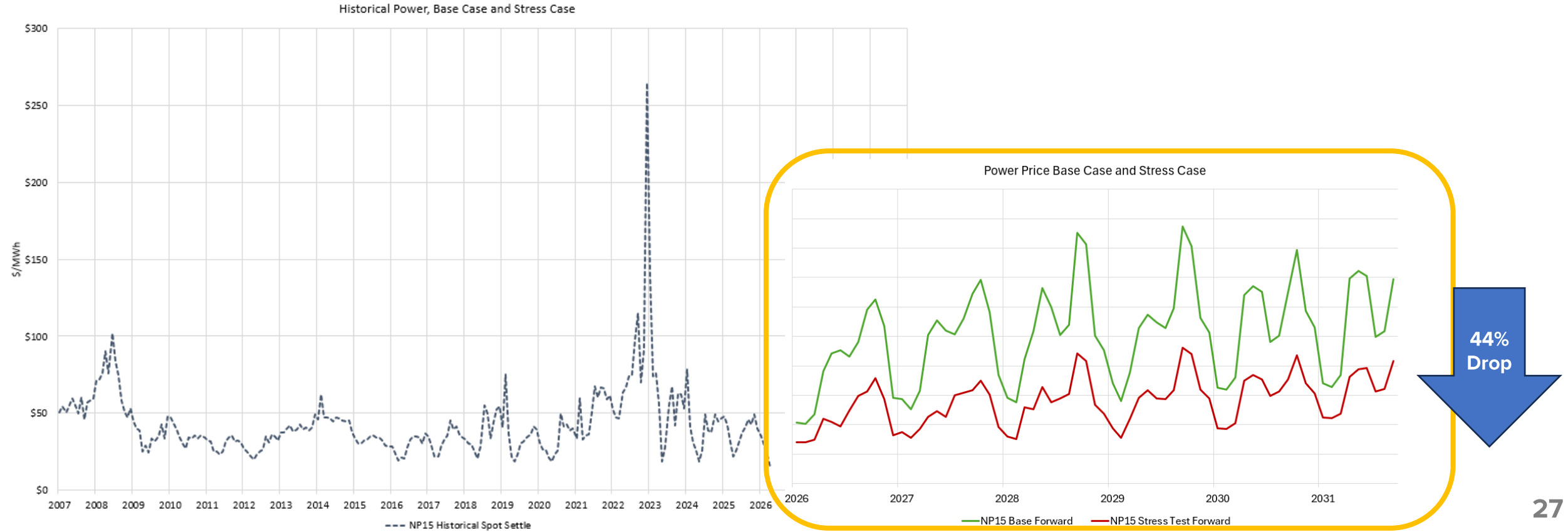
Simulated EOY FSR Postings





Modeled Energy Price Collapse

The modeled **44%** energy price collapse is within the observed 50-65% decline in natural gas prices during the 2008 financial crisis period.





Updated Base Case Result Summary

Base Case as of March 21

- Sale of any excess monthly RA
- 1% discount to PG&E rates
- Bad debt is 0.75%
- FSR posting of up to ~\$69m (in 2027)
- Investment yields in the 3-4% range year-over-year
- 2% of revenues represented in “other costs” to fund programs
- No CARE/FERA monthly bill credit

Current Portfolio | Mean Prices | Operating Load

	BCFY2026	CFY2027	CFY2028	CFY2029	CFY2030	CFY2031
Revenues	\$ 235	\$ 215	\$ 360	\$ 398	\$ 406	\$ 465
Power Supply Costs	\$ 240	\$ 328	\$ 365	\$ 389	\$ 394	\$ 420
Operating Margin	\$ (5)	\$ (113)	\$ (5)	\$ 10	\$ 12	\$ 45
Other Costs	\$ 42	\$ 46	\$ 53	\$ 56	\$ 54	\$ 57
Counterparty Collateral Outflow	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Contribution to Reserves	\$ (47)	\$ (159)	\$ (57)	\$ (46)	\$ (42)	\$ (11)

Reserve Balance	\$ 545	\$ 386	\$ 329	\$ 282	\$ 240	\$ 229
Reserve Balance after FSR Posting	\$ 544	\$ 316	\$ 308	\$ 268	\$ 228	\$ 228
Days Cash on Hand		322	279	227	188	177

Updated Base Case Days-Cash-On-Hand Reserve Levels



Primary Stress Test Result Summary

Price Collapse Stress Scenario – P1 Prices

- No sale of any excess monthly RA
- 1% discount to PG&E rates
- Bad debt is 2%
- FSR posting of up to ~\$46m (in 2027)
- Investment yields in the 3-4% range year-over-year
- 2% of Revenues represented in ‘other cost’ to fund programs
- No CARE/FERA monthly bill credit

Current Portfolio | P1 Prices | Operating Load

	BCFY2026	CFY2027	CFY2028	CFY2029	CFY2030	CFY2031
Revenues	\$ 230	\$ 66	\$ 194	\$ 220	\$ 241	\$ 266
Power Supply Costs	\$ 214	\$ 276	\$ 299	\$ 315	\$ 305	\$ 317
Operating Margin	\$ 15	\$ (210)	\$ (105)	\$ (95)	\$ (64)	\$ (50)
Other Costs	\$ 42	\$ 46	\$ 55	\$ 62	\$ 64	\$ 65
Counterparty Collateral Outflow	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Contribution to Reserves	\$ (27)	\$ (256)	\$ (160)	\$ (157)	\$ (128)	\$ (115)
Reserve Balance	\$ 565	\$ 309	\$ 149	\$ (8)	\$ (135)	\$ (250)
Reserve Balance after FSR Posting	\$ 564	\$ 264	\$ 147	\$ (9)	\$ (136)	\$ (251)
Days Cash on Hand		315	158	(9)	(138)	(245)

Financial Stress Test Case Days-Cash-On-Hand Reserve Levels



Alt. Stress Test Result Summary

Price Collapse Stress Scenario – P1 Energy, Historical Low RA, RPS, CF Prices

- No sale of any excess monthly RA
- 1% discount to PG&E rates
- Bad debt is 2%
- FSR posting of up to ~\$58m (in 2027)
- Investment yields in the 3-4% range year-over-year
- 2% of Revenues represented in ‘other cost’ to fund programs
- No CARE/FERA monthly bill credit

Current Portfolio | P1 Energy, Historical Low RA, REC, GHG Prices | Operating Load

	BCFY2026	CFY2027	CFY2028	CFY2029	CFY2030	CFY2031
Revenues	\$ 229	\$ 82	\$ 236	\$ 258	\$ 276	\$ 318
Power Supply Costs	\$ 211	\$ 275	\$ 301	\$ 318	\$ 315	\$ 333
Operating Margin	\$ 18	\$ (193)	\$ (65)	\$ (60)	\$ (39)	\$ (15)
Other Costs	\$ 42	\$ 46	\$ 55	\$ 60	\$ 61	\$ 65
Counterparty Collateral Outflow	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Contribution to Reserves	\$ (24)	\$ (239)	\$ (119)	\$ (119)	\$ (100)	\$ (79)
Reserve Balance	\$ 568	\$ 330	\$ 210	\$ 91	\$ (9)	\$ (88)
Reserve Balance after FSR Posting	\$ 567	\$ 272	\$ 209	\$ 89	\$ (10)	\$ (89)
Days Cash on Hand		326	224	89	(10)	(84)

Financial Stress Test Case Days-Cash-On-Hand Reserve Levels



Alt. Stress Test Result Summary

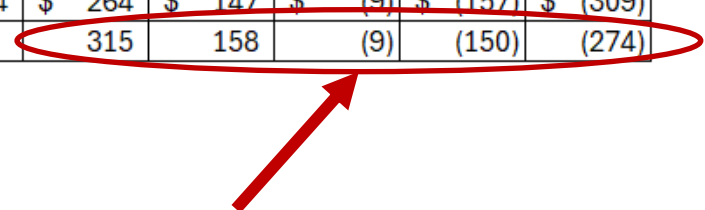
CPUC Procurement Order Stress Scenario

- Hypothetical PPA's added to portfolio
- P1 prices
- No sale of any excess monthly RA
- 1% discount to PG&E rates
- Bad debt is 2%
- FSR posting of up to ~\$46m (in 2027)
- Investment yields in the 3-4% range year-over-year
- 2% of Revenues represented in 'other cost' to fund programs
- No CARE/FERA monthly bill credit
- Ongoing stranded cost impact of the unfulfilled load is approximated at ~\$57m/yr based on P1 price collapse scenario prices

Current Portfolio with CPUC Procurement Order | P1 Prices | Operating Load

	BCFY2026	CFY2027	CFY2028	CFY2029	CFY2030	CFY2031
Revenues	\$ 230	\$ 66	\$ 194	\$ 220	\$ 241	\$ 266
Power Supply Costs	\$ 214	\$ 276	\$ 299	\$ 315	\$ 325	\$ 355
Operating Margin	\$ 15	\$ (210)	\$ (105)	\$ (95)	\$ (84)	\$ (88)
Other Costs	\$ 42	\$ 46	\$ 55	\$ 62	\$ 64	\$ 65
Counterparty Collateral Outflow	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Contribution to Reserves	\$ (27)	\$ (256)	\$ (160)	\$ (157)	\$ (148)	\$ (153)

Reserve Balance	\$ 565	\$ 309	\$ 149	\$ (8)	\$ (155)	\$ (308)
Reserve Balance after FSR Posting	\$ 564	\$ 264	\$ 147	\$ (9)	\$ (157)	\$ (309)
Days Cash on Hand		315	158	(9)	(150)	(274)

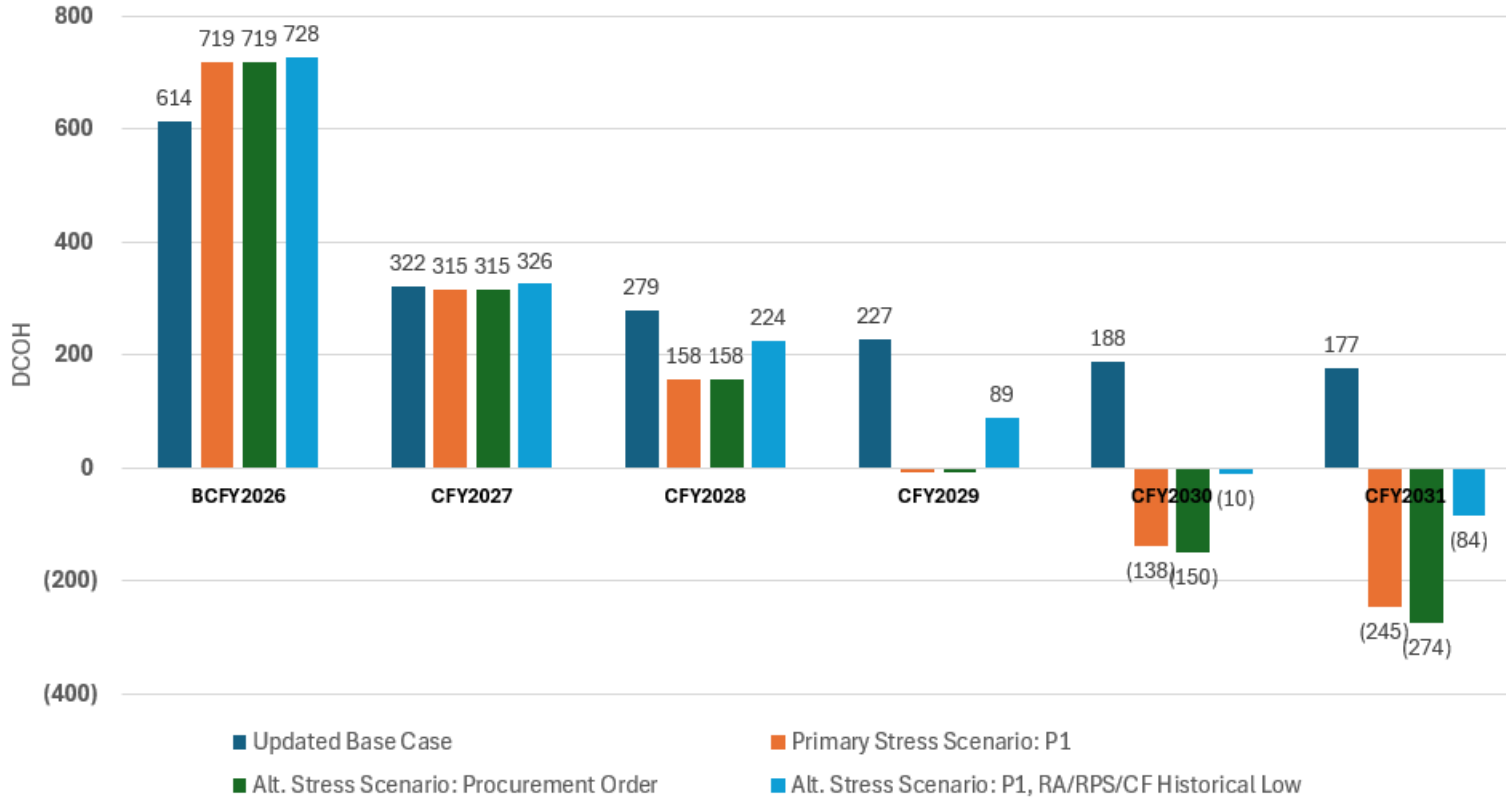


Procurement Order Stress Test Case Days-Cash-On-Hand Reserve Levels



All Stress Scenarios Results Summary

Days Cash on Hand (DCOH) Including Unspent Earmarked Funds



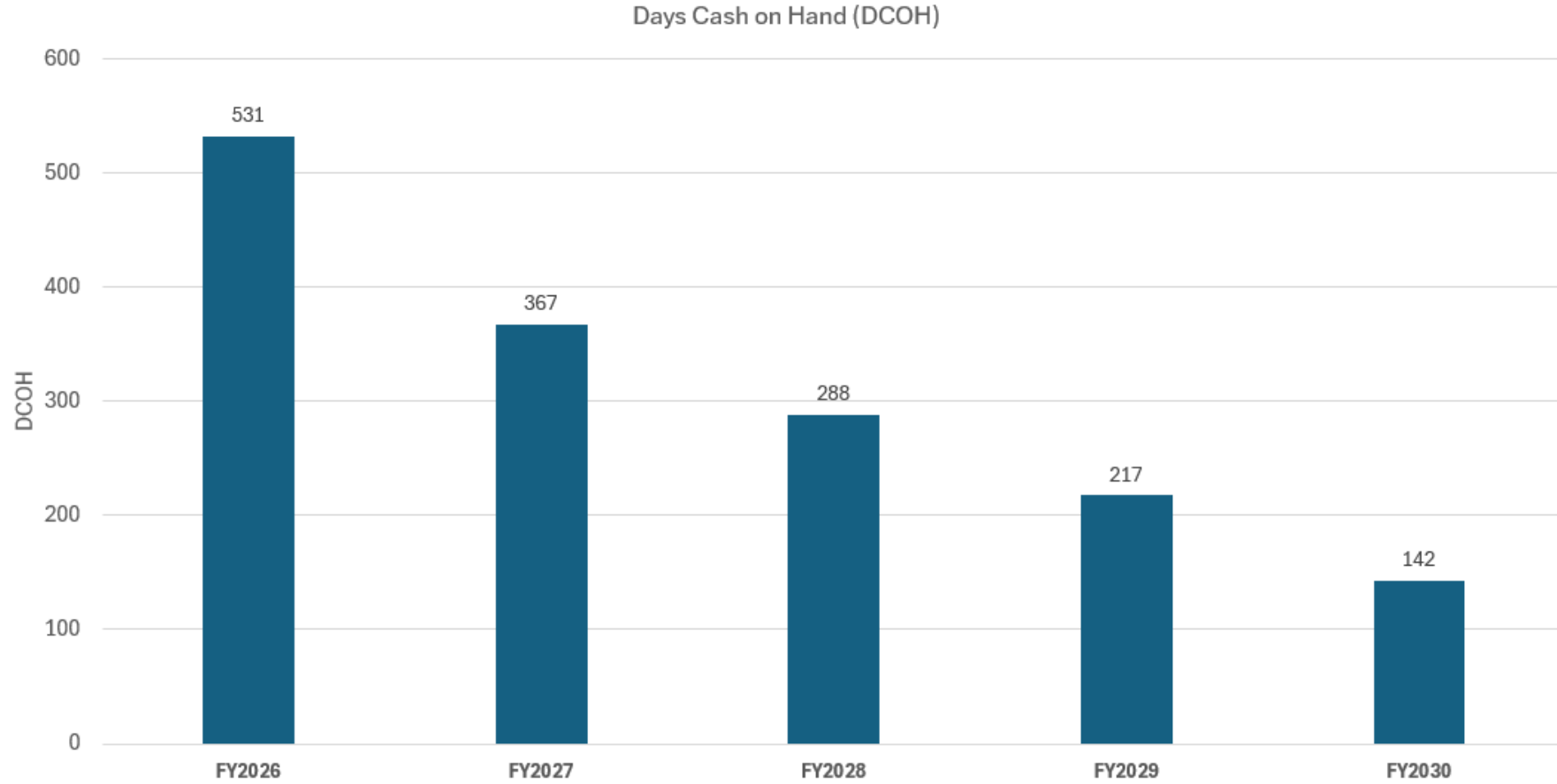
Reserve Balance (\$ Millions)

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Updated Base Case	544	316	308	268	228	228
Primary Stress Scenario: P1	564	264	147	(9)	(136)	(251)
Alt. Stress Scenario: Procurement Order	564	264	147	(9)	(157)	(309)
Alt. Stress Scenario: P1, RA/RPS/CF Historical Low	567	272	209	89	(10)	(89)

Note: DCOH and reserve balances exclude cash from projected FSR postings.



Mid-Year Budget - Prior FY Convention



\$ Millions

Reserve Balance

FY2026

527

FY2027

388

FY2028

323

FY2029

259

FY2030

184

Approving the Financial Levers Playbook

Justin Zagunis and Monica Padilla
Finance and Administration Committee
May 2026



Agenda

- Recap levers and feedback
- Recommendation for Board
- How June's approval will work



Recap

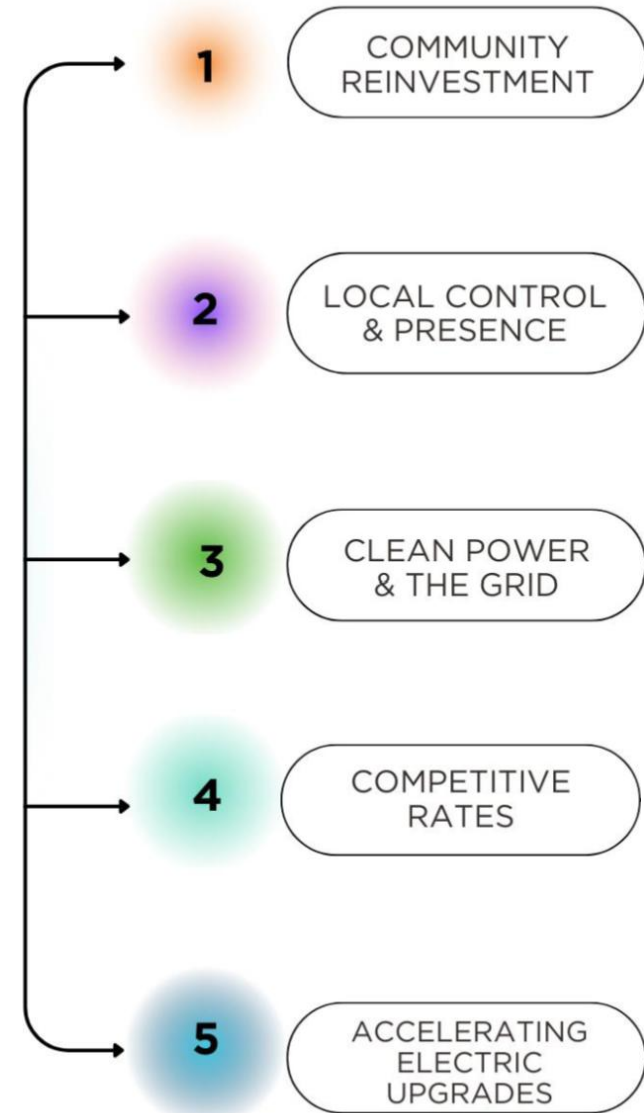


Recap: SVCE's Mission and Value Prop

MISSION: reduce dependence on fossil fuels by providing carbon free, affordable and reliable electricity and innovative programs for the SVCE community.



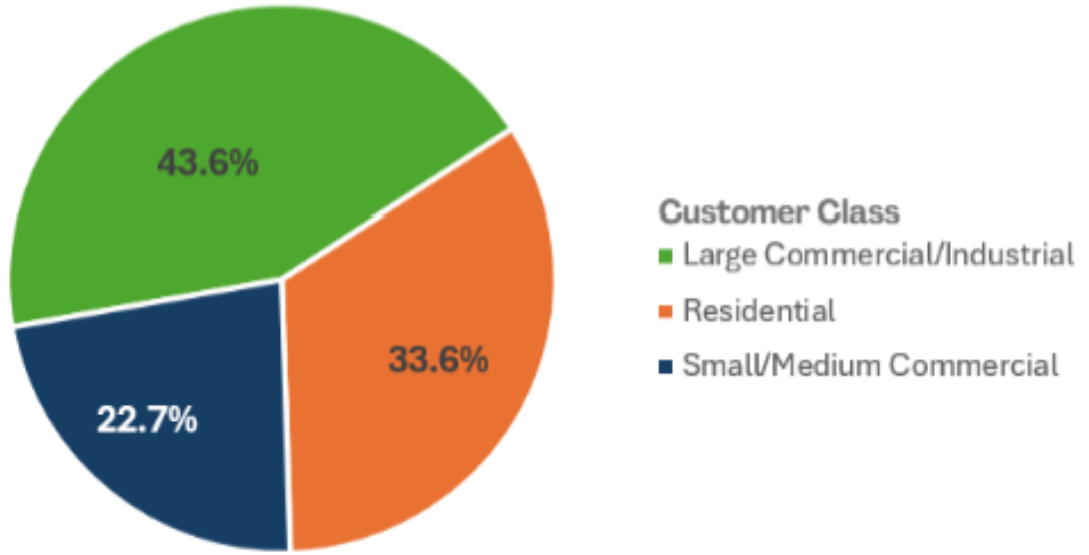
Customer-Facing Value Proposition



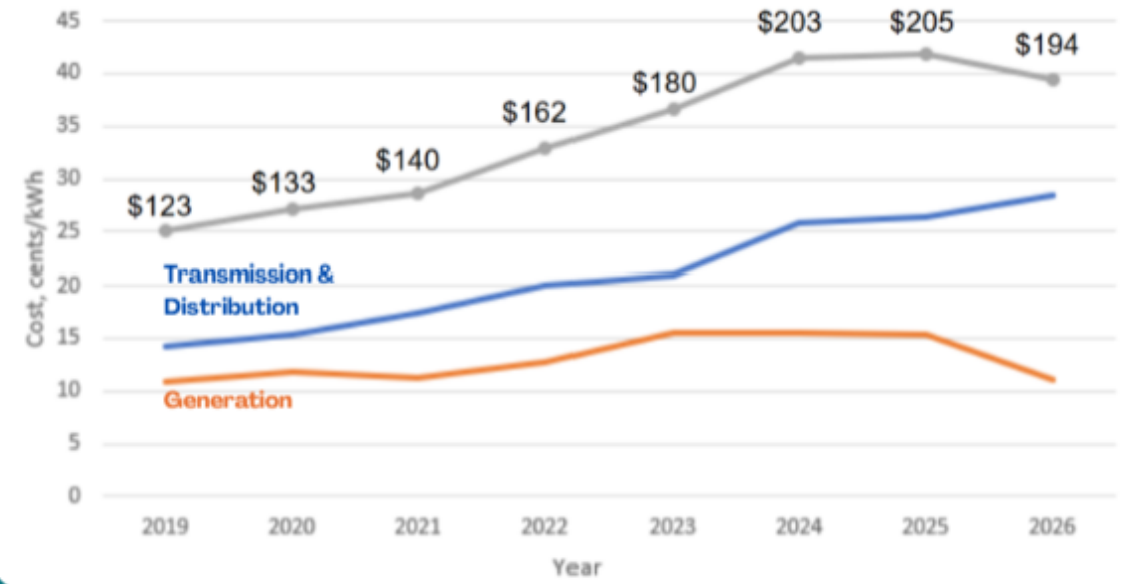


Recap: SVCE's Customers

**Total Annual Electricity Usage [MWh],
Total = 3,900,000 MWh**

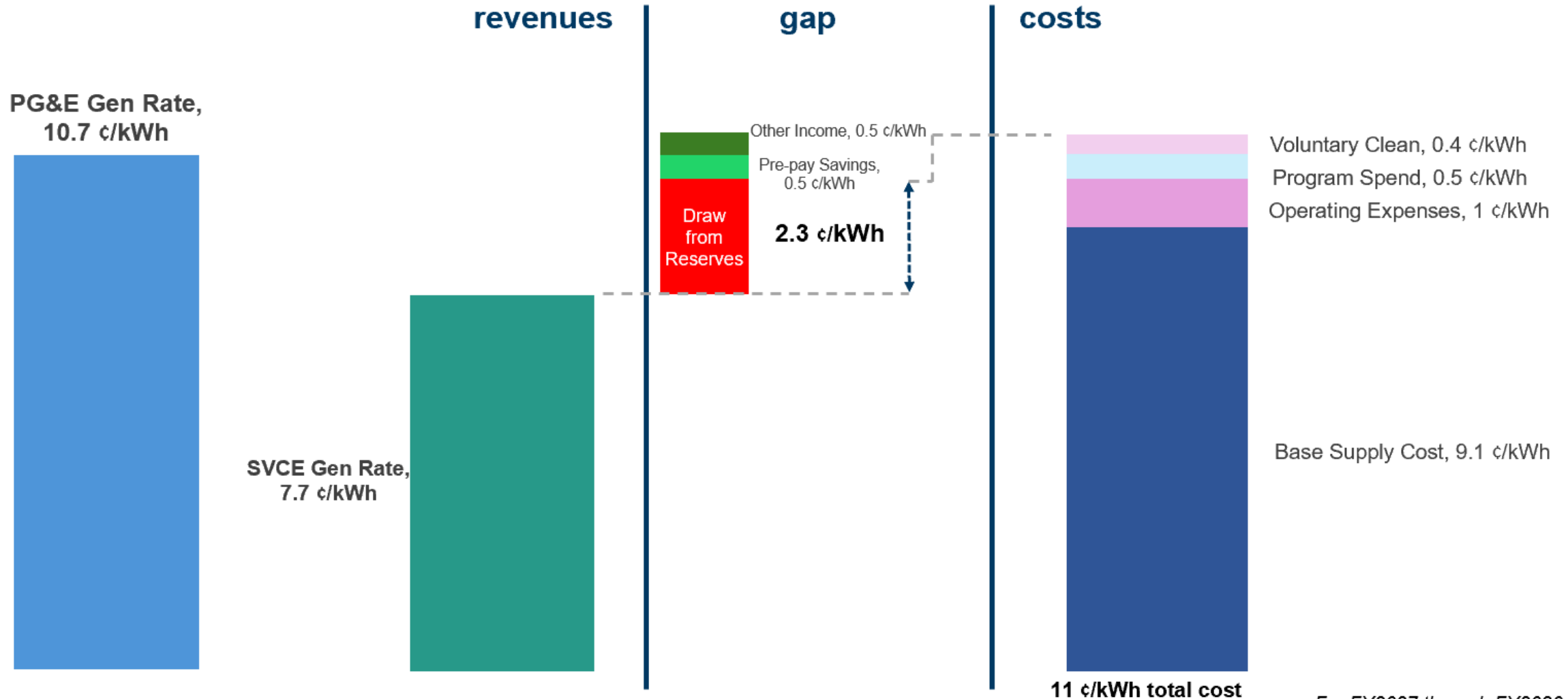


Residential Electricity Rate with Average Total Bill





Recap: Forecasted Gap and Cost Components

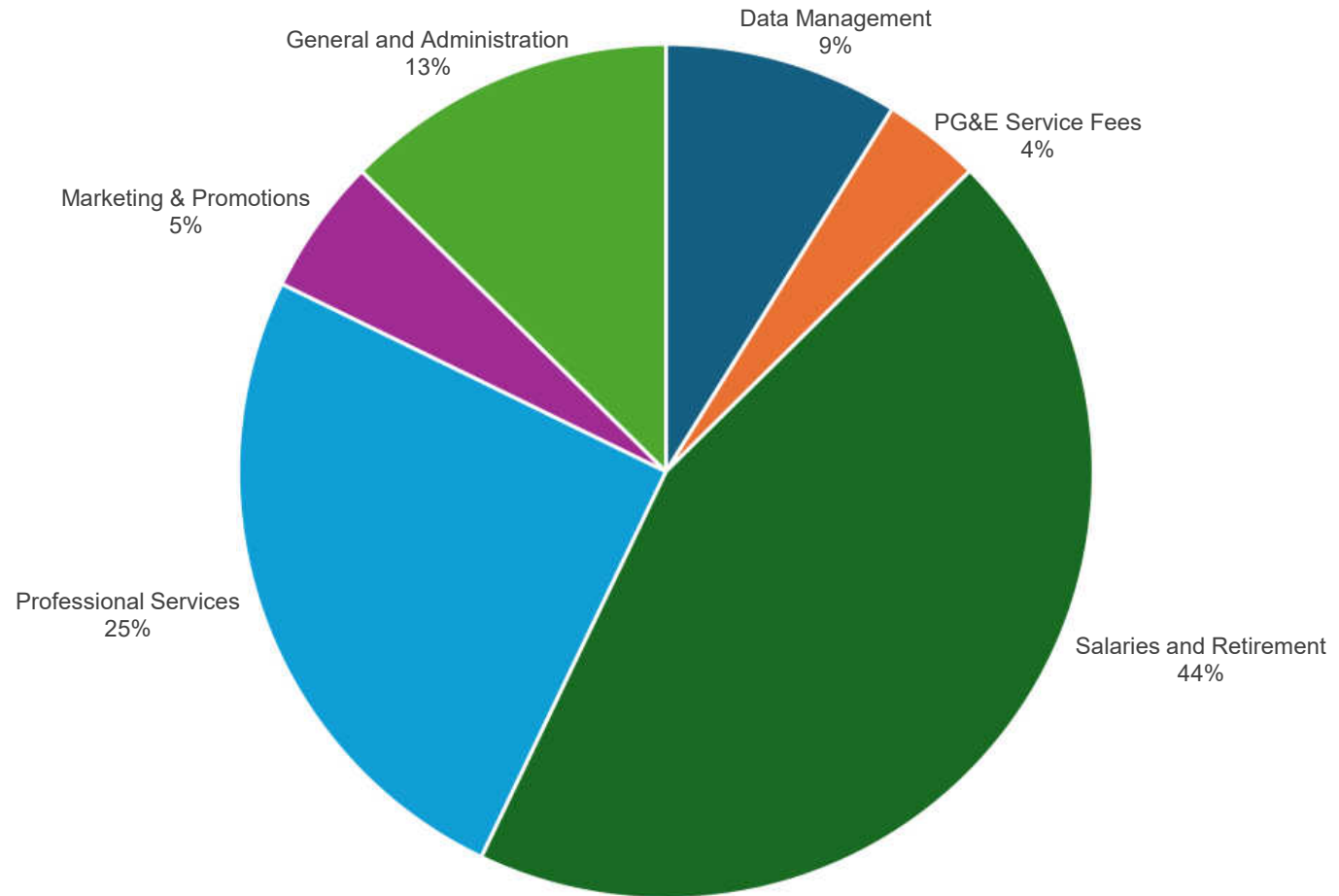




Recap: Continue to Find Ways to Close the Gap, Including Pre-Pays, Opex Efficiencies

- Non-Supply Operating Expenses represent ~10% of Budget
 - ~\$40M per year; ~1 cent per kWh
- 25%-50% non-discretionary expenses
- Continued savings potential from prepays

Operating Forecasted Expense, 5-yr Avg





Clean Energy Lever – Feedback

Current: 106% clean energy based on annual retail sales

- Important to mission
- SVCE core role
- Small long-term \$ impact to changing
- Ideally don't adjust





Decarb Programs Lever – Feedback

Current: annually fund programs at 2% of retail revenues (~\$7M/yr); projected use of existing program reserves is ~\$19M/yr

- Important to mission
- Only SVCE is doing in a big way, locally
- Small long-term \$ impact to changing
- This is *how much* to fund, Decarb Plan is *what* to fund
- Ideally don't adjust





Rates Lever – Feedback

Current: 1% discount to PG&E generation rate

- Not meaningfully impacting affordability (directly)
- Keep CARE/FERA discount
- Competitiveness is important
- Ongoing \$ impact
- Ideally don't adjust





Split Product Offerings: Keep Customer Choice While Raising Rate if Needed

Current:

- 98% of customer accounts are on GreenStart
 - ~60% Renewable Portfolio Standard (RPS) + 100% clean @ 1% discount to PG&E
- GreenPrime
 - 100% RPS @ 0.74 ¢/kWh premium compared to GreenStart
- GreenPrime Direct
 - Custom arrangement for large commercial customers – must cover all costs, be 100% clean, and commit to a term/contract

Split Product Concept:

- Move the default GreenStart to a premium and create new opt-down at a discount to PG&E (less clean, program ineligibility)



Financial Forecast Has Been Changing Since March

Power supply cost forecast has come down, resulting in improved 'Change to Net Position' estimate for FY2026 and a worse number for FY2027

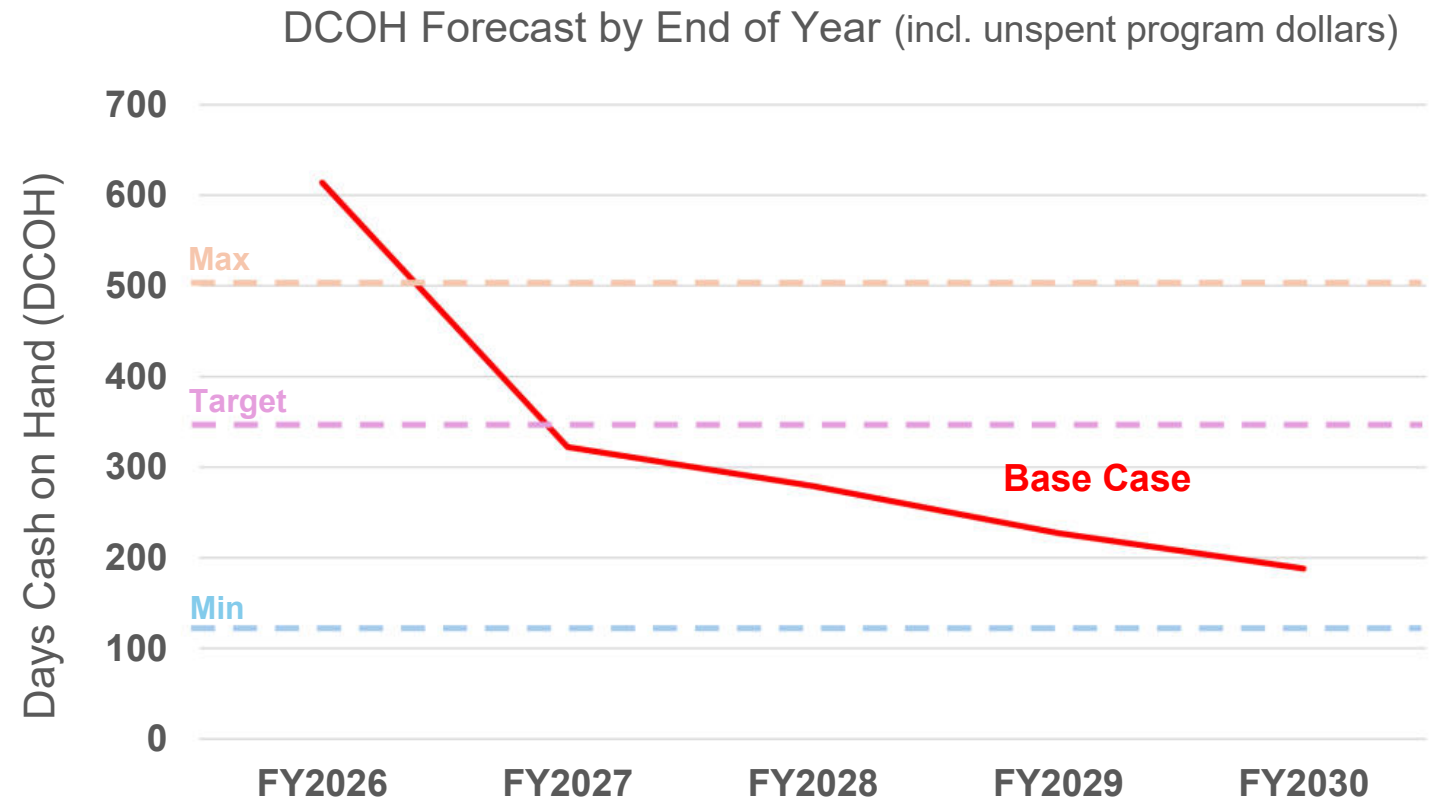
Change in Net Position / Available for Reserves (still using Oct-Sep fiscal year)

	Midyear Estimate	Current Estimate	Variance
FY2026	(\$12,000,000)	\$4,000,000	+\$16,000,000
FY2027	(\$131,000,000)	(\$143,000,000)	-\$12,000,000



Other Things Have Been Changing Since March

- New rate proceedings
- Large load legislation
- Updated IRP runs
- New procurement orders
- Credit rating improvement
- Integrated Decarb Plan discussions
- Continued review of opex and increased efficiencies





Recommendation and projected impacts



Staff Recommends the EC Recommend the Board Approve the Playbook of:

- Ongoing search for cost savings and efficiencies
- Maintain current levels of clean, programs, and rate discount (at minimum)
- If needed, introduce split product offerings to assess opt-out risk and interest:
 - One cheaper than PG&E but less clean and no program participation
 - One same as current default but at premium
- Scale up costs for both products over time if needed
- Incorporate small reduction/pause in programs

And direct staff to plan to continue as-is for 2026 and 2027



How this “playbook” approval will work



Direction Today (June), Action in the Future

1. Get “playbook” approved today – capturing priorities between levers
2. Staff monitors financial situation
3. At every future budget decision, staff will propose changes based on this playbook *if needed* (along with alternatives)
4. New Integrated Decarb Plan will lay out how SVCE can prioritize across programs portfolio at any expenditure level

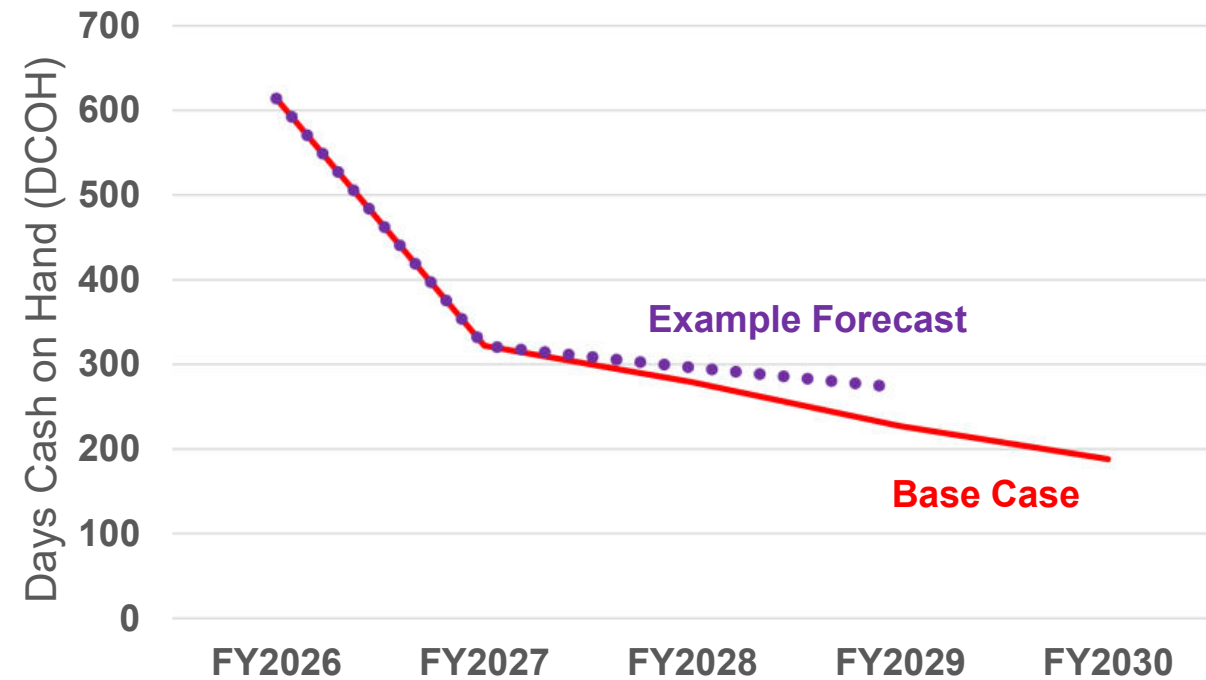


Example 1: Continued Decline Path A

Scenario: next few years happen as forecasted

- 2026 and 2027: continue as-is, with efficiency improvements and cost savings
- 2028: new split products
 - Default: 4% premium, clean and eligible for programs
 - Opt-down available at 1% discount, some emissions, and ineligible for programs
 - FY28 sees a 5% program spend reduction
- 2029: raise rates
 - Default: move to 8% premium
 - Opt-down: 3% premium for opt-down
 - FY29 sees a 10% programs spend reduction
- 2030+: new proposals based on conditions

Example 1 DCOH Forecast by End of Year
(incl. unspent program dollars)



Will revisit during FY if needed



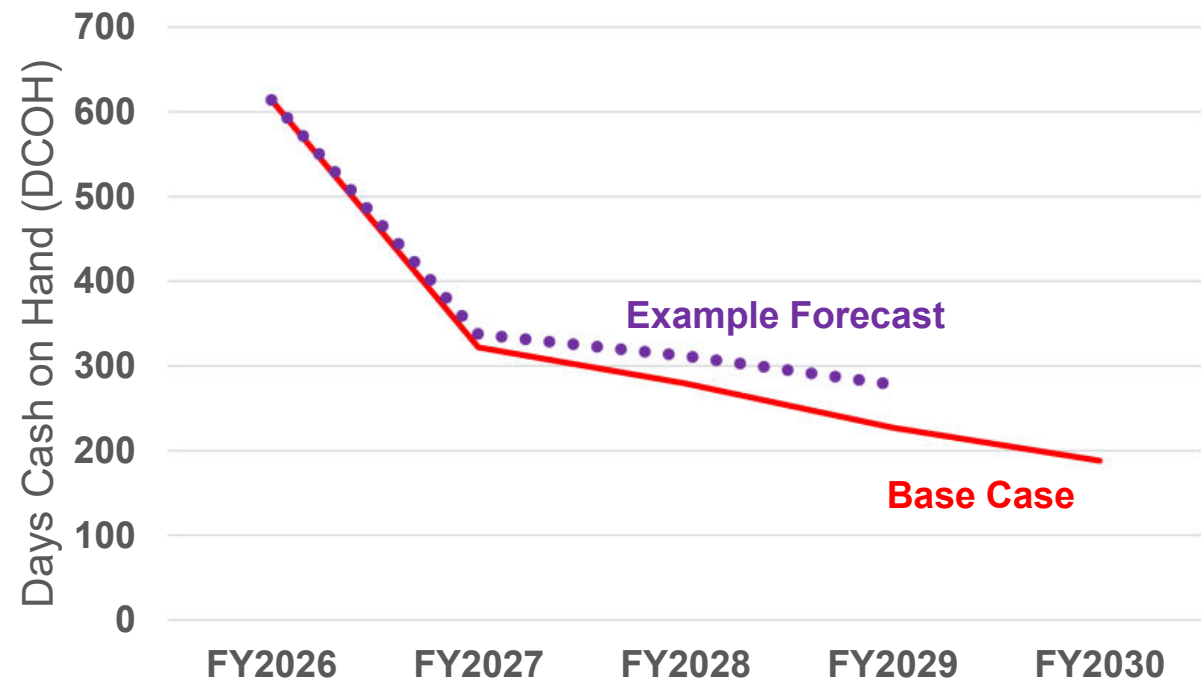
Example 2: Continued Decline Path B

Scenario: next few years happen as forecasted

- 2027: take action to introduce split products one year earlier than previous example
- 2028: stay with those products; no increase
- 2029: stay with those products; no increase
- 2030+: new proposals based on conditions

Will revisit during FY if needed

Example 2 DCOH Forecast by End of Year
(incl. unspent program dollars)



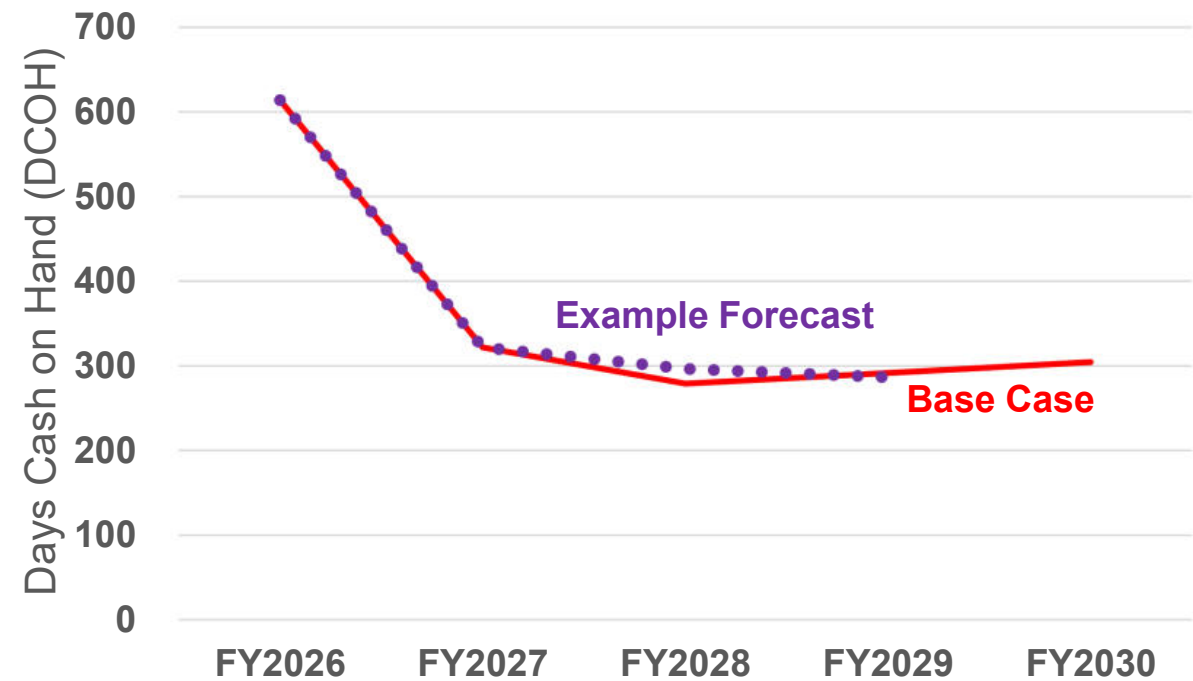


Example 3: Delayed Improvement

Scenario: FY2027 is negative, but later years improve

- 2026 and 2027: continue as-is, with efficiency improvements and cost savings
- 2028: new split products:
 - Default: 4% premium, clean and eligible for programs
 - Opt-down available at 1% discount, some emissions, and ineligible for programs
 - FY28 sees a 5% program spend reduction
- 2029: lower rates
 - Default: move to 1% discount
 - Opt-down: 4% discount for opt-down
 - Return to full programs spend
- 2030+: new proposals based on conditions

Example 3 DCOH Forecast by End of Year (incl. unspent program dollars)



Will revisit during FY if needed



Re-stating recommendation and discussion



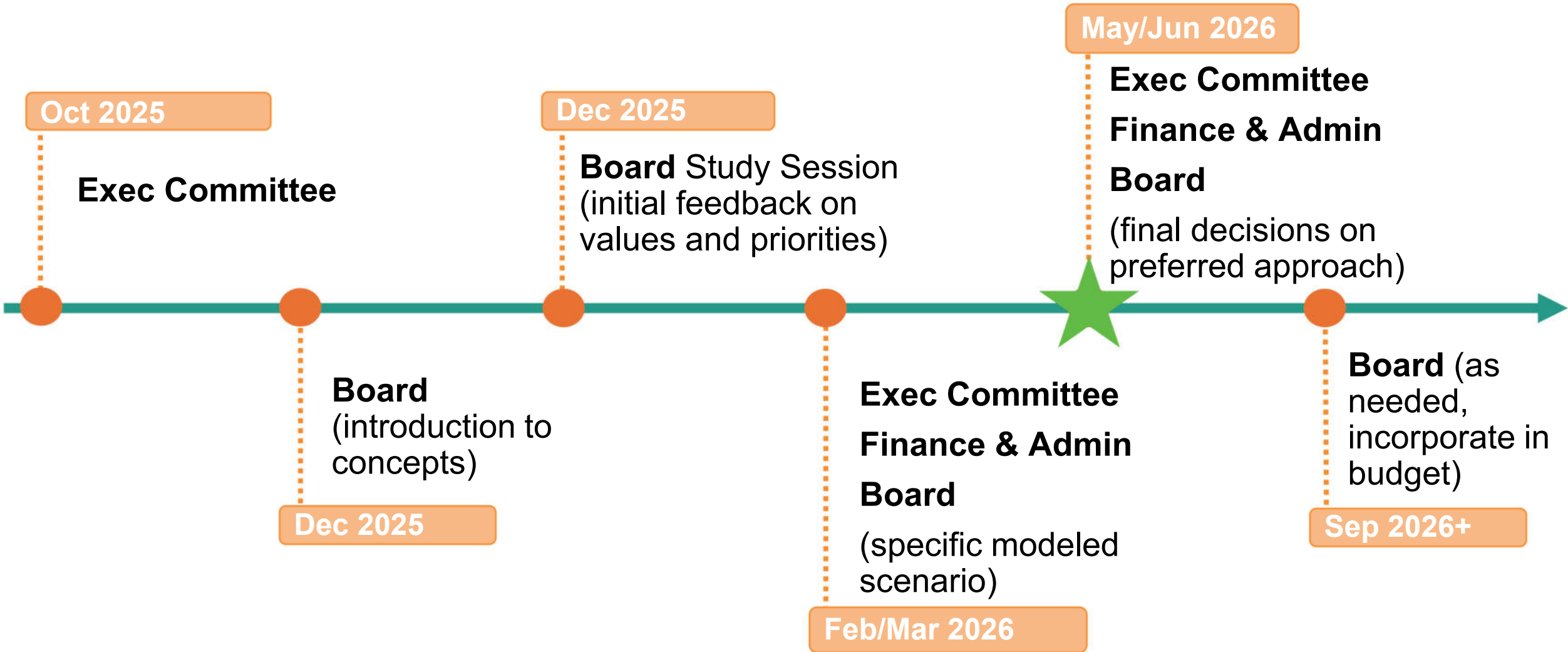
Staff Recommends the EC Recommend the Board Approve the Playbook of:

- Ongoing search for cost savings and efficiencies
- Maintain current levels of clean, programs, and rate discount (at minimum)
- If needed, introduce split product offerings to assess opt-out risk and interest:
 - One cheaper than PG&E but less clean and no program participation
 - One same as current default but at premium
- Scale up costs for both products over time if needed
- Incorporate small reduction/pause in programs

And direct staff to plan to continue as-is for 2026 and 2027



Today we are seeking a recommendation for approval



**Timeline subject to change*



Next Steps After Playbook Approved

- September 2026: Approve Stub Budget (Oct to Dec 2026)
- October 2026: Integrated Decarb Plan Approval
- December 2026: CFY2027 Budget Approval
- June 2027: Midyear Budget Adjustment
- December 2028: CFY 2028 Budget Approval



Thank you

Budget Framework

Amrit Singh
Finance and Administration Committee
May 28, 2026

Purpose

Discuss Stub Period Budget Framework (Oct 2026 to Dec 2026)

Main Areas of Discussion

1. Review Transition to Calendar Fiscal Year Period
2. Stud Period Budget Development
3. Revenue and Rates
2. Reserve Targets
3. Power Supply Expenses
4. Other Major Cost Categories





Recap – Transition to Calendar Year Fiscal Period

1) Recap:

- New calendar year (Jan to Dec) fiscal period begins January 1, 2027
- Current fiscal year that began on October 1, 2025, ends September 30, 2026
- Need a transition period (Oct 2026 to Dec 2026), **Stub Fiscal Period**, budget

2) Stub Period Budget Timeline and Actions:

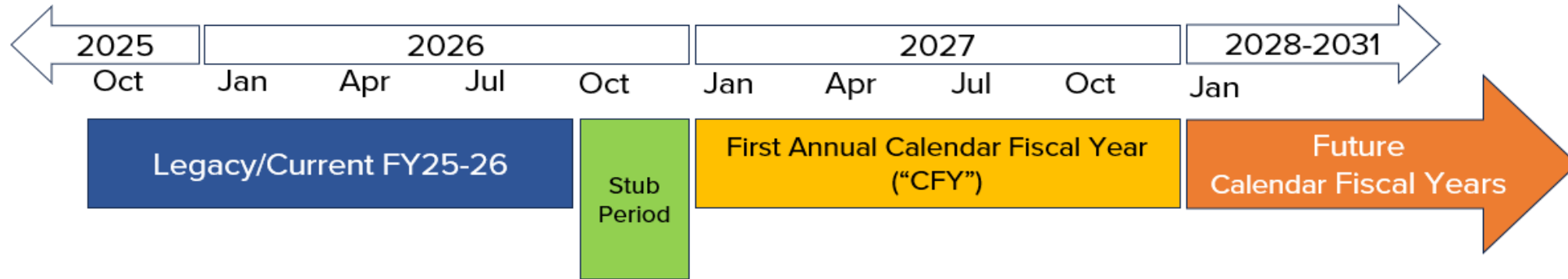
- **May 2026** (this meeting): **Finance and Administration (F&A) Committee reviews the proposed Budget Framework**
- **Aug 2026** (next meeting): F&A Committee reviews the budget for recommendation for Board adoption
- **Sept 2026**: Board reviews Budget for Adoption

3) First Calendar Year Annual Budget Timeline and Actions:

- **Aug 2026** (next meeting): F&A Committee reviews the proposed budget framework
- **Nov 2026**: F&A Committee reviews the budget for recommendation for Board adoption
- **Dec 2026**: Board reviews Budget for Adoption



Stub Period Budget Development & Approval



- A 3-month period budget requires more precision on the timing of expenses
 - For example, payment for renewable energy certificates (REC) occurs over a 12-month period, but highly uncertain to isolate to a month because timing depends on when RECs are transferred to SVCE. Similarly, other expenses are typically managed on a 12-month period.
- SVCE’s revenues and expenses vary by season
- No prior 3-month comparison for the Committee and Board to review for approving a 3-month budget



Revenue Forecast And Rates

PG&E 2026 Gen Rate: 11.49 ¢/kWh*

↑↓ 1% SVCE discount



- SVCE’s rates are expected to be set for the calendar year to align with PG&E’s generation rate and PCIA changes in January
- PG&E’s generation rates and PCIA charges are not expected to change until January 2027
- Seek approval to continue with the rates approved for implementation in January 2026:
 - 1% discount to PG&E’s applicable generation rates
 - \$12 monthly bill credit to CARE and FERA low-income customers
 - GreenPrime rate premium at \$0.0074/kWh (\$7.40/MWh)

* All rates are weighted for SVCE load.

** Power Charge Indifference Adjustment (PCIA) is a charge our customers pay to PG&E so that PG&E can recover commitments made on their behalf when the customer was part of PG&E’s portfolio.



Reserve Targets

Issue: Update Reserve Targets	Current Methodology	Proposal
<ul style="list-style-type: none">• Ensure SVCE maintains sufficient reserves to manage risks such as those modeled under the stress test analyses• If adverse conditions materialize, allow for at least 120 days to reshape the strategy and secure additional liquidity• The upper reserve target enables the agency to take advantage of good margin years to manage risks over a 5-year period	<p><u>Target</u> to keep reserves above 120 Days of Cash On Hand (DCOH) for CFY 2027 and under the modeled stress scenario</p> <p>Set the <u>upper</u> reserve target such that over the next five fiscal years, reserves do not fall below 90 DCOH under the modeled stress scenario</p>	<ul style="list-style-type: none">• Given the current financial outlook, staff recommends not updating the reserve targets.<ul style="list-style-type: none">• Stress test analyses would imply raising the upper target from 500 to ~650 DCOH; however, the new implied target level of .• Changing the upper target has no practical implication, given that the financial outlook does not support contributing to reserves• Stress test is an important factor, but other considerations, such as guidance from credit rating agencies, also matter.<ul style="list-style-type: none">• Current targets support such guidance



Power Supply Expenses

(~90% of Expenses)

Issue: Volatile Prices	Staff Recommendation	Budget Policy & Contingency
<ul style="list-style-type: none"> Power prices are very volatile and have declined significantly. In addition to power price volatility, recent volatility in RA and RPS prices makes budget projections highly uncertain <ul style="list-style-type: none"> Budget will be developed based on a snapshot of market prices in June/July 2026 Contract delays/renegotiations further add uncertainty 	<ul style="list-style-type: none"> Continue hedging to current ERM (Energy Risk Management) targets <ul style="list-style-type: none"> In 2025, with Board approval of the Energy Risk Management Policy update, staff incorporated estimated contributions towards hedges from PCIA Staff will continue to further refine methodologies and update the estimated parameters SVCE's clean policy <ul style="list-style-type: none"> For 2026, SVCE is projected to be at 102% clean portfolio position, with Board goal of 106%. <ul style="list-style-type: none"> Staff continues to evaluate opportunities to contract to 106% clean for the calendar year. Contract delays/renegotiations further add uncertainty and the variable intermittency of the resources may vary against forecasted volumes on a monthly and annual basis. 	<ul style="list-style-type: none"> Generally contingencies are not included in the power supply budget to account for volatile prices but are accounted for in the budget policy The budget policy grants the CEO authority to overspend the total annual budget for energy purchases by the lesser of 10% of the annual power supply budget, or \$30 million The \$30 million was established for a 12-month period Seek approval that the above provision of the budget policy for the stub period be suspended and instead the following be applicable: <p>The CEO is granted authority to overspend the total stub period budget for energy purchases by 15% of the stub period power supply budget.</p>



Other Major Cost Considerations

Considerations	Recommendation During Transition
Benefit Open Enrollment	<ul style="list-style-type: none">• Open enrollment will not be an issue, staff will continue to follow calendar year open enrollment cycle, which aligns better now with calendar fiscal year budget• Staff will discuss with the Committee any proposed changes or considerations in August as part of the annual budget framework discussion
Salary Adjustments (COLA/Merit)	<ul style="list-style-type: none">• Normally addressed Oct 1st every year• To align with the new fiscal period, Staff plans to review any COLA/Merit adjustments in August with the Committee as part of the annual budget framework discussion.• Staff will evaluate possible proration to account for the 3-month transition period
Transfer to Programs	<ul style="list-style-type: none">• Continue with the current Board policy to transfer 2% of revenues to Programs Fund• For the Stub period, 2% of stub period revenues will be transferred to Programs Fund
Operating Expenses other than Power Supply	<ul style="list-style-type: none">• Staff is developing detailed Q4'26 stub period budget forecast which will account for seasonal fluctuations on operating expenses• Concurrent efforts are underway to sharpen, review, and ensure precision on projected operating expenses going forward• Along with the above efforts, staff proposes to continue to add a 5% contingency



Stub Period Budget Comparison

- Proposal to Compare Proposed Stub Period to Actual Expenditures for the same period in 2025
- Not a perfect comparison – given expenses are usually accounted/budgeted for over a 12-month period



Next Steps

- Present draft stub period budget for the Committee's review in August
- The board reviews and adopts the Stub Period budget in September

Thank you! / Questions?



Transition Timeline and Plan

New Fiscal Period Starts January 1, 2027

January 2026

February 2026

March 2026

May 2026

June 2026

Staff:

- Enterprise Risk Assessments (ERM)

Finance and Admin Committee:

- Reviews Proposed Financial Stress Test Scenarios
- Reviews and Recommends the Mid-Year Budget Update to the Board

Audit Committee:

- Receives Audited Financials for the last fiscal year. (FY24-25)

Board:

- Adopts Mid-Year Budget (FY25-26)
- Receives Audited Financials for the last fiscal year. (FY24-25)

Finance and Admin Committee:

- 1) Review Stress Test Analyses
- 2) Reviews Budget Framework for the Stub Period

Board:

- Reviews Stress Test Analyses
- Optional: Reviews Budget Framework for Stub Period

August 2026

September 2026

November 2026

December 2026

Finance and Admin Committee:

- Reviews and recommends that the Board adopt the Proposed Budget for **October 2026 to December 2026, a 3-month stub fiscal period budget.**
- Reviews the Budget Framework for **Calendar Fiscal Year 2027**

Board:

- Adopts the **Proposed 3-month Stub Period Budget**

Audit Committee:

- Kicks off the Audit for Fiscal Year 25-26

Finance and Admin Committee:

Executive Committee (Optional):

- Reviews and recommends that the Board adopt the Proposed Budget for **Calendar Fiscal Year 2027** and Customer Rate Proposals

Board:

- Adopts the Proposed Budget for **Calendar Fiscal Year 2027**, and 2027 Customer Rate Proposals

Amending Budget and Financial Reserves Policies to Increase Contingency for Power Supply Costs

Scott Wrigglesworth

Amrit Singh

Finance and Administration Committee

May 28, 2026

Purpose

Action: To enable increasing the Power Supply Budget Contingency, staff recommends that the Board approve amending:

1. Financial Policy 2: Budget Adoption, Control and Reporting ("Budget Policy")
2. Financial Policy 9: Financial Reserves ("Reserves Policy")

Main Areas of Discussion

- 1) Proposed changes to the Budget Policy
- 2) Proposed changes to the Financial Reserves Policy
- 3) PCIA financial hedge Impact requiring an increase in power supply contingency





Budget Policy Change

Power/Energy Purchases Contingency Section:

- The nature of the power markets is one of rapid changes in prices and market volatility. The ability to quickly adapt to those changes is important for maintaining consistent power delivery to customers. Therefore, the CEO is granted authority to overspend the total annual budget for power supply purchases by the lesser of 10% of the annual power supply budget, or \$30 million, without Board approval provided the over expenditure is due to higher energy costs or greater customer demand. Overspending for these purposes may require use of reserves and the conditions on use of reserves as stated in the Financial Reserves Policy apply, where reserves cannot be drawn down more than 10% of the year's budgeted cost of power supply or \$30 million, whichever is less, nor below the baseline Minimum Operating Reserve level without Board approval.
- Energy Risk Management Policy (ERMP) changed in March 2025 to account for the financial hedge impact from the PCIA
 - Reduces physical hedges (e.g., less purchase of fixed price power)
- Budget volatility is higher with the reduced physical hedging
- Based on staff's analyses, as provided in the staff report, staff propose increasing the highlighted numerical thresholds in the policy to 15% and \$50 million



Financial Reserves Policy Change

Conditions for Use of Reserve Section:

- The reserves may be drawn down upon by the CEO during the year, up to the lesser of **10%** of the year's budgeted cost of power supply, or **\$30 million**, to:
 - Cover increases in power supply expenses due to spikes in costs and/or due to higher customer demand;
 - Provide necessary funds to make up for unanticipated revenue shortfalls;
 - Meet any margin or collateral posting requirements under energy supply contracts; and,
 - Provide resources to meet emergency expenditures.

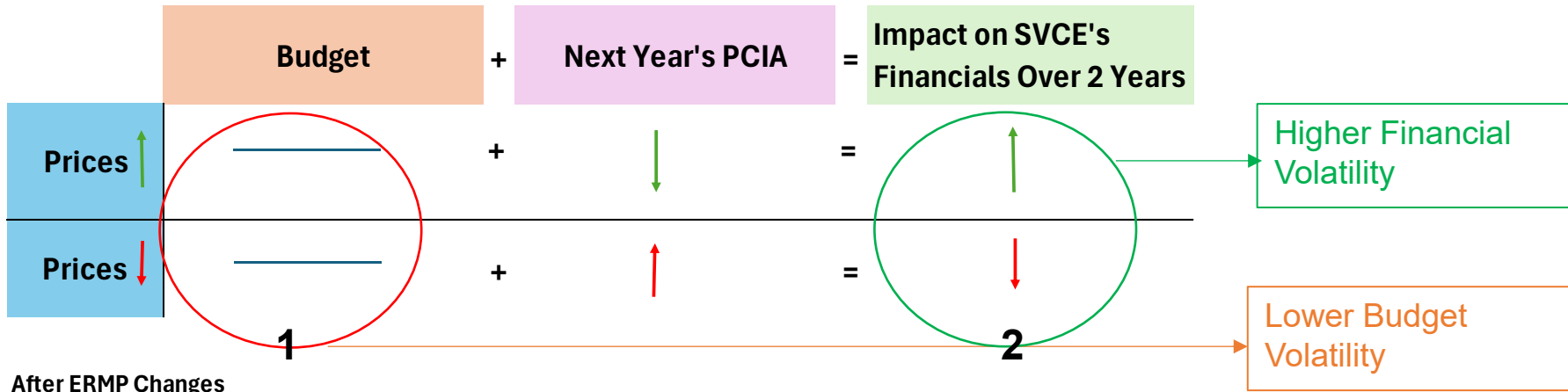
- Increase the highlighted numerical thresholds in the policy to 15% and \$50 million



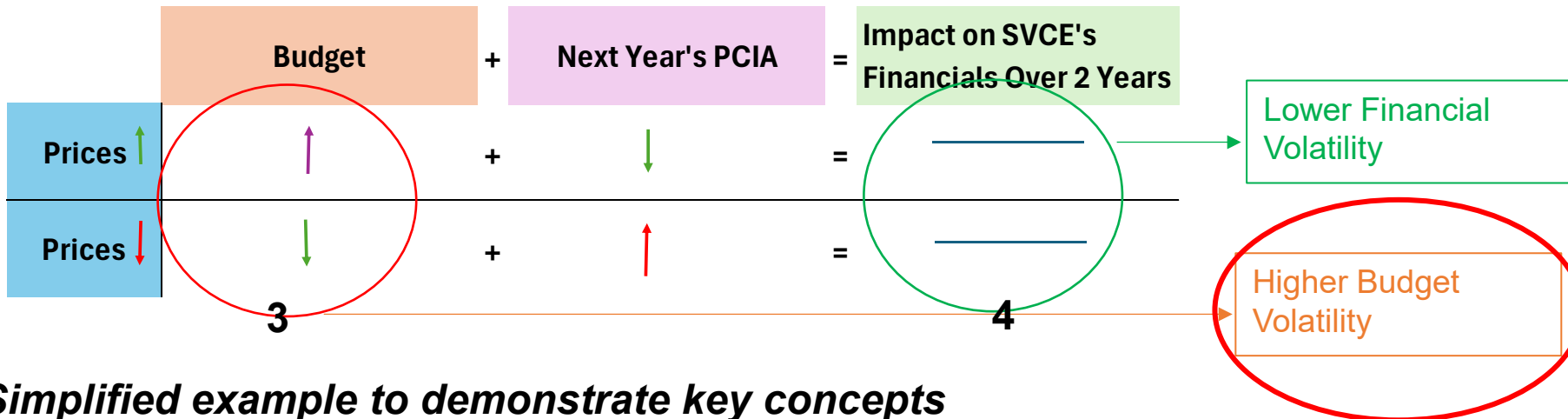
Impact on Finances and Budget from Changes to ERMP

Reduces overall Financial Volatility but Increases Budget Volatility

Before ERMP Changes



After ERMP Changes



Simplified example to demonstrate key concepts

1. Flat lines indicate low volatility (not zero)
2. Not possible to be fully hedged to eliminate all volatility
3. Only demonstrates the impact of energy prices; budgets and finances are affected by other variables
4. Energy hedge impact from PCIA relies on staff's best, but imperfect, estimates; PCIA is a black box
5. RA, RPS, and GHG also impact budget and PCIA

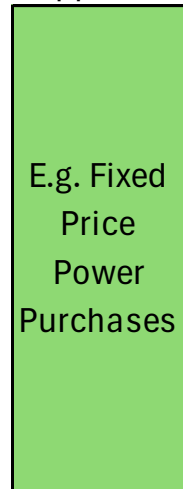


Adjusting SVCE's Energy Hedges to Account for PCIA

Continued on next slide

Before ERMP Change

Target Hedge Level:
Suppose 100%



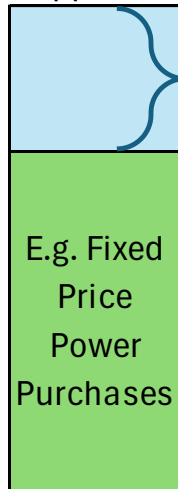
Physical Hedge

Financial Hedge

After ERMP Change

(Accounting for PCIA Financial Hedge Impact)

Target Hedge Level:
Suppose 100%



30% Exposed to Market Price Risk

Staff estimates financial hedge impact from PCIA to be 30%

70% Hedged

Simplified illustration to demonstrate key concepts.

Assumes hedges executed at the time budget levels are computed.

Financial hedges are achieved without taking delivery or ownership of the energy. PCIA is a financial hedge because CCAs do not deliver or settle energy from the PCIA portfolio, but achieve the same economic result as if CCAs had delivered or settled energy at the CAISO market through the financial charge levied via the PCIA rate.



Adjusting SVCE's Energy Hedges to Account for PCIA

Continued from previous slide

Before ERMP Change

After ERMP Change

(Accounting for PCIA Financial Hedge Impact)

Price Increase Scenario Impact on Power Supply Cost

Budget	\$350 million	\$350 million
Actual	\$350 million	\$400 million
	\$0	-\$50 million

Price Decrease Scenario Impact on Power Supply Cost

Budget	\$350 million	\$350 million
Actual	\$350 million	\$300 million
	\$0	\$50 million

Financial Impact Over 2 years

Price Increase Scenario

Power Supply Cost	\$0	-\$50 million
Next Year's PCIA	\$50 million	\$50 million
	\$50	\$0

Price Decrease Scenario

Power Supply Cost	\$0	\$50 million
Next Year's PCIA	-\$50 million	-\$50 million
	-\$50 million	\$0

Greater Budget
Certainty

Simplified
illustration to
demonstrate key
concepts.

Greater Financial
Certainty



Recommendation

- Staff requests that the Finance and Administration Committee (Committee) recommend that the SVCE Board of Directors (Board) approve amendments to the following Board-adopted policies, Finance Policy 2: Budget Adoption, Control and Reporting (“Budget Policy”) and Finance Policy 9: Financial Reserves (“Financial Reserves Policy”), as follows:
 - Finance Policy 2: Budget Adoption, Control and Reporting: Increase the contingency amount for power purchases, allowing the Chief Executive Officer (CEO) to overspend the total annual power supply budget by the lesser of 15% of the annual power supply budget or \$50 million without Board approval, provided the overspending is due to higher power supply portfolio costs or increased customer demand (Staff Report Attachment A, redline).
 - Financial Policy 9: Financial Reserves: Enable the reserves to be drawn down by the CEO during the fiscal year, up to the lesser of 15% of the year’s budgeted cost of power supply, or \$50 million (Staff Report Attachment C, redline).
- Recommend that the staff request Board approval via the consent calendar

Thank You/Questions

GASB 96 – Subscription-Based IT Arrangements (SBITAs)

Finance and Administration Committee
Amrit Singh
May 28, 2026





What is GASB 96? (Background)

- GASB 96 covers “Subscription-Based IT Arrangements (SBITAs)” such as cloud software and certain IT services
 - Software-as-a-service (SaaS) – Recognize these as assets and liabilities
 - Examples: Microsoft 365, Salesforce, or Customer Program Software
- The rule says treat these like leases: record an intangible asset (right to use per contract, not owned assets) and a liability (future payments)



Establishing an SBITA Threshold for Capitalization

- Costs at or below the threshold are expensed, and above are capitalized
- Ensures consistent accounting treatment
- Avoid administrative and auditing costs from capitalizing small items
- SVCE's current capitalization threshold is \$5,000 for capital assets
 - Applicable for tangible assets such as IT equipment, Automobiles, and Furniture



Guidance on Setting Threshold

- Government Finance Officers Association guidance on capitalization thresholds supports establishing different thresholds for different classes of assets
 - Does not provide a specific threshold
 - Supports not capitalizing small-value items that are immaterial
 - Supports periodic review of capitalization threshold
- Governmental Accounting Standards Board (GASB)
 - Does not prescribe a threshold
 - Allows management judgment to balance administrative cost versus materiality on the financial statements



Proposed threshold: \$250,000

- GASB 96 application entails an administrative, accounting, and audit effort much higher than for our capital assets, which have a \$5,000 threshold
 - Detailed contract analyses with ongoing reassessment (renewals, term changes, modifications, payment changes)
- Staff anticipates that 5-10 contracts annually could be below this threshold
 - Impact on balance sheet (Statement of Net Position) will be small
 - SVCE's net position was \$507 million as of September 30, 2025
- SVCE will annually evaluate SBITAs below the threshold in the aggregate for materiality and, as appropriate, will propose financial statement presentation and disclosure information



Recommendation

- Recommend that the Board of Directors approve SVCE's Capitalization policy as shown in the redlined version of Attachment A of the accompanying staff report that includes minor changes to delineate between capital assets and intangible assets subject to capitalization per applicable GASB standards, and the following change for SBITAs:

SBITA agreements must be capitalized if the net present value of future subscription payments per contract exceeds \$250,000. SVCE will annually evaluate sub-threshold SBITAs in the aggregate for materiality and, as appropriate, will consider financial statement presentation and disclosure information.

- Recommend that the staff request Board approval via the consent calendar