Silicon Valley Clean Energy

Silicon Valley Clean Energy Authority
Executive Committee Meeting

Wednesday, January 25, 2017
12:00 pm
Note Special Time

Silicon Valley Clean Energy Authority Office
Conference Room
333 W El Camino Real, Suite 290
Sunnyvale, CA

AGENDA

Call to Order

Roll Call

Public Comment on Matters Not Listed on the Agenda

The public may provide comments on any item not on the Agenda. Speakers are limited to 3 minutes each.

Consent Calendar (Action)

1a) Approve Minutes of the December 7, 2016, Executive Committee Meeting

Regular Calendar

2) Recommendations to Establish and Fund Rate Stabilization Reserves, Working Capital Reserves (Discussion)

3) Investment Policy Verbal Report (Discussion)

Committee/Staff Remarks

Adjourn

svcleanenergy.org

333 W El Camino Real
Suite 290
Sunnyvale, CA 94087

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Silicon Valley Clean Energy Authority
Executive Committee Meeting
Wednesday, December 7, 2016
2:00 pm

Sunnyvale Community Center | Recreation Center
Conference Room
550 E Remington Drive
Sunnyvale, CA

DRAFT MINUTES

Call to Order

Chair Sinks called the meeting to order at 2:18 p.m.

Roll Call

Present:
Chair Rod Sinks, City of Cupertino
Director Liz Gibbons, City of Campbell
Director John McAlister, City of Mountain View
Director Howard Miller, City of Saratoga

Absent:
Vice Chair Rob Rennie, Town of Los Gatos
Director Daniel Harney, City of Gilroy

Public Comment on Closed Session

Chair Sinks opened public comment.

Bruce Karney, Mountain View resident, requested that Closed Session items be put at the end of the agenda.

Chair Sinks closed public comment.

Tom Habashi, CEO, provided public remarks regarding the closed session item which included the term of the contract, benefits, accrual rate of PTO hours, and compensation. Greg Stepanicich, Legal Counsel, answered Executive Committee questions.

Chair Sinks stated that the purpose of the meeting would be to prepare a recommendation for the Board.

The Executive Committee entered Closed Session at 2:27 p.m.

Convene to Closed Session

Conference with Labor Negotiator
Agency Representative: Rod Sinks, Chair, Board of Directors

svcleanenergy.org
505 W Olive Avenue
Suite 130
Sunnyvale, CA, 94086

SILICON VALLEY CLEAN ENERGY

Unrepresented Employee: Chief Executive Officer

The Executive Committee returned from Closed Session at 4:00 p.m.

Report from Closed Session

Chair Sinks reported that the Executive Committee gave direction to the labor negotiator and attorney, Stepanicich, to prepare documents and a recommendation to present to the full Board; Chair Sinks also noted that he will speak with CEO Habashi before the next Board meeting.

Public Comment on Matters Not Listed on the Agenda

No Speakers.

Consent Calendar

1a) Approve Minutes for the October 26, 2016, Executive Committee Meeting

MOTION: Director Miller moved and Director McAlister seconded the motion to approve the Minutes of the October 26, 2016 Executive Committee Meeting as submitted.

The motion carried unanimously with Vice Chair Rennie and Director Harney absent.

Committee/Staff Remarks

None.

Adjournment

Chair Sinks adjourned the meeting at 4:01 p.m.

Staff Report – Item 2

To: Silicon Valley Clean Energy Authority Executive Committee

From: Tom Habashi, CEO

Item 2: Recommendations to Establish and Fund Rate Stabilization Reserves, Working Capital Reserves

Date: 1/25/2017

RECOMMENDATION

Staff recommends the following:

1. Establish a Working Capital Reserve of 90 days for operating expenses, not including power supply costs. This reserve would be approximately $4 million.
2. Establish a Rate Stabilization/Contingency Fund to mitigate rate increases due to volatility in the power markets, PCIA charges, and economic downturns and allow the elimination of the revolving line of credit.

BACKGROUND

In March 2016, SVCE was formed as a Community Choice Aggregation program, tasked with the acquisition of electricity in the wholesale market to meet the demands of the residents and businesses in its service territory.

In June 2016, to recover SVCE's anticipated cost and to ensure its financial viability and competitive position, the SVCE Board approved to offer the same rate schedules currently being offered by PG&E while setting the generation rates at 1% below PG&E's published rates as of January 1, 2017. In addition, the Board approved, barring unforeseen significant market changes, to hold these rates steady through the end of 2018.

During the same meeting in June 2016, the SVCE Board approved to set aside 5% of revenue to pay back SVCE member cities for the contributions that they made to initiate the program and to fund reserves that would be used to stabilize rates.

DISCUSSION

Operational Expenses

There are many variables that can impact the cost of operation of SVCE, the most impactful being the cost of power supply, which constitutes nearly 95% of total SVCE operational expenses. There are many factors that could impact and significantly alter that cost including:

<u>Actual versus forecast consumption</u>

In the Implementation Plan, submitted to the CPUC in July 2016, SVCE assumed that 15% of the customers will opt out to remain bundled customers of PG&E. Staff has since revised this assumption to reflect the positive response demonstrated by customers served by Peninsula Clean Energy (1-2% opt out rate thus far). Hedging supply prices are based on forecasted consumption which are certain to be different than the actual consumption. Hourly, the SVCE scheduling coordinator will be transacting energy to balance SVCE supply and demand which will alter the forecast of supply cost.

Change in spot market prices
SVCE has hedged nearly 100% of its forecasted needs for 2017 and 2018. However, we only hedged a portion of demand for the following 2 years and less than 50% of our needs for 2021. Deviations in future prices of natural gas is the major driver of market prices and can have a large impact on supply cost.

Regulatory mandates
Regulatory requirements aimed to curb greenhouse gases have a sizable impact on SVCE supply cost. The increasing mandates for renewable resources, and dictating that these resources be built in California, is likely to add to future supply cost.

Operational Revenue
For the first several years of operation, nearly 100% of SVCE revenue will be realized from the sale of electricity to its customers. There are several factors that can impact revenues such as forecast of sales, uncollectibles, etc. The most significant impact to SVCE revenue is PG&E's Power Charge Indifference Adjustment (PCIA). The PCIA has risen more than 150% in the past two PG&E rate filings in Jan 2016 and Jan 2017. To illustrate the significance of that increase, if SVCE was in operation in the past two years, the increase in PCIA would have reduced SVCE's revenues by over $125 million.

ANALYSIS

SVCE should keep sufficient reserves to address the various risks we face and to keep rates at stable and competitive levels. To calculate reserve level, staff will focus this analysis on the variables that will have the greatest impact on revenues and operational costs, namely PCIA and electricity spot market prices. These variables will change, subject to future scenarios. This report devises four self-consistent future scenarios:

Base Case
Assumes that the PCIA will continue at its current level and that supply cost will increase at the normal inflation rate. There is minimal change to the PCIA and supply cost will increase marginally as shown in the latest pro forma shared with the Board at the January 2017 meeting. Although not reflected in the table, it is anticipated that rates would adjust in 2019 to recover costs, plus anticipated investments in capital projects and energy programs.

BASE CASE (In Thousands)

	2017	2018	2019	2020	2021	2022	Total
REVENUES	$152,385	$252,917	$264,290	$276,076	$288,289	$300,944	**$1,534,901**
OPERATING EXPENSES	$9,880	$15,265	$15,654	$16,054	$16,466	$16,891	**$90,210**
POWER SUPPLY	$108,700	$182,983	$186,977	$195,687	$202,968	$210,322	**$1,087,637**
SURPLUS/(DEFICIT)	**$33,804**	**$54,669**	**$61,660**	**$64,336**	**$68,854**	**$73,731**	**$357,053**

Best Case
Assumes that spot market prices will begin to rise, prompting PG&E to begin a steady reduction in PCIA to reflect the higher value of their supply portfolio and the termination of their current, more expensive contracts. In this scenario, supply cost for SVCE will rise by 2% in 2019, 3% in 2020 and 5% annually thereafter. Meanwhile, PCIA will fall at the rate of 5% annually starting 2018 and rates will fall beginning in 2019 to recover costs including capital and energy program investments. The following table illustrates the Best Case Scenario.

BEST CASE (In Thousands)							
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
REVENUES	$152,385	$257,071	$272,432	$288,046	$303,934	$320,118	**$1,593,985**
OPERATING EXPENSES	$9,880	$15,265	$15,654	$16,054	$16,466	$16,891	**$90,210**
POWER SUPPLY	$108,700	$182,983	$190,716	$201,557	$213,117	$220,838	**$1,117,912**
SURPLUS/(DEFICIT)	**$33,804**	**$58,823**	**$66,062**	**$70,434**	**$74,350**	**$82,389**	**$385,863**

Regulatory Bias Case

Assumes that spot market price will hold steady and that PG&E will continue to make acquisitions that will prove to be uncompetitive and secure additional increases in PCIA. In this scenario, supply cost will increase as per financial pro forma, while the PCIA will increase steadily at the annual rate of 10%. Over the next six years, the PCIA would reduce revenues by approximately $600 million. The table below illustrates the Regulatory Bias Scenario.

REGULATORY BIAS CASE (In Thousands)							
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
REVENUES	$152,385	$244,608	$246,755	$248,299	$249,147	$249,196	**$1,390,389**
OPERATING EXPENSES	$9,880	$15,265	$15,654	$16,054	$16,466	$16,891	**$90,210**
POWER SUPPLY	$108,700	$182,983	$186,977	$195,687	$202,968	$210,322	**$1,087,637**
SURPLUS/(DEFICIT)	**$33,804**	**$46,360**	**$44,124**	**$36,558**	**$29,712**	**$21,983**	**$212,541**

Worst Case

This assumes that spot market prices will continue to decline, thereby reducing SVCE power supply cost by 2% in 2019, 3% in 2020 and 5% annually thereafter. Meanwhile, PG&E will continue to make long term commitments to expensive resources, resulting in PCIA increase at the annual rate of 20% for the next 5 years and 10% thereafter. The table below illustrates the Worst Case Scenario with a deficit projected in 2021.

WORST CASE (In Thousands)							
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
REVENUES	$152,385	$236,299	$227,549	$214,982	$197,742	$174,791	**$1,203,748**
OPERATING EXPENSES	$9,880	$15,265	$15,654	$16,054	$16,466	$16,891	**$90,210**
POWER SUPPLY	$108,700	$182,983	$186,902	$195,511	$202,461	$209,796	**$1,086,353**
SURPLUS/(DEFICIT)	**$33,804**	**$38,051**	**$24,993**	**$3,418**	**$21,186**	**$51,896**	**$27,184**

CONCLUSION

The financial pro forma under Base Case scenario indicates that SVCE should accumulate sufficient net revenue in FYs 2017 and 2018 to retire the line of credit, pay back the initial $2.7 million seed contribution made by the member cities, fund working capital reserves at $4 million and have remaining funds to address revenue short-fall for three successive years of Worst Case scenario. Therefore, in 2019, staff recommends that rates are adjusted to reflect anticipated cost of service as forecasted in late 2018.