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August 2019 Rate Update

SVCE Board of Directors Meeting
June 12, 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

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July 1 Changes to PG&E Gen Rates and PCIA

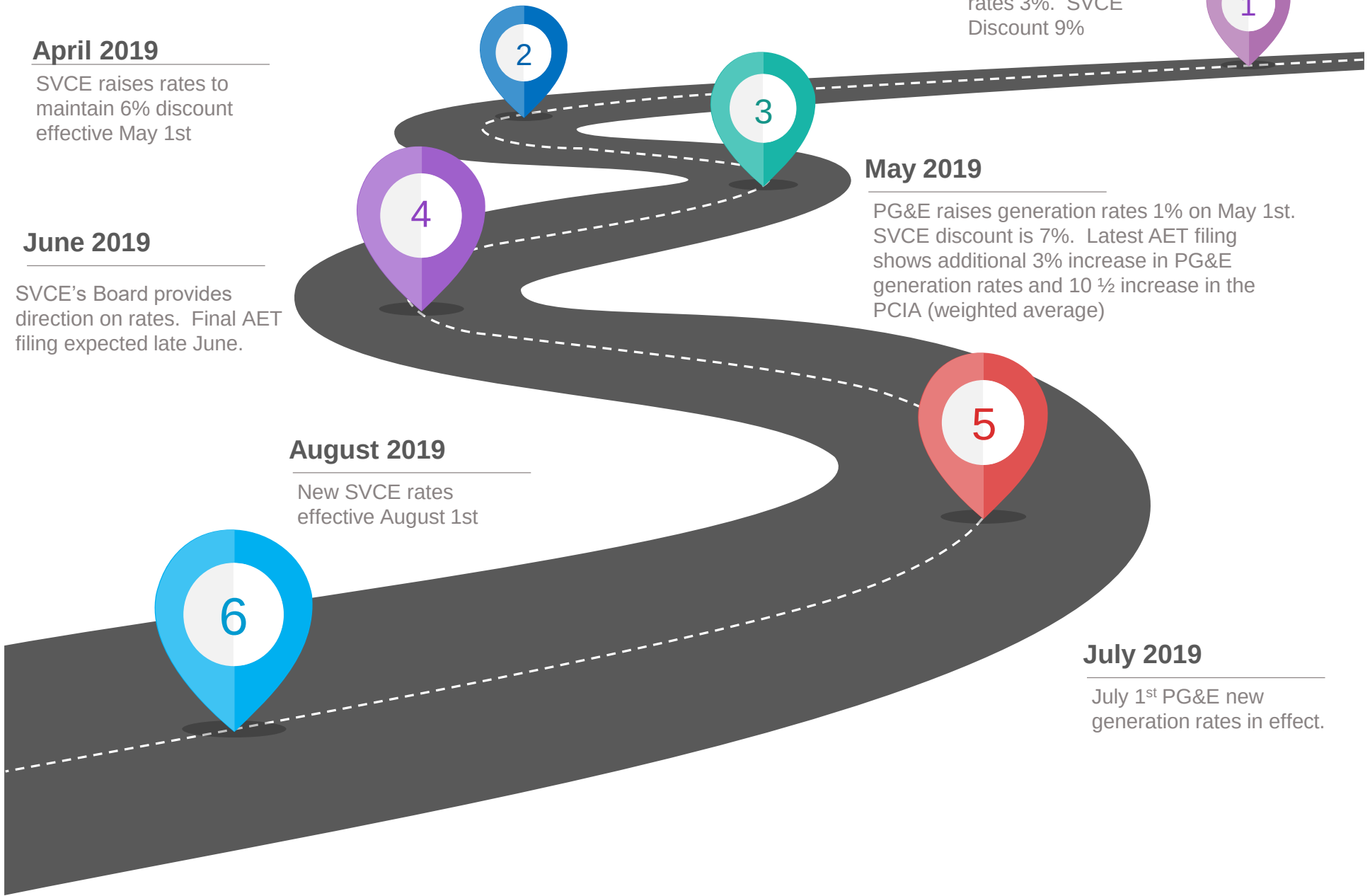
Previous Assumptions . . .

- 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

Rates Roadmap . . .



March 2019

PG&E raises generation rates 3%. SVCE Discount 9%

April 2019

SVCE raises rates to maintain 6% discount effective May 1st

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)

June 2019

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

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

SVCE Discount	SVCE Rate Change	Cumulative 2019 Rate Change	M$ Above Mid-Year Projection
1%	8.0%	11.0%	$16.8
2%	6.5%	9.5%	$14.6
3%	5.0%	8.0%	$12.4
4%	3.5%	6.5%	$10.2
5%	2.0%	5.0%	$8.0
6%	0.5%	3.5%	$5.8

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

≈ (PG&E Rate Change) - (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

July 1 PCIA Rate Change	July 1 Gen Rate Change	Impact to SVCE Revenue July 1 PCIA + Gen Rate (if no change to discount)	August 1 Average SVCE Rate Change	New SVCE Discount	Incremental Contribution to SVCE Operating Reserves
10.50%	4.00%	0.50%	8.00%	1.00%	$ 16,800,000
			6.50%	2.00%	$ 14,600,000
			5.00%	3.00%	$ 12,400,000
			3.50%	4.00%	$ 10,200,000
			2.00%	5.00%	$ 8,000,000
			0.50%	6.00%	$ 5,800,000

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

Net Rate Impact PG&E Gen & PCIA (Range)	August 1 SVCE Discount	Average Aug 1 Rate Change	$ Above Mid-Year Projections
more than 3%	6%	5%	$11.3 - $13.5M
2 to 3%	5%	5%	$11.3 – 13.5M
1 to 2%	4%	5%	$11.3 – 13.5M
0 to 1%	3%	5%	$11.3 – 13.5M
-1 to 0%	2%	5%	$11.3 – 13.5M
less than -1%	1%	5%	$11.3 – 13.5M

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

2019 is a 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

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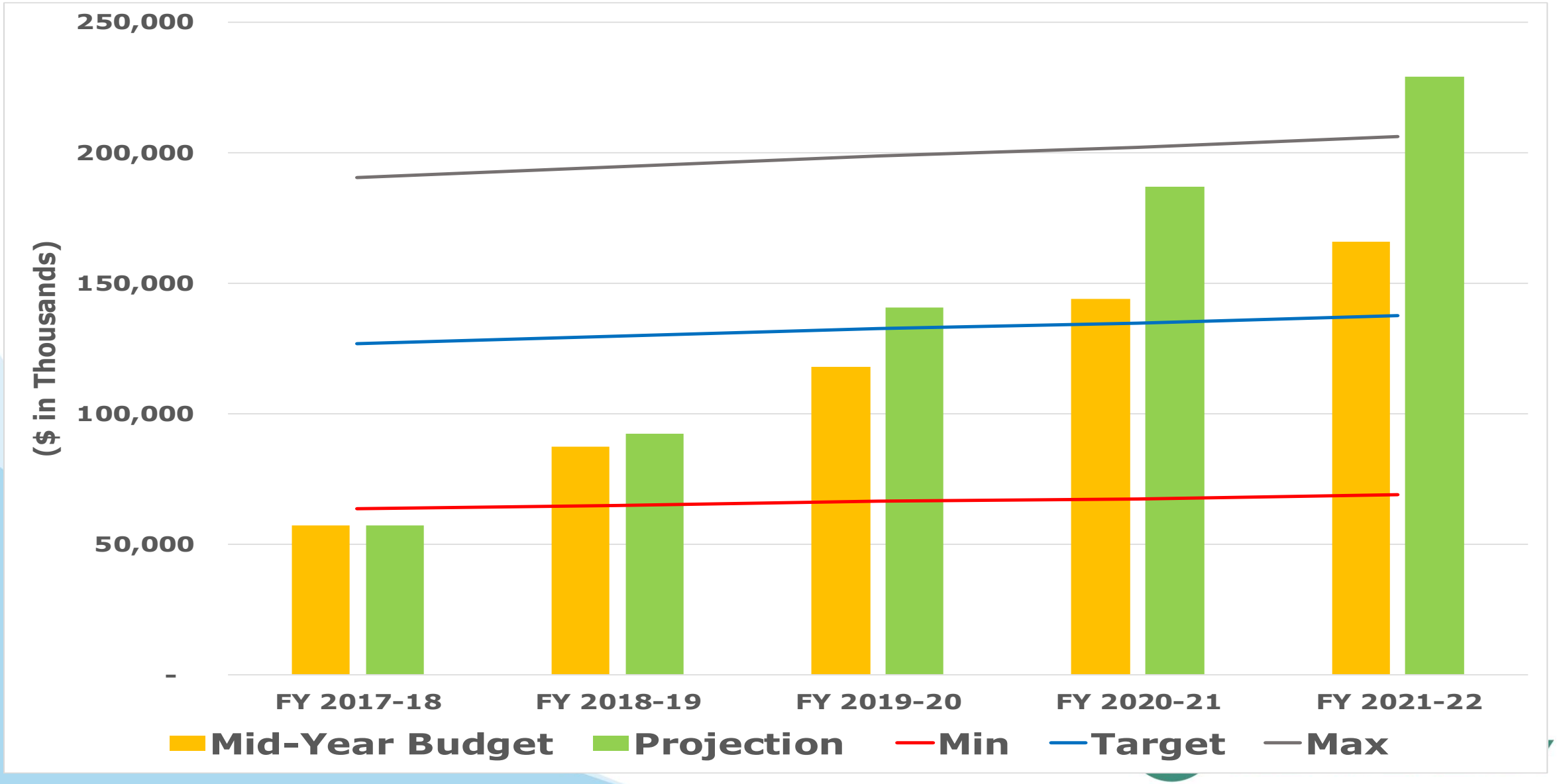
Reserves


250,000
200,000
150,000
100,000
50,000
-
($ in Thousands)
FY 2017-18
FY 2018-19
FY 2019-20
FY 2020-21
FY 2021-22
Mid-Year Budget
Projection
Min
Target
Max

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

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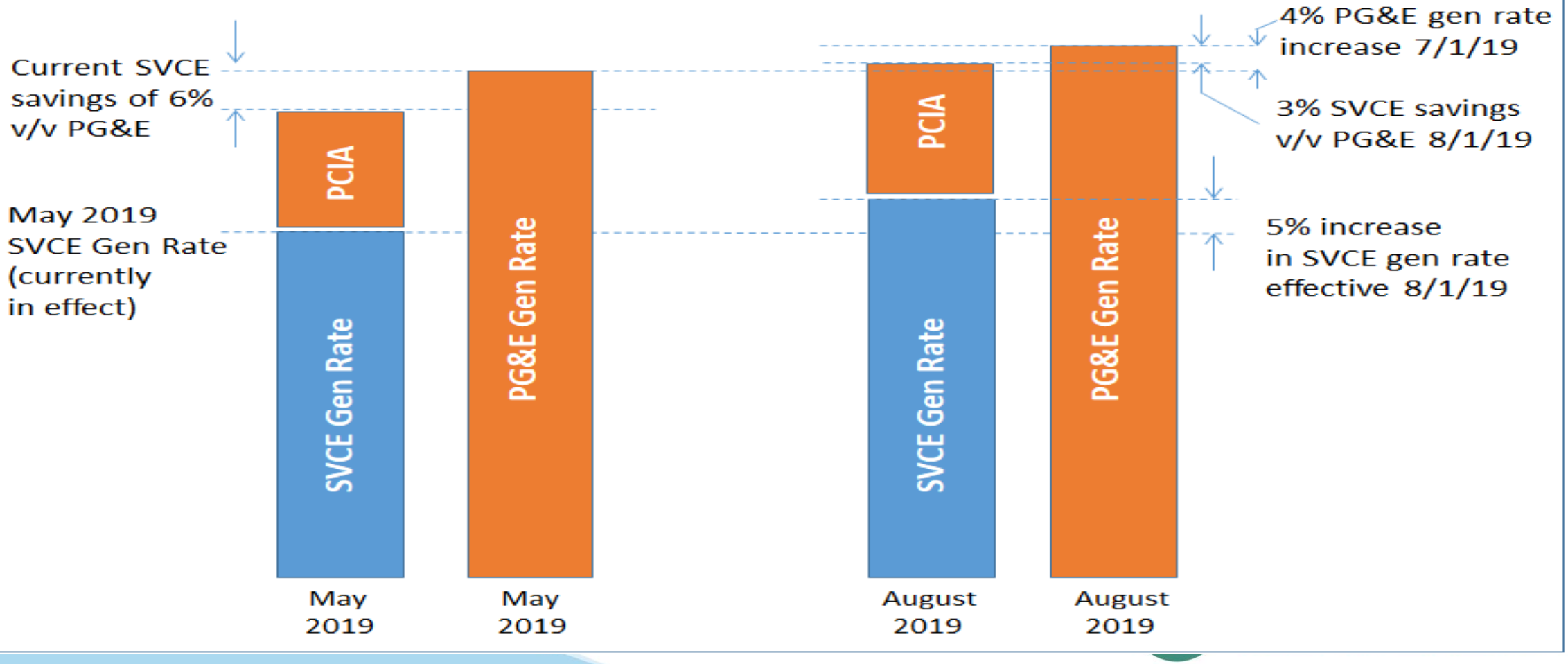
SUPPLEMENTAL

Proposed Aug 1 2019 Rate Summary

Proposed SVCE Aug 1, 2019 Rate Change - Summary

- PG&E 4% rate increase and 10.5% PICA increase effective July 1, 2019
- SVCE implements an average ~5% increase as of August 1, 2019
- SVCE's gen rate discount lowered to 3%, near a midpoint between 2017/2018 discount rates



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C&I Clean Power Offerings

Establishing Non-Standard Pricing Agreements for Eligible C&I Customers

Presentation to SVCE Board of Directors

6/12/19

Overview: Direct Access

1. What is Direct Access?
   a) Direct Access ("DA") allows commercial and industrial customers to contract directly with electricity service providers ("ESPs") instead of receiving energy through an investor-owned utility or CCA
   b) DA has been capped at 13% of CA electric load since 2013, and fully subscribed
   c) In SVCE territory, 25% of eligible customers already have DA

2. What is happening now?
   a) In Sept 2018, Senate Bill 237 re-opened the DA cap once again, with service beginning in January 2021
   b) The cap will expand by ~1,880 GWh in PG&E territory (to 16%)
   c) SB 237 also directed the CPUC to evaluate and make a recommendation about further lifting or eliminating the DA cap, by June 2020

Non-Standard Pricing Agreement Policy

1) Have defined eligibility criteria, and be available to all customers meeting these criteria

2) Be cost-based and account for any volume and/or price risk

3) Cover variable cost, and contribute to fixed costs and reserves per financial objectives and Risk policy

4) Require a commitment level from the customer commensurate with pricing agreement terms

5) Meet SVCE's carbon-free requirements and decarbonization strategy

Current situation for SVCE . . .

1. Under SB 237, SVCE at risk of losing between 0.5 – 10+% of load in January 2021

2. Exact load at risk depends on DA 'waitlist', and DA lottery results shared in September

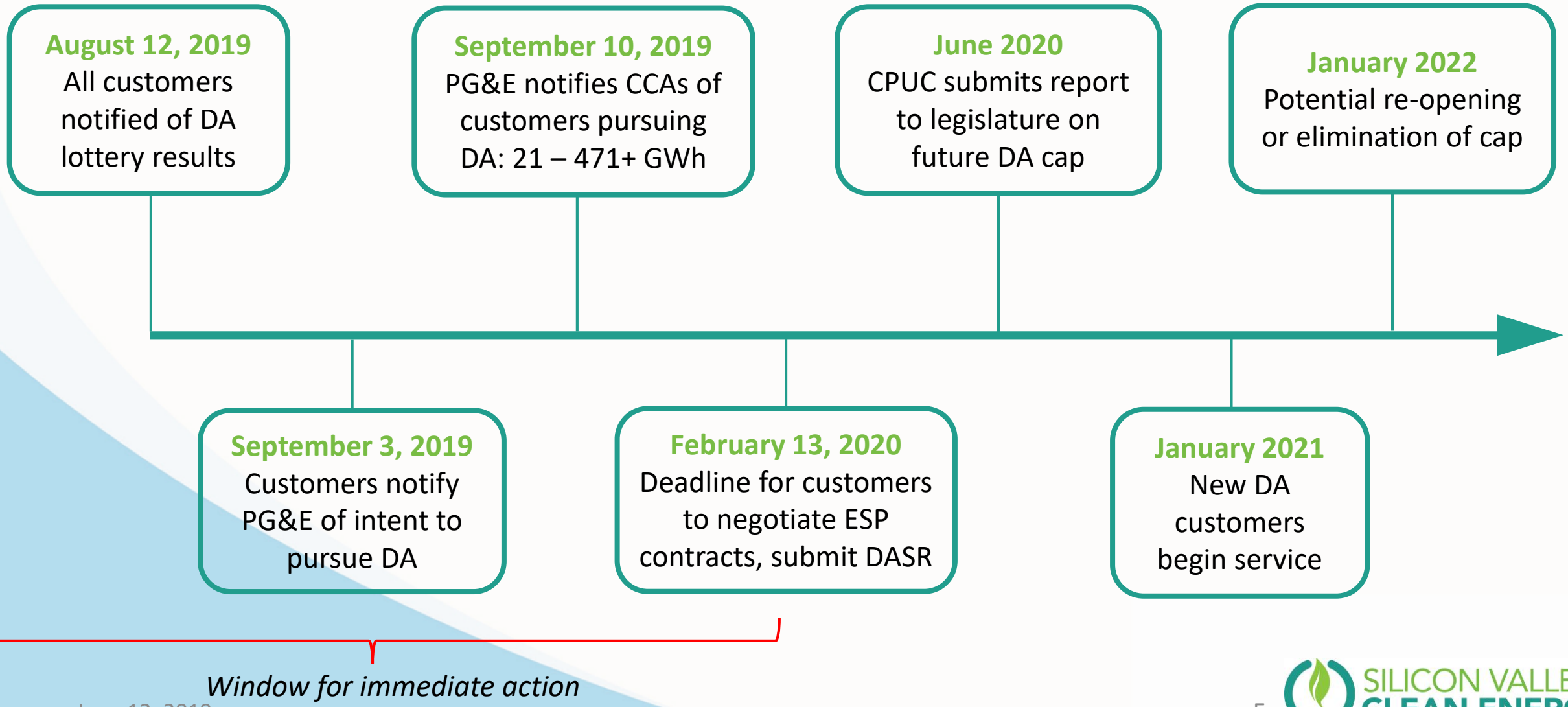
3. SVCE may lose additional load if CPUC recommends re-opening or eliminating the DA cap, likely beginning in 2022

4. Losing load = GHG increases, loss of SVCE revenue and contribution margin

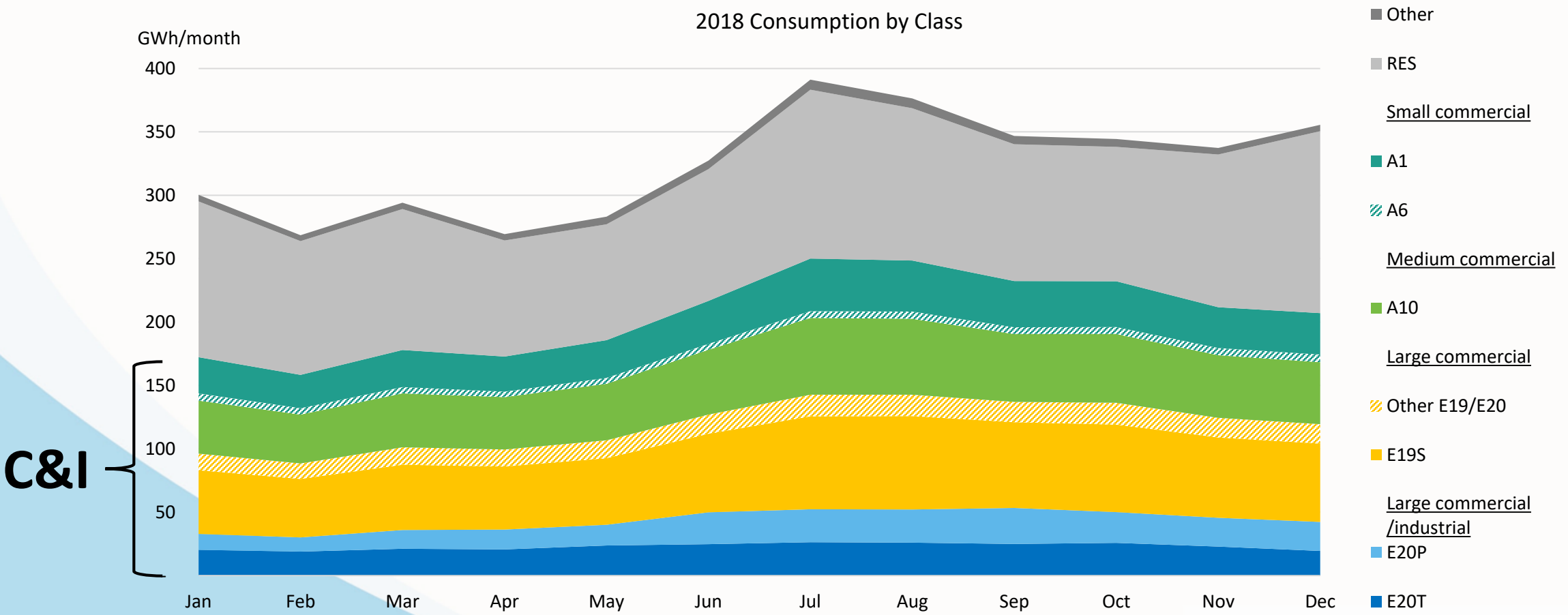
5. Our current offerings and rate structures are not competitive in a DA context

6. Accordingly, staff recommends implementation of a 'Non-Standard Pricing Agreement Policy', with eligibility for customers larger than 10GWh/year

SB 237 Timeline



C&I Customers and SVCE Load



Source: Internal SVCE Load Analysis

Loss of C&I Customers - Impacts

1. Large customer departures impact SVCE's carbon reduction progress and goals
   a) DA customers typically receive 'RPS minimum' service
   b) Losing 400 GWh/year would increase SVCE area-wide emissions by ~2%*

2. DA 'opt outs' reduce contributions to SVCE fixed costs and reserves
   a) Large C&I customers (10+ GWh/year) represent 20% of SVCE load
   b) Contribute millions annually to SVCE fixed costs, decarb programs and reserves
   c) Fixed costs supported by remaining customers

Board-approved Strategic Plan **Goal 2 -** Maintain competitive rates to acquire and retain customers; **Strategy 2.4 -** Examine customized rate options for large customers while meeting SVCE's carbon reduction and financial goals

* Blended average GHG intensity of DA load in SVCE territory, DNV-GL SVCE GHG Inventory 2018

Competing in a DA World

1. Commodity business with generally low margins
   a. Served by 'Energy Services Providers' (ESPs)

2. Numerous competing ESP's, aggressive new customer acquisition tactics

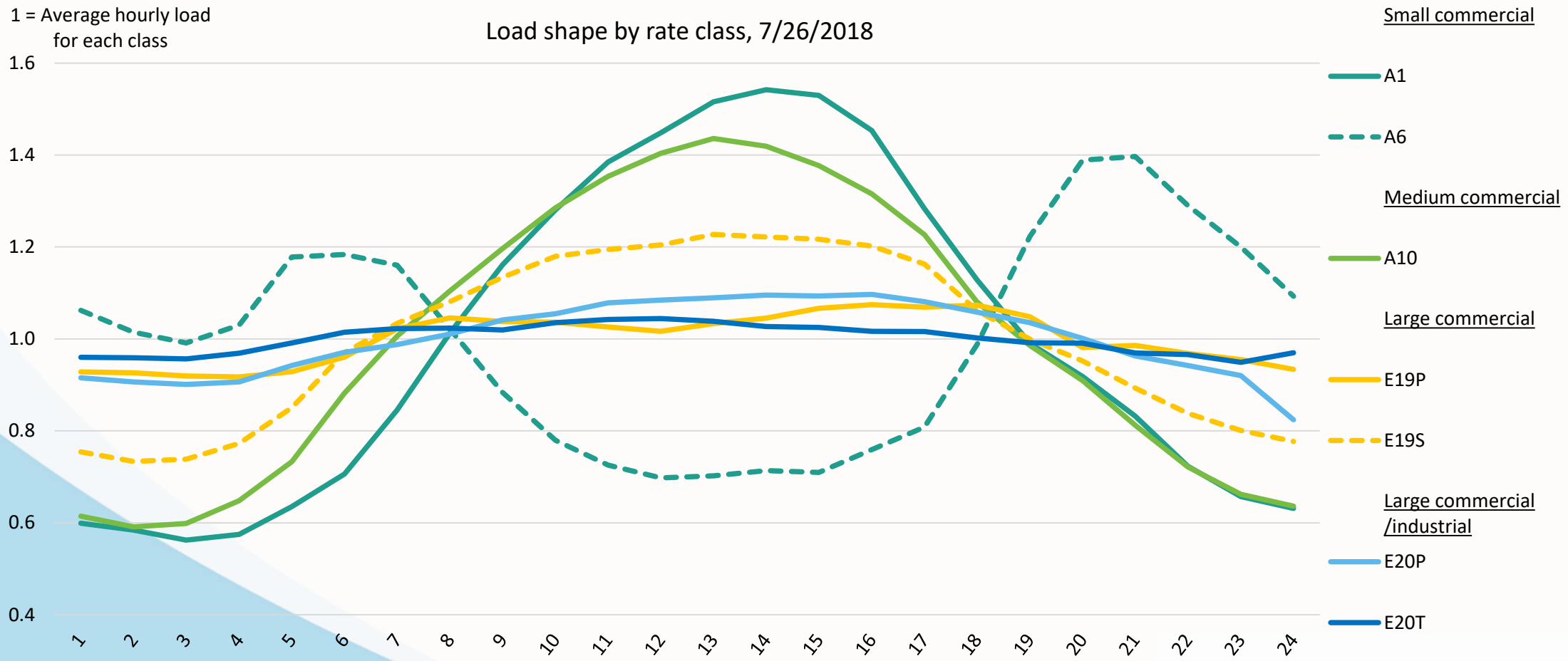
3. Typical customer contract length of 12-24 months, some longer

4. To compete, SVCE must be **creative**, **responsive** and maintain **customer information privacy**

Current SVCE tariff rates and rate-setting process will not be responsive.

Need to develop process for establishing Non-standard Pricing Agreements with interested/eligible large commercial and industrial customers.

Customer loads and costs vary widely.



Proposed SVCE Approach

1. Implement pricing policy
   a) Support development of non-standard pricing agreements with top C&I customers
   b) Prices must meet SVCE financial and risk management objectives

2. C&I Clean Power Offerings may include:
   a) Discount in exchange for a multi-year customer volume commitment
   b) Co-investment in designated products or services consistent with SVCE's decarbonization strategy (e.g., EV charging infrastructure, resiliency)
   c) Generation service from specific renewable energy projects
   d) Fixed or index-based pricing structures for a defined term and volume

Non-Standard Pricing Agreement Policy . . .

1) Have defined eligibility criteria, and be available to all customers meeting these criteria

- Customer load should be greater than or equal to 10 GWh annually; addresses ~25 customers and 800GWh annual load

2) Be cost-based and account for any volume and/or price risk

- Staff proposes non-standard pricing agreements be set based on SVCE's expected cost to serve
- May be set for flexibility to minimize SVCE exposure to market risk

3) Cover variable cost, and contribute to fixed costs and reserves per financial objectives and Risk policy

- Variable costs: energy, RA, RECs, and CF attributes
- Fixed costs: programs, salaries, billing and data services, etc.
- Customers must cover variable costs plus some level of contribution to fixed cost and reserve margins conforming with SVCE financial objectives, Risk Management Policy and controls

Non-Standard Pricing Agreement Policy (con't)

4) Require a commitment level from the customer commensurate with pricing agreement terms

- C&I customer may seek longer-term price stability
- SVCE may implement longer-term hedges
- Require customer to remain on the tariff for the same duration

5) Meet SVCE's carbon-free requirements and decarbonization strategy

- Retaining large C&I load prevents them moving to a minimally compliant electricity product, vastly increasing emissions
- SVCE's goal in retention is to keep customers on a 100% carbon-free electric service, and contribute to ongoing decarbonization of the power supply, transportation and the built environment

Staff Recommendation

Adopt Resolution No. 2019-12, delegating to the CEO the authority to negotiate and execute non-standard pricing agreements with eligible large commercial and industrial customers, provided that the pricing agreements meet the minimum requirements set forth in the Non-Standard Pricing Agreement Policy.

Item 5
PRESENTATION
REVISED

SILICON VALLEY CLEAN ENERGY

Strategic Plan Update

Board of Directors
June 12, 2019

Our Mission

Mission

Reduce dependence on fossil fuels by providing carbon free, affordable and reliable electricity and innovation programs for the SVCE community

Goals

Workplace

Customer and Community

Decarbonization and Grid Innovation Programs

Finance & Fiscal Responsibility

Regulatory & Legislative

Power Supply

Information Technology

STRATEGIC PLAN PROCESS

Formulate Strategy

Staff considers funding of strategies in the budget process

Review Mission

Initially approved in 2017, SVCE's strategic plan is intended to serve as a living document.

Create a SWOT Analysis

Staff conducted a strengths/weaknesses/ opportunities/threat analysis

Propose Goal

As an employee driven update, new staff and agency growth have contributed to additional goals

Examine External Issues

Includes regulatory, legislative, PG&E Bankruptcy, power supply and Direct Access

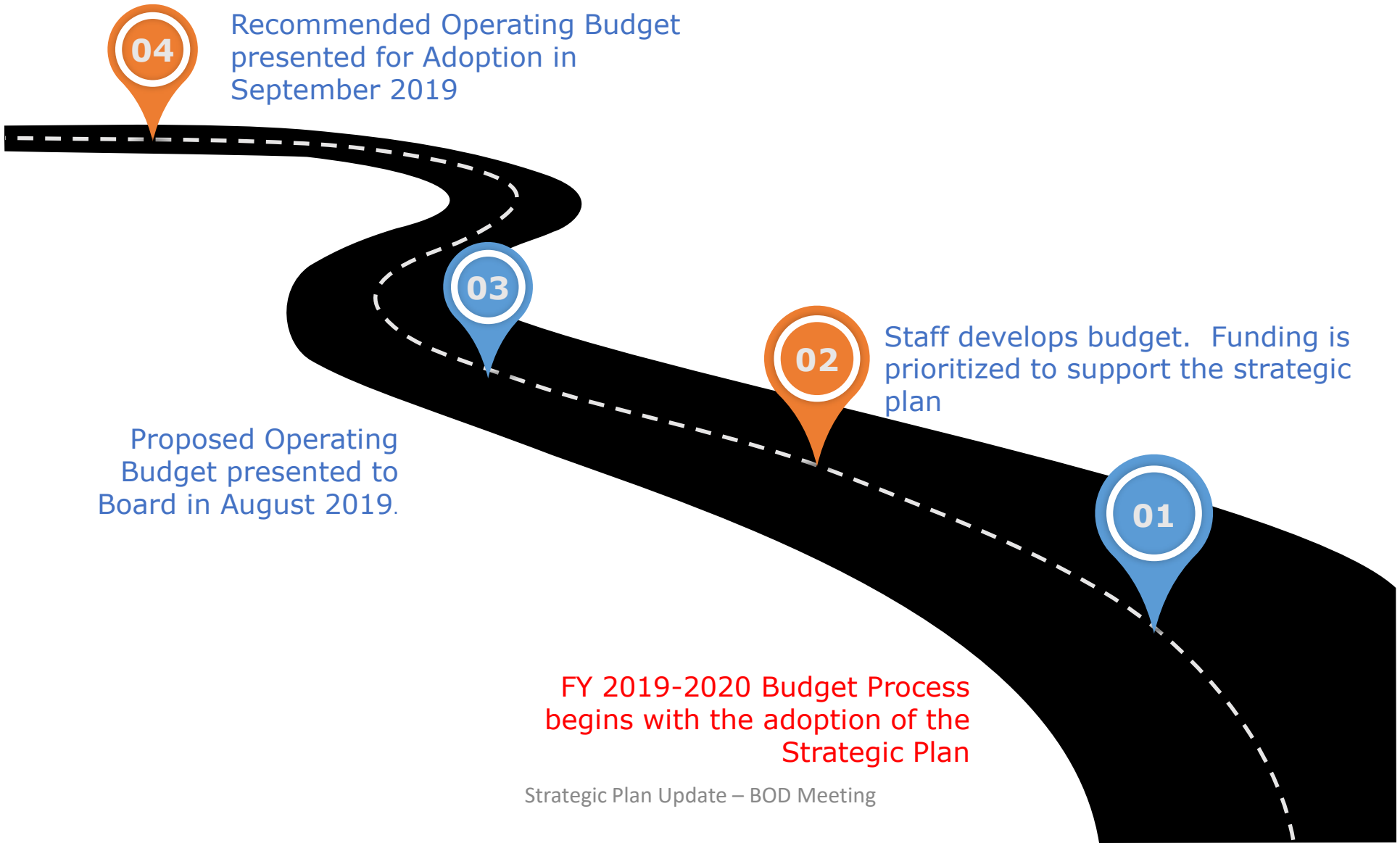
Examine Internal Issues

Includes staffing, work plans, resources, and fiscal constraints

CHANGING LANDSCAPE

	Current State	VS	Future State (Vision)
01	Building up cash reserves. Remain competitive with pricing	→	Achieve a credit rating in 2020
02	Created Programs department and adopted Programs Roadmap		Making a Difference
03	Procure Carbon-Free electricity	→	Balance procurement of RPS resources Central buyer legislation
04	SB 237 passes. Direct Access cap is raised.		Implement customized rate options to compete with ESP's Acceptance of lower margins
05	PG&E Bankruptcy	→	SVCE will have to adapt to the final outcome

BUDGET PROCESS



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

SVCE will use various channels and platforms to cultivate relationships with and bring customer value to all segments of the communities we serve. These channels include leveraging existing outlets established by our member agencies, partnering with commercial customers to enhance their community presence, and re-engaging with those who have opted out.

Partnerships with commercial customers are particularly important to building SVCE's brand in a region known for innovation. Communicating our competitive rates and superior product in clear and accessible ways will strengthen customer loyalty and enhance our financial standing, enabling us to better serve our communities.

~~Aligning customer programs to the SVCE mission is paramount to the design and execution of these programs. Decarbonization and electrification are front and center in developing strategic programs to lower greenhouse gases and curbing climate change.~~

Customer and Community (cont.)

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

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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

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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

Navigating the world of wholesale power markets and state-mandated power mix and reliability requirements while fulfilling our commitment to sourcing 100% carbon free electricity requires a constant search for the right resources to meet sustainability and value proposition goals. The threat of losing load to Direct Access presents new challenges and opportunities to enhance product offerings to meet SVCE's decarbonization goals and our customers' own environmental goals while considering financial and risk impacts. SVCE is committed to providing carbon free electricity through a balanced approach which considers cost, risk, long-term value and best-fit in meeting community goals.~~and competitive acquisition, while supporting regionalization and expanding the California Independent System Operator (CAISO) to improve access to more carbon free resources.~~

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Power Supply (cont.)

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)

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Proposed Change in Goal & Strategy

NEW

Current:

Goal: *Annually, acquire sufficient bundled energy and renewable type 1 resources (PCC1) to meet 100% of California's Renewable Portfolio Standard (RPS) regardless of the allowance that the state makes for type 2 or type 3 renewables*

Strategy: *Stagger acquisitions to accommodate regulatory uncertainty, changes in load and supply price risks*

- *For the upcoming calendar year, procure 100% of RPS through PCC1*

Proposed:

Goal: *Acquire sufficient bundled energy and renewable resources to achieve SVCE's greenhouse gas reduction goals while exceeding California's mandates*

Strategy: *On an annual basis, achieve 100% of California's Renewable Portfolio Standard (RPS) and meet long-term procurement requirements.*

- *For the upcoming calendar years (2020 and 2021), balance procurement of RPS resources with in-state bundled renewables (PCC1) and out-of-state bundled renewables (PCC2) taking into consideration availability, cost and carbon-free objectives*

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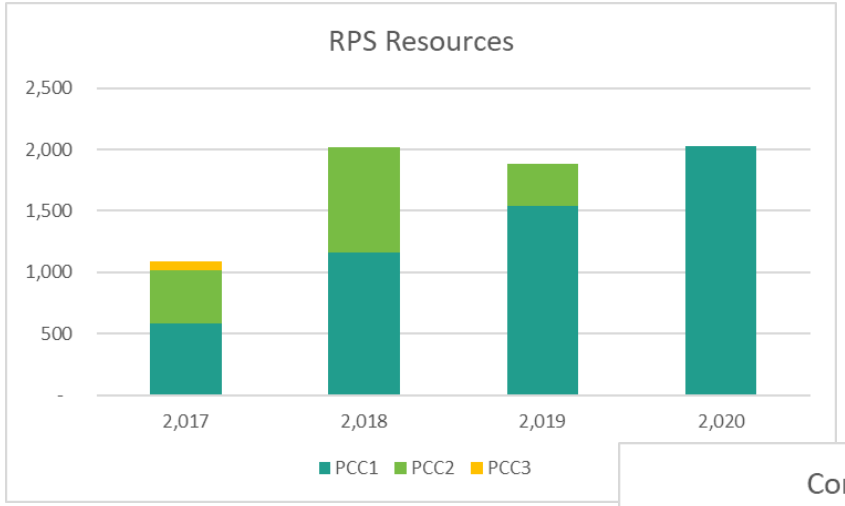
Current RPS Strategy & Practice

CURRENT: Strategic Plan Goal 9:

Annually, acquire sufficient bundled energy and renewable type 1 resources (PCC1) to meet 100% of California's Renewable Portfolio Standard (RPS) regardless of the allowance that the state makes for type 2 or type 3 renewables

Strategy 9.1: *Stagger acquisitions to accommodate regulatory uncertainty, changes in load and supply price risks*

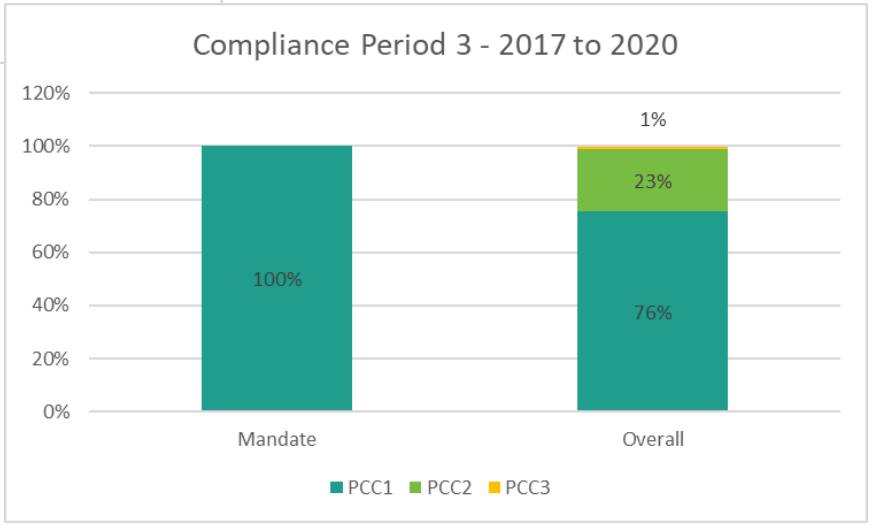
9.1.1 For the upcoming calendar year, procure 100% of RPS through PCC1



Compliance Period 3 2017-2020

PCC1 - minimum75%
PCC2 – maximum 25%
PCC3 – maximum 10%

Future compliance periods will have the same limits



- If no additional PCC2 for 2019 and only PCC1 in 2020, SVCE will use 100% PCC1 to meet Mandated RPS for CP3.
- For entire SVCE RPS portfolio, which is above Mandate, 23% RPS will come from previously contracted PCC2.
- GreenPrime is 100% PCC1

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Item 5
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RPS Product (Renewable Energy Certificate REC)	RPS Resources Eligibility	RPS Mandate Limits	Power Content Label Emission Counting for 2019 Supply	The Climate Registry EPS Protocol* Emissions	Additionality	Availability	REC Price Trend
PCC1: Energy & REC bundled "in-state"	Small hydro, wind (>30 MW), solar, landfill, biomass and geothermal	**75%** Minimum	May need to report annual emissions for bio and geo **Future:** hourly emissions?	Report anthropogenic emissions from geo.	**Yes, if from new resource.** In the short-term most PCC1 is from existing resources	**Scarce** Many CCAs are buying PCC1 to meet compliance mandates. PG&E is a big seller of PCC1 and limits offers.	**$19/MWh +** *Increase of $5/MWh since* 2016 PPA implied REC for long-term resources much lower.
PCC2: Energy & REC from "out-of-state"	Same as above	**25%** Maximum	PCC2 emissions reported if firmed energy is not carbon-free.	No distinction between in-state and out- of-state	**Not likely**	**Moderate** Firmed with a specified CF resource is hard to find.	**$7.50/MWh +** Up $2/MWh since 2016. Price depends on firming supply.
PCC3: Unbundled REC	Same as above	**10%** Maximum	PCC3 emissions will be assigned based on system "grid".	No distinction between bundled and unbundled	**No**	**Abundant**	**$1.50 to $2/MWh**

**SVCE voluntarily reports annual emissions using TCR's Electric Power Sector protocol, which report anthropogenic emissions associated with geothermal.*

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Change in Strategy – Merits

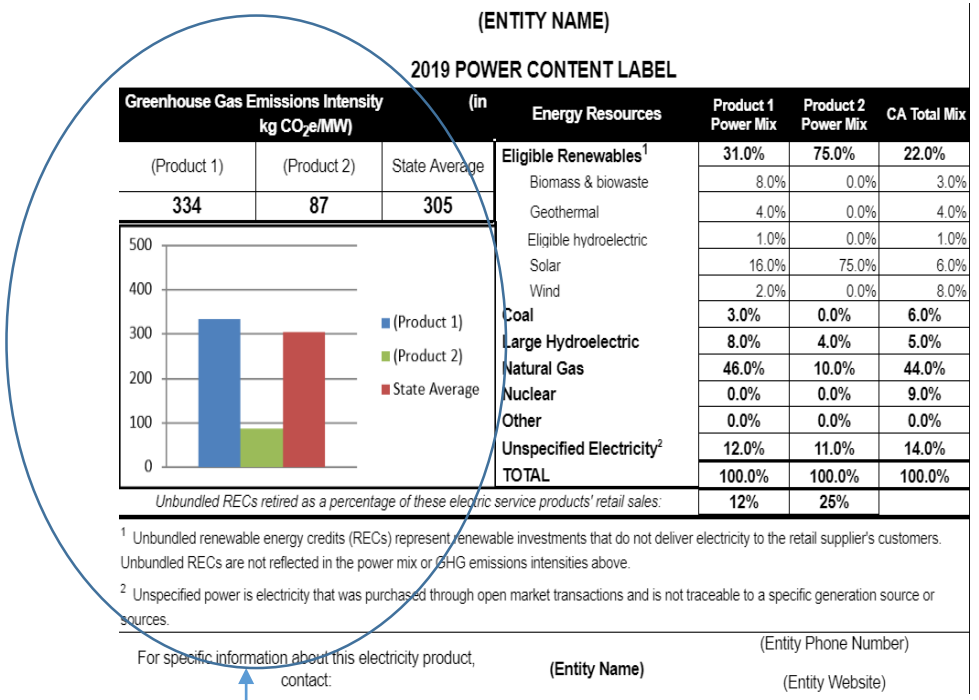
Balance procurement of RPS resources with in-state bundled renewables (PCC1) and out-of-state bundled renewables (PCC2)

Reasons to Change:

- Can still meet carbon-free goals
- Availability of resources
- Cost of PCC1 vs PCC2 resulting in significant savings
- Focus on procuring renewable resources which meet long-term and additive goals.

Potential Issues:

- Reporting of GHG emissions on PCL
- Customer confusion - GHG emissions on PCL accounted for differently than TCR



(ENTITY NAME)

2019 POWER CONTENT LABEL

Greenhouse Gas Emissions Intensity (in kg CO_2e/MW)		
(Product 1)	(Product 2)	State Average
334	87	305

Energy Resources	Product 1 Power Mix	Product 2 Power Mix	CA Total Mix
Eligible Renewables[1]	31.0%	75.0%	22.0%
Biomass & biowaste	8.0%	0.0%	3.0%
Geothermal	4.0%	0.0%	4.0%
Eligible hydroelectric	1.0%	0.0%	1.0%
Solar	16.0%	75.0%	6.0%
Wind	2.0%	0.0%	8.0%
Coal	3.0%	0.0%	6.0%
Large Hydroelectric	8.0%	4.0%	5.0%
Natural Gas	46.0%	10.0%	44.0%
Nuclear	0.0%	0.0%	9.0%
Other	0.0%	0.0%	0.0%
Unspecified Electricity[2]	12.0%	11.0%	14.0%
TOTAL	100.0%	100.0%	100.0%
Unbundled RECs retired as a percentage of these electric service products' retail sales:	12%	25%	

[1] Unbundled renewable energy credits (RECs) represent renewable investments that do not deliver electricity to the retail supplier's customers. Unbundled RECs are not reflected in the power mix or GHG emissions intensities above.

[2] Unspecified power is electricity that was purchased through open market transactions and is not traceable to a specific generation source or sources.

For specific information about this electricity product, contact: (Entity Name) (Entity Phone Number) (Entity Website)

New reporting requirement for 2019 compliance year

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Information Technology

Minor Changes

- Strategies were consolidated under SVCE's Information Technology goal: Ensure SVCE's Information Technology infrastructure is secure, reliable, and disaster resilient to provide 24/7/365 online access

Major Changes

N/A

DECISION

Item 5
PRESENTATION
REVISED
UPDATED

Staff Recommendation

Approve Strategic Plan
"As Presented"
~$5mm/year savings

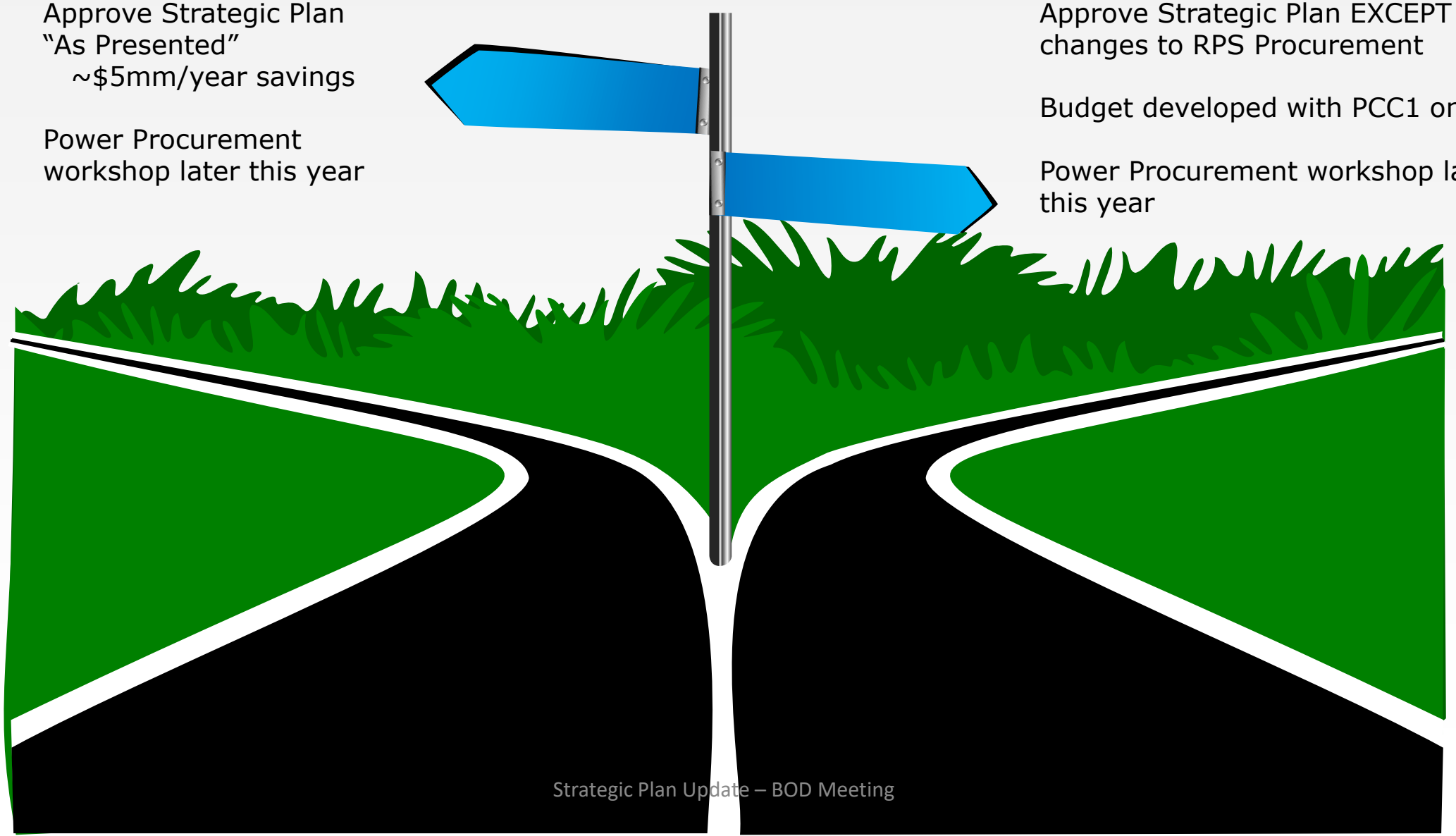
Power Procurement
workshop later this year

Alternative

Approve Strategic Plan EXCEPT for changes to RPS Procurement

Budget developed with PCC1 only

Power Procurement workshop later this year



Questions and Comments

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