August 2019 Rate Update

SVCE Executive Committee
May 24, 2019
Background

• In April, Board approved two rate changes
  1. Interim SVCE rate increase of 3% as of May 1st, maintains 6% discount v/v PG&E
  2. A second 2019 SVCE rate update for August 1st, based on major changes anticipated in PG&E rates on July 1st:
     • Assumes Aug 1 SVCE gen rates reduced by 2%, discount lowered to 1%
     • In June, staff to present ‘guard rails’ for alternative discount levels, if PG&E rate changes are significantly different than anticipated

• Mid-May projections for July 1 PG&E gen and PCIA changes very different than anticipated, based on latest PG&E filings

• Review SVCE rate change model for August 2019
July 1 Changes to PG&E Gen Rates and PCIA

Previous Assumptions . . .

• PCIA would increase by 1.5%, impacting SVCE revenues by -0.5%

• PG&E Generation rates would decrease by -6.5%

• Total impact to revenue, assuming SVCE maintains a 6% discount relative to PG&E, would be -7%

• SVCE would decrease discount relative to PG&E to 1%, and rates by -2%

• Net contributions to reserves would decline for 2019 by 1% ($2.85M)

Latest Assumptions:

• PCIA will increase by 10.5%, impacting SVCE revenues by -3.5%

• PG&E Generation rates would *increase* by 4%

• Total impact to revenue, assuming SVCE maintains a 6% discount relative to PG&E, would *increase* 0.5%

• Change from previous assumptions is significant; new discount options and ‘guard rails’ are presented in the following
April 2019
SVCE raises rates to maintain 6% discount effective May 1st

June 2019
SVCE’s Board provides direction on rates. Final AET filing expected late June.

May 2019
PG&E raises generation rates 1% on May 1st. SVCE discount is 7%. Latest AET filing shows additional 3% increase in PG&E generation rates and 10 ½ increase in the PCIA (weighted average)

August 2019
New SVCE rates effective August 1st

July 2019
July 1st PG&E new generation rates in effect.
### SVCE RATE OPTIONS
Assuming updated July Gen/PCIA projections

<table>
<thead>
<tr>
<th>SVCE Discount</th>
<th>SVCE Rate Change</th>
<th>Cumulative 2019 Rate Change</th>
<th>M$ Above Mid-Year Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>8.0%</td>
<td>11.0%</td>
<td>$16.8</td>
</tr>
<tr>
<td>2%</td>
<td>6.5%</td>
<td>9.5%</td>
<td>$14.6</td>
</tr>
<tr>
<td>3%</td>
<td>5.0%</td>
<td>8.0%</td>
<td>$12.4</td>
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<tr>
<td>4%</td>
<td>3.5%</td>
<td>6.5%</td>
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<td>5%</td>
<td>2.0%</td>
<td>5.0%</td>
<td>$8.0</td>
</tr>
<tr>
<td>6%</td>
<td>0.5%</td>
<td>3.5%</td>
<td>$5.8</td>
</tr>
</tbody>
</table>

*Mid-Year is Aug 2019-Jan 2020 revenues based on rate assumptions from April 2019*
What if PCIA or Gen Rates Change?

Net SVCE Rate Impact from PG&E Gen & PCIA Changes

\[ \approx (\text{PG&E Rate Change}) - (\text{PCIA Rate Change})/3 \]

Current Example:

\[ 0.5 \approx (+4) - (+10.5)/3 \]

Examples with Changes:

- \[ -0.5 \approx (+3) - (+10.5)/3 \]
- \[ 1.5 \approx (+4) - (+7.5)/3 \]
# Rate Options based on Gen, PCIA Changes

## Alternative Aug 1 Rate Change Scenarios - based on actual July 1 Rate Changes

<table>
<thead>
<tr>
<th>July 1 PCIA Rate Change</th>
<th>July 1 Gen Rate Change</th>
<th>(if no change to discount)</th>
<th>Impact to SVCE Revenue</th>
<th>August 1</th>
<th>Incremental Contribution to SVCE Operating Reservices</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.50%</td>
<td>4.00%</td>
<td>0.50%</td>
<td>8.00%</td>
<td>1.00%</td>
<td>$16,800,000</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>6.50%</td>
<td>2.00%</td>
<td>$14,600,000</td>
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<td></td>
<td></td>
<td></td>
<td>5.00%</td>
<td>3.00%</td>
<td>$12,400,000</td>
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<td></td>
<td></td>
<td></td>
<td>3.50%</td>
<td>4.00%</td>
<td>$10,200,000</td>
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<td></td>
<td></td>
<td></td>
<td>2.00%</td>
<td>5.00%</td>
<td>$8,000,000</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>0.50%</td>
<td>6.00%</td>
<td>$5,800,000</td>
</tr>
</tbody>
</table>
Discount ‘Framework’ for Finalizing Aug 1 Rates

If the July 1 PG&E Net Rate Impact is different than anticipated . . .

The Aug 1 SVCE Discount could be adjusted up or down, to maintain SVCE’s Aug 1 Rate Change and Revenue projections.
Uncertainty and Risk

- **RATES**
  - Still unknown on PCIA and PG&E Rates

- **REGULATIONS**
  - PG&E Restructuring; Central Buyer

- **POWER SUPPLY**
  - Higher market prices for capacity and energy; underlying commodity volatility; credit rating

- **PG&E BANKRUPTCY**
  - Customer reserves; plan of reorganization

- **LEGISLATION**
  - IOUs exit retail; Central Buyer; credit rating

- **DIRECT ACCESS**
  - Prepare now for 2020 and potential further expansion
KEY YEAR TO BUILD RESERVES....

POWER SUPPLY

• Long-Term power supply negotiations
• Power Pre-Pay
• Lowering of power supply costs with PCC2 may be temporary benefit (regulatory)

FINANCIAL

• Balance of 2019/early 2020 will be focused on obtaining a credit rating
• Renewal and/or expansion of line of credit
**Recommendation**

- Assuming July 1 PG&E rate changes are in line with assumptions, moving to a 3% discount best balances market uncertainty and customer rate stability:
  - additional 5.0% increase in SVCE rates from May 1
  - additional $12 MM in contribution to reserves August 2019 - Jan 2020
  - maintains discount to PG&E at mid-point of SVCE discounts from inception

- Direct CEO and Staff to implement a rate change that results in a $11-13 MM incremental revenue, currently forecast to result in a 3% discount to current PG&E generation rates effective August 1st subject to the following:
  - Delegate authority to adjust the discount based on attached ‘Discount Framework’, and the combined effect of actual July 1 PG&E rate and PCIA changes
Strategic Plan Update

Executive Committee
May 24, 2019
Strategic Plan Overview

- Initially approved in 2017, SVCE’s Strategic Plan is intended to serve as a living document which should be changed and altered.
- Last major update approved by the SVCE Board of Directors in July 2018, with a GHG emissions reduction update in December 2018.
- Since the agency has grown, our initiatives are more clear. As an employee driven update, new staff have contributed to additional clear and concise goals and strategies within each of SVCE’s departments.
- Previous goals were updated or removed (minor changes), and a few major policy related items have been identified in Customer and Community, and Finance and Administration, and Power Supply.
Workplace

Minor Changes
• Evaluate wellness benefits to industry benchmarks at least once every two years
• Ensure a healthy and productive workplace

Major Changes
N/A
Customer and Community

Minor Changes
• Goal 4: Maintain customer service satisfaction
  4.1.1) Track ongoing participation rate and opt out trends
  4.1.2) Track response rates to customer inquiries

Major Changes
“...establish SVCE margin analysis by customer class, and tools for evaluating customized rate options including targeted customer discounts and ‘green sleeve’ PPA arrangements.”

A new section, Decarbonization & Grid Innovation Programs, was added to address all program related goals.
Decarbonization & Grid Innovation Programs

With the addition of the Decarbonization & Grid Innovation Programs department since the initial adoption of the Strategic Plan in 2017, staff felt it would be appropriate to separate program specific goals from existing goals and strategies addressed under other sections.

These goals address GHG reduction by collecting and tracking GHG data for SVCE service territory, an annual emissions inventory, maintaining SVCE’s Decarbonization Strategy & Programs Roadmap, and creating an innovation-focused culture, among others.
Finance and Fiscal Responsibility

Minor Changes
• Goal 6: Commit to Excellence (identify opportunities to optimize agency resources, identify opportunities for collaboration, define and implement project management processes, etc.)
• Clarifying points on utilizing data and technology

Major Changes
Goal 7: Achieve an investment grade credit rating by end of 2020
Regulatory and Legislative

Minor Changes
• Develop a voice and identity for SVCE in Sacramento
• Maximize the effectiveness of SVCE’s advocacy through collaboration with CalCCA and other CCAs where appropriate
• Other clarifying points on SVCE’s advocacy efforts

Major Changes
N/A
Power Supply

Minor Changes
• Clarifying points on resource acquisitions and meeting state mandates and requirements

Major Changes
• Direct Access challenges allow SVCE opportunity to enhance product offerings
• Balance procurement of RPS resources with in-state bundled renewables (PCC1) and out-of-state bundled renewables (PCC2)
Information Technology

Minor Changes
• Strategies were consolidated under SVCE’s Information Technology goal: SVCE’s IT infrastructure must be secure, reliable, and disaster resilient to provide 24/7/365 online access

Major Changes
N/A
Questions and Comments