SVCE Adaptation to Change (in addition to Business-As-Usual)

- Additional Resources & Efficiencies
- Enterprise-wide systems, metrics & tools
- Focus on Equity
- Digital Pivot - Customer & Community engagement
- Community outreach and leverage
SVCE Strategic Planning & Work Plan Process

- **May 2020**: Board starts CEO evaluation
- **May-August 2020**: Strategic Plan Input & Updates
- **Sep. 2020**: Board approves FY21 Budget & Adopts Strategic Focus Areas
- **Sep-Oct 2020**: SVCE Staff Work Plan for 2020-21 Update Strategic Plan document
- **Sep-Oct 2020**: Board completes CEO evaluation and sets CEO Priorities
- **Sep-Oct 2020**: Update Strategic Plan Focus Areas and FY22 Priorities
- **May-Sep 2021**: CEO Evaluation
- **Sep. 2021**: FY2022 Budget Adoption

Item 3 PRESENTATION
Questions?
RECOMMENDED
FY 2020-21
OPERATING BUDGET

BOARD OF DIRECTORS
September 9, 2020
Budget Preview
June 25th – Exec. Committee

01

Strategic Plan
adopted Sept/Oct

02

Mid-Year Budget Review
Feb/March 2021

03

Recommended Budget
presented for adoption
at Sept. Board meeting

04

Proposed Budget
presented to
Board at August
meeting

05

August 5th – Review
with Finance
Committee

06
SVCE FINANCIALLY STABLE; BALANCE AVAILABLE FOR RESERVES OF $8.2 MILLION DESPITE CONTINUED PROJECTED LOAD LOSS DUE TO COVID-19

ENERGY EXPENSES DECREASED $4.4 MILLION; BUDGET INCLUDES REQUEST FOR NEW POWER ANALYST AND DATA SCIENTIST POSITIONS

BUDGET ASSUMES 1% DISCOUNT FROM PG&E RATES DUE TO EXPECTED INCREASE IN PCIA AND CONTINUED LOAD LOSS IN ORDER TO RETAIN MOODY’S CREDIT RATING
TRADE-OFFS
To maintain balance between ratepayer value and agency sustainability – lower the discount to PG&E to 1%

PCIA
SVCE will plan for a significant spike to near 5 cents in October then backing down to near 4 cents in 2021

RETAIL LOAD
SVCE will plan on an extended, double-dip recovery that continues to impact energy sales

PG&E RATES
Big threat would be PG&E rate decrease. Minimal chance. Budget assumes static PG&E rates through 2021.

BAD DEBT
SVCE has one of the lowest bad debt rates of CCA’s. Should plan on 3x-4x historical performance to ~1%

KEY ASSUMPTIONS
FINANCIAL SUMMARY

Energy Revenues
- Load reduction continues due to Covid-19
- PCIA increase
- Move from 4% to 1% discount

Energy Costs
- $4.4 million reduction reflects lower load to serve
- 88% hedged in FY2020-21

Operating Margin
- Margin to fund operations, reserves, programs, and capital

Other revenue, expenses and transfers
- $17 million for other operations
- $1.1 net non-operations
- $5.7 million for programs & capex

Reserves
- End the FY at Reserve Target Range of 219 Days
PROJECTED RESERVES

- 219 Days of Cash on Hand
- 270 days
- 180 days
- 90 days

Chart showing projected reserves from FY19A to FY23E.
# BUDGET DELTAS (Aug – Sept)

$ in Thousands

<table>
<thead>
<tr>
<th>Item</th>
<th>Proposed Budget</th>
<th>Recommended Budget</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Revenues</td>
<td>264,415</td>
<td>264,415</td>
<td>0</td>
</tr>
<tr>
<td>Power Supply</td>
<td>234,662</td>
<td>234,662</td>
<td>0</td>
</tr>
<tr>
<td><strong>Operating Margin</strong></td>
<td><strong>$29,753</strong></td>
<td><strong>$29,753</strong></td>
<td><strong>$0</strong></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>16,753</td>
<td>16,950</td>
<td>197</td>
</tr>
<tr>
<td>Non-Operating Income/(Expense)</td>
<td>1,108</td>
<td>1,108</td>
<td>0</td>
</tr>
<tr>
<td>Transfers, Debt Service</td>
<td>5,670</td>
<td>5,670</td>
<td>0</td>
</tr>
<tr>
<td><strong>Balance Available For Reserves</strong></td>
<td><strong>$8,439</strong></td>
<td><strong>$8,242</strong></td>
<td><strong>$197</strong></td>
</tr>
</tbody>
</table>
BUDGET DELTAS (cont)

• Increase To Regulatory Consulting budget (+$40k)
  • Rolling blackout follow-up / intervention

• Organizational Review funding (+$50k)
  • Improve internal policies / procedures

• Power Prepay up-front costs (+$75k)
  • To be repaid later through financing process

• Continued WFH Employee Support (+$32k)
PERSONNEL REVIEW

• Recommended Budget Funds 31 FTE’s + 5 Temporary
  • New Data Scientist (Decarb & Grid Innovation)
  • New Analyst (Power Resources)

• Anticipate Additional Staffing Requests in late 2020
  • Policy - Senior Government Relations
  • Power – additional Power Resources Analyst
FORWARD-LOOKING CHANGES

• Continued intervention in regulatory arena
  • Added regulatory work at CAISO and CPUC
  • Added coordination through CalCCA

• Continued volatility will impact power supply budget; effects to be realized at mid-year

• Equity program to be defined / expanded following decarbonization hiring
RECOMMENDATION

- Approval of FY 2020-21 Operating Budget
  - Resolution 2020-26

- Mid-Year Budget Spring 2021
  - Recalibrate the budget
THANK YOU
Supplemental
Uncertainty, Risk, and COVID-19

**SUPPLY**
Project delays and financing issues; new IRP/RA rules; Ops issues with PPAs online next summer

**LOAD LOSS**
~8% load loss; return to “normal” in 2022

**PAYMENTS**
Customer defaults, payment issues due to COVID-19

**L&R ISSUES**
Central buyer, PCIA, Transparency, PSPS, Long-duration storage

**DIRECT ACCESS**
Potential for additional DA market expansion

**PCIA**
PCIA uncapped later in 2020, 10+M reserve call in 2021

**RESERVES**
Central buyer, PCIA, Transparency, PSPS, Long-duration storage
Mid-Case represents the “W” recovery curve

- **C&I load drops a second time due to resurgence in COVID-19 in the winter.**

- **Second recovery period followed by permanent reductions to a majority of small & medium C&I customers.**
ACCOUNTS & SALES

Customer Accounts
• 267,000 Accounts

Energy Sales (MWh’s)
• 3.76 million MWh’s
TOTAL REVENUES

- Continued exposure to COVID load loss and volatile PCIA
- Long-term revenue vulnerability from Direct Access
• $234.7 million Energy Supply Cost
• Well hedged (88%) for FY 2020-21
• Resource Adequacy increases each year
TOTAL EXPENSES

- Low Overhead keeps SVCE nimble to respond to changing business
NEW POSITIONS

CURRENT STATE

Long-Term Procurement Negotiations

Developing customized contracts for high load customers

React to regulatory rules changes

Data systems and processes currently being centralized, streamlined and automated

Rudimentary modeling approaches used for consequential business functions

FUTURE STATE

New Power Analyst provides analytical support and management of resources obtained through the PPA negotiations

Evaluates new resources and products

Energy portfolio optimization and risk management

New Data Scientist
Generates agency-wide data-driven insights to support mission

Leads high-impact analyses to enhance operational performance and mitigate risk (e.g. load analysis, customer segmentation, program operations, etc.)
OR.G. CHART
DEPT HIGHLIGHTS

• Executive Administration
  • Strategic Plan Implementation
  • Cross-CCA Collaboration

• Finance & Administration
  • Cybersecurity
  • Power Prepay
  • Workforce Productivity and Wellness

• Power Resources
  • Operational Management of long-term power contracts
  • Portfolio Optimization
DEPT HIGHLIGHTS

• **Account Services & Community Relations**
  - Digital Engagement and Outreach
  - Customer Program Implementation
  - C&I Offerings – GreenPrime Direct; EcoInvestment

• **Decarbonization & Grid Innovation Programs**
  - Resiliency and Building Electrification
  - Electric Vehicle Charging Infrastructure Support
  - Innovative Pilot Programs
  - Data Analysis and Governance

• **Regulatory and Legislative Policy**
  - PCIA Reform
  - Industry Restructuring
NEXT STEPS

01 August 5th – Review with Finance Committee

02 Proposed Budget presented to Board at August meeting

03 Recommended Budget presented for adoption at Sept. Board meeting

04 Mid-Year Budget Review Feb/March 2021

05 Strategic Plan adopted Sept/Oct

06 Budget Preview June 25th – Exec. Committee
Changes in FY 2020-21
Projected Budget Surplus since Mid-year
(June 25 update)

Surplus increase $3.2 million

- Energy Revenues: Unfavorable $1.2 million
  - Energy sales assumptions the same; Using Ascend Analytics model

- Power Supply: Favorable $6.6 million
  - Removed 3% contingency

- Operating Exp: Unfavorable $1.7 million
  - Personnel costs increased $1.1 million

- Non-oper Rev/Exp: Unfavorable $0.2 million
  - Reduced interest income estimate due to lower rates

- Cap/Transfers: Unfavorable $0.3 million
  - Increase due to carry over of Capex budget from 2019-20
# SILICON VALLEY CLEAN ENERGY
## FY 2020-21 RECOMMENDED OPERATING BUDGET

($) in thousands

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>FY 2019-20 BUDGET AS ADOPTED MIDYEAR</th>
<th>FY 2020-21 RECOMMENDED BUDGET</th>
<th>VARIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENERGY REVENUES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy Sales</td>
<td>285,540</td>
<td>263,524</td>
<td>(22,016)</td>
</tr>
<tr>
<td>Green Prime Premium</td>
<td>1,100</td>
<td>891</td>
<td>(209)</td>
</tr>
<tr>
<td>TOTAL ENERGY REVENUES</td>
<td>286,640</td>
<td>264,415</td>
<td>(22,225)</td>
</tr>
</tbody>
</table>

**VARIANCE**

<table>
<thead>
<tr>
<th>ENERGY EXPENSES</th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Power Supply</td>
<td>239,070</td>
<td>234,662</td>
<td>(4,408)</td>
</tr>
<tr>
<td>OPERATING MARGIN</td>
<td>47,570</td>
<td>29,753</td>
<td>(17,817)</td>
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</table>

**VARIANCE**

<table>
<thead>
<tr>
<th>OPERATING EXPENSES</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Data Management</td>
<td>3,160</td>
<td>3,020</td>
<td>(140)</td>
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<tr>
<td>PG&amp;E Fees</td>
<td>1,260</td>
<td>1,350</td>
<td>90</td>
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<tr>
<td>Employment Expenses</td>
<td>5,120</td>
<td>6,240</td>
<td>1,120</td>
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<tr>
<td>Professional Services</td>
<td>3,420</td>
<td>3,800</td>
<td>380</td>
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<tr>
<td>Marketing &amp; Promotions</td>
<td>740</td>
<td>870</td>
<td>130</td>
</tr>
<tr>
<td>Notifications</td>
<td>160</td>
<td>100</td>
<td>(60)</td>
</tr>
<tr>
<td>Lease</td>
<td>500</td>
<td>500</td>
<td>0</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td>960</td>
<td>1,070</td>
<td>110</td>
</tr>
<tr>
<td>TOTAL OPERATING EXPENSES</td>
<td>15,320</td>
<td>16,950</td>
<td>1,630</td>
</tr>
<tr>
<td>OPERATING INCOME (LOSS)</td>
<td>32,250</td>
<td>12,803</td>
<td>(19,447)</td>
</tr>
</tbody>
</table>
### FY 2020-21 Recommended Operating Budget

**($ in thousands)**

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>FY 2019-20</th>
<th>FY 2020-21</th>
<th>VARIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NON-OPERATING REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Income</td>
<td>0</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Interest Income</td>
<td>2,000</td>
<td>1,155</td>
<td>(845)</td>
</tr>
<tr>
<td>Grant Income</td>
<td>160</td>
<td>68</td>
<td>(92)</td>
</tr>
<tr>
<td><strong>TOTAL NON-OPERATING REVENUES</strong></td>
<td>2,160</td>
<td>1,273</td>
<td>(887)</td>
</tr>
<tr>
<td><strong>NON-OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing</td>
<td>290</td>
<td>165</td>
<td>(125)</td>
</tr>
<tr>
<td>Interest</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL NON-OPERATING EXPENSES</strong></td>
<td>290</td>
<td>165</td>
<td>(125)</td>
</tr>
<tr>
<td><strong>TOTAL NON-OPERATING INCOME (EXPENSES)</strong></td>
<td>1,870</td>
<td>1,108</td>
<td>(762)</td>
</tr>
<tr>
<td><strong>CHANGE IN NET POSITION</strong></td>
<td>34,120</td>
<td>13,911</td>
<td>(20,209)</td>
</tr>
<tr>
<td><strong>CAPITAL EXPENDITURES, INTERFUND TRANSFERS &amp; OTHER</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>400</td>
<td>400</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>50</td>
<td>0</td>
<td>(50)</td>
</tr>
<tr>
<td>Transfer to CRCR Fund</td>
<td>8,500</td>
<td>0</td>
<td>(8,500)</td>
</tr>
<tr>
<td>Transfer to Programs Fund</td>
<td>5,050</td>
<td>5,270</td>
<td>220</td>
</tr>
<tr>
<td><strong>TOTAL CAPITAL EXPENDITURES, INTERFUND TRANSFERS &amp; OTHER</strong></td>
<td><strong>$14,000</strong></td>
<td><strong>$5,670</strong></td>
<td><strong>(8,330)</strong></td>
</tr>
<tr>
<td><strong>BALANCE AVAILABLE FOR RESERVES</strong></td>
<td><strong>$20,120</strong></td>
<td><strong>$8,241</strong></td>
<td><strong>($11,879)</strong></td>
</tr>
</tbody>
</table>
# CCA Base Rate Comparison

<table>
<thead>
<tr>
<th>CCA</th>
<th>Base Rate</th>
<th>Base Rate Renewable</th>
<th>Base Rate Discount to PGE Gen</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCE</td>
<td>ECOplus</td>
<td>50%</td>
<td>-5%</td>
</tr>
<tr>
<td>SVCE</td>
<td>GreenStart</td>
<td>50%</td>
<td>-4%</td>
</tr>
<tr>
<td>MBCP</td>
<td>MBChoice</td>
<td>34%</td>
<td>-2%</td>
</tr>
<tr>
<td>CleanPower SF</td>
<td>CPSF Green</td>
<td>48%</td>
<td>-1%</td>
</tr>
<tr>
<td>SJCE</td>
<td>GreenSource</td>
<td>45%</td>
<td>-1%</td>
</tr>
<tr>
<td>EBCE</td>
<td>Bright Choice</td>
<td>41%</td>
<td>-1%</td>
</tr>
<tr>
<td>MCE</td>
<td>Light Green</td>
<td>61%</td>
<td>3%</td>
</tr>
<tr>
<td>Sonoma Clean Power</td>
<td>CleanStart</td>
<td>49%</td>
<td>6%</td>
</tr>
</tbody>
</table>

## Summary Table
Scenario: Mid Case

Below are average changes to load based on a pre-covid forecast

<table>
<thead>
<tr>
<th></th>
<th>Small/Medium C&amp;I</th>
<th>Large C&amp;I</th>
<th>Residential</th>
<th>Total Load (Weighted avg by rate class)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shelter-in-Place #1</td>
<td>-23%</td>
<td>-13%</td>
<td>11%</td>
<td>-8%</td>
</tr>
<tr>
<td>Mar 17 - May 30, 2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recovery Period #1</td>
<td>-12%</td>
<td>-8%</td>
<td>3%</td>
<td>-5%</td>
</tr>
<tr>
<td>Jun 1 - Nov 30, 2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shelter-in-Place #2</td>
<td>-16%</td>
<td>-7%</td>
<td>9%</td>
<td>-3%</td>
</tr>
<tr>
<td>Dec 1, 2020 - April 30, 2021</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recovery Period #2</td>
<td>-9%</td>
<td>-6%</td>
<td>3%</td>
<td>-4%</td>
</tr>
<tr>
<td>May 1 – Jun 31, 2021</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Normal Phase 1</td>
<td>-9%</td>
<td>-4%</td>
<td>1%</td>
<td>-3%</td>
</tr>
<tr>
<td>July 1 – Dec 31, 2021</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Normal Phase 2</td>
<td>-4%</td>
<td>-2%</td>
<td>0%</td>
<td>-2%</td>
</tr>
<tr>
<td>2022</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PRESENTATION REVISED
REVENUES INPUTS

• No changes to rates since May 2020
  • 1% discount to PG&E rates for FY20-21
    • Resume 4% discount in FY21-22
  • Forecasting stable rates through Spring 2021
• Double-dip Recovery through late 2020
• PCIA trigger and fallback anticipated, but timing uncertain
• No change to customer participation rate
• Direct Access Expansion, pending CPUC report release
Executive Administration

**Strategic Plan**
- Less task-orientated document
- Implementation of Strategic Plan

**Collaboration**
- Continued collaboration with other Bay Area CCAs
- Long-duration Storage
- Power Prepay

**Board**
- General Counsel
- Board/Committee meetings support
Finance & Administration

Cybersecurity
Continued funding to support cybersecurity initiatives
Focus on security and reliability

Facility Improvements
Increased rent budget to support larger new office space
Continued capital budget to support delayed construction improvements in new upstairs space

HR/Payroll Improvements
Maintain competitive compensation and benefits package
Support remote workforce productivity and wellness

Risk Management
Support for risk management of agency (insurance, etc.)
Support for risk management of energy supply and compliance

Power Pre-Pay
Support for analysis and possible execution of a power prepay agreement that would lower power supply cost
**Power Resources**

**PPAs & Contracts**
- Consultants and Legal support for new PPA negotiations
- Monitoring and action for ongoing PPAs
- Coordinated Operations Agreement with MBCP
- Master Agreements (EEI) management

**Portfolio Optimization**
- Monitoring & management of Power Supply Costs
- Assist with Direct Access strategies and response
- Hybrid Resource valuation & optimization
- Compliance
- Leg/Reg support

**Operations**
- Scheduling Coordination
- Clean energy procurement
- Resource Adequacy & joint procurement
- Risk management, load forecasting, and software tools/solutions to support more integrated trade and settlements system

**Integrated Resource Plan (IRP)**
- Preparation and filing in 2020
- Implementation of 2021-30 IRP
- Assessment of SVCE’s clean goals
- Joint Long Duration Storage RFP
- Stand-alone storage procurement
Data Management
- Continued coordination with Calpine
- Long-Term data management strategies

Outreach
- Continued shift in focus to digital outreach and engagement due to COVID
- Outbound email Marketing and Promotions to drive eHub utilization

Awareness
- Expanded print / digital advertising campaign around electrification
- Collateral development and marketing to support new programs (EV Charging, HPWH, Workforce Training)

Programs Support
- Collaboration with the Decarbonization and Grid Innovations Team to roll out programs
- C&I Offerings / Long-Term contracts including:
  - GreenPrime Direct
  - EcoInvestment

Required Notifications
- Funding for various mailers that are required by the CPUC, such as the annual joint rate mailer, with coordination of PG&E
- Transition to electronic distribution when feasible
Decarbonization & Grid Innovation Programs

**Programs Funding**
- Continue with the 2% of energy revenues formula for annual funding of programs
- Carry over unused $ from this fiscal year by creating programs fund

**Programs Roadmap**
- Continued rollout of various programs identified in the roadmap
- Building Decarbonization Joint Action Plan
- Community Resilience Planning & Capital Support
- Community Equity

**Innovation**
- Launch multiple pilots through Innovation Onramp
- Telematics Smart Charging
- Smart Electrical Panel Demonstrations

**Tools**
- Develop DAISY 2.0 – a comprehensive data analytics platform to provide cross-functional support
- Build on DER and VPP valuation assessments to improve avoided cost model and GHG forecasting
Pro-Active with Legislature
- Funding for lobbyist presence
- Funding for continued communications with key stakeholders

CalCCA
- Membership Dues
- Support of various committees and initiatives

Regulatory / Rate-Setting
- PCIA Reform
- Direct Access Expansion
- Industry Restructuring
- Keyes & Fox
- M. Cubed
- MRW
Power Prepay – Being Ready When the Market is Ready

Presentation to SVCE Board
September 9, 2020
Purpose

• Board feedback related to taking steps to being ready - when the market is ready - to enter a 30-year power prepay agreement that would reduce cost by 8-12% (approximately $3 million per year)
Overview

1. Tax law and applicability to energy prepayment
2. What is a tax-exempt energy prepayment transaction?
3. Timeline & Next Steps
Eleven Prepayments Totaling Over $5.7 Billion Have Been Completed in California

<table>
<thead>
<tr>
<th>Date</th>
<th>Amt. ($000)</th>
<th>Issuer</th>
<th>Description</th>
<th>Beneficiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/2007</td>
<td>757,055</td>
<td>Northern Ca Gas Auth No. 1</td>
<td>Nat. Gas</td>
<td>SMUD</td>
</tr>
<tr>
<td>9/2007</td>
<td>887,360</td>
<td>Long Beach Bond Fin Auth</td>
<td>Nat. Gas</td>
<td>City of Long Beach</td>
</tr>
<tr>
<td>10/2007</td>
<td>251,695</td>
<td>Long Beach Bond Fin. Auth</td>
<td>Nat. Gas</td>
<td>City of Long Beach</td>
</tr>
<tr>
<td>8/2009</td>
<td>901,620</td>
<td>M-S-R Energy Authority</td>
<td>Nat. Gas</td>
<td>MID/Redding/SVP</td>
</tr>
<tr>
<td>10/2009</td>
<td>514,160</td>
<td>So Ca Pub Power Auth (Windy Flats)</td>
<td>Elec (Wind)</td>
<td>LADWP, Mult. MOUs</td>
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<tr>
<td>2010/11</td>
<td>394,700</td>
<td>So Ca Pub Power Auth (Milford 1 &amp; 2)</td>
<td>Elec (Wind)</td>
<td>LADWP, Mult. MOUs</td>
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<tr>
<td>12/2018</td>
<td>539,615</td>
<td>Northern Ca Energy Auth</td>
<td>Gas/Elec</td>
<td>SMUD</td>
</tr>
</tbody>
</table>

Total 5,717,815
1. Prepayments May Help SVCE Reduce Cost of Energy

• Same Tax-Law and similar transaction structure can be used to reduce the cost of electricity produced from renewable resources; though this same structure can be used to pre-pay other energy transactions too

• Opportunity to reduce Purchased Power costs by 8-12% through a prepayment of existing and future PPAs

• Prepayment structures have up to a 30-year term – the “longer the better” – to maximize savings and introduce minimal incremental risk to the CCA
2. Sample Transaction Terms

- Between SVCE and a municipal conduit issuer (e.g. CSCDA or a “to be formed” CCA specific conduit issuer) which issues the bonds allowing for:
  - SVCE to assign long term power contracts into the program and purchase power at a discount to existing price
- Up to a 30-year agreement, subject to early termination if program terminates early
- Approximately 8-12% discount for initial reset period (first 5-7 years). Savings are generated by the difference between the taxable borrowing cost of the prepaid supplier (bank) and the tax-exempt rate on the bonds issued to fund the prepayment.
2. Transaction Terms (continued)

- SVCE will not be party to, responsible for, or account for any bond offering. If program terminates early or prepaid supplier fails to perform, the SVCE forgoes the future savings and assigned contracts return to status quo.

- Prepaid supplier (bank) is responsible for the tax-exempt debt. Debt associated with program is issued through a conduit and is non-recourse to SVCE; does not impact SVCE’s balance sheet or credit metrics.

- The municipal conduit will issue tax-exempt bonds which will be refinanced in 5-7 years, subject to market conditions.

- If bank doesn’t perform, cannot remarket the bonds or if SVCE needs to exit prepay for some reason, the assigned contracts revert back to SVCE at the original price and terms.
3. Next Steps – Getting Ready
Allows SVCE to transact when the spread between taxable and non-taxable interest rates are favorable

• Initial exploratory costs borne by SVCE should be minimal to review legal and regulatory questions regarding the prepayment

• SVCE would need to identify and contract with:
  o Prepaid Supplier – “A” rated (or better) bank to take prepayment and guaranty the bonds
  o Legal Counsel – to provide necessary legal opinions to SVCE and assist in negotiating transaction documents
  o Municipal Financial Advisor – assist in negotiating the financial terms of the transaction

• Traditionally, these consultants and all other fees paid to complete the prepayment transaction would be paid from bond proceeds if and only if the transaction closes – so minimal financial risk to SVCE to initiate and negotiate a transaction.
3. Next Steps – Getting Ready

Allows SVCE to transact when the spread between taxable and non-taxable interest rates are favorable

**Bond Conduit Formation**
- SVCE, EBCE, MCE, CCCE
- Work has been initiated
- To be completed in Q4 2020 or Q1 2021
- Minimal cost ~$15K

**Documentation and Transaction Terms**
- SVCE & EBCE
- Work has been initiated
- To be completed by Q1 2021
- Select pre-pay supplier, hire legal counsel, municipal finance advisor and other necessary professionals; nearly all fees are contingent on a deal being transacted.
Next Steps - Timing

August 2020
- SVCE Finance Committee Briefing #1
- SVCE Board Briefing on Getting Ready to Transact a Power Prepay

September 2020
- SVCE Finance Committee Discussion #2

September 2020
- SVCE Board Provides Direction to Explore & Get Ready

October 2020
- Q4 2020 - Q1 2021
  - Documentation and Transaction Terms Developed

TBD - Q1 2021 or later
- Transaction brought to SVCE Board for approval when market is ready
Request

• Provide feedback on efforts underway to explore and get ready to transact a power prepay agreement

• Discuss with Finance Committee - September 15th

• Obtain direction to explore at October 14th Board meeting
Additional Background Slides
Glossary of Terms

Power Purchase Agreement “PPA” – contract to receive and pay for a specific type of energy (i.e. renewable solar, wind, etc.) at a specific price over the term of the contract (i.e. 15 years)

Tax-exempt Prepayment – payment in advance by a municipal utility for a number of years of contracted energy and financing the prepayment with tax-exempt debt

“Novate” – to assign a PPA contract to another party for a some or all of the contract term

“Recourse to...” – secured or guaranteed by the referenced entity

“Non-recourse...” – not secured or guaranteed by the referenced entity

“Conduit issuer” – entity formed to issue debt but not responsible to repay the debt (non-recourse!)
History and Tax Law Behind Municipal Prepaid Energy Transactions

• Municipal electric and gas utilities (and tax-exempt entities such as CCAs) in the US can prepay for a supply of electricity or natural gas from a taxable (corporate) entity and fund that prepayment with tax-exempt municipal bonds:
  o Must sell that commodity to their retail end-users that reside within their traditional service area.

• Prepayment transactions are legal and Codified in US Tax Law: Since first prepayments of natural gas were done in the early 1990’s, the IRS issued rules allowing tax-exempt prepayments and Congress enacted legislation specifically allowing the transactions (National Energy Policy Act of 2005; Section 1327).

• Over 90 municipal prepayment transactions totaling over $50 Billion have been completed in the US – over 95% of them for natural gas. Natural gas is much easier to "prepay" because the commodity is homogenous and is easy to store.

• Prepayments have saved utility ratepayers (natural gas, electricity from gas fired power plants and energy from renewable power projects) billions of $ in reduced rates and energy charges and will continue to do so over the 30-year life of the transactions.
Renewable Energy Prepayment - Key Elements of an SVCE Transaction -

• Existing Renewable PPA’s are assigned or “novated” to the taxable prepaid supplier

• SVCE continues to take and pay for energy and attributes delivered through the contract

• Maintains the existing terms of PPAs, including scheduling and operations
  o Preserves critical PCC-1 and “long-term” attributes for renewable contracts

• Debt associated with program is issued through a conduit and is non-recourse to SVCE; does not impact SVCE’s balance sheet or credit metrics,

• Debt is recourse to (guaranteed by) the bank that receives the prepayment

• If program terminates early or prepaid supplier fails to perform, the SVCE forgoes the future savings and assigned contracts return to status quo
Structure Overview

Bank Supplier

Contract Price
Prepayment $$$

MWhs + RECs + Debt Service

Municipal Conduit

Non-Recourse Tax-Exempt Bonds

Contract Price
Less Discount

MWhs + RECs

Debt Service
Bond Proceeds

SVCE

Existing PPA to be "Novated"

Existing PPA Counterparty

Contract Price

MWhs + RECs
Joint Powers Authority

• CSCDA (California Statewide Communities Development Authority)
  o Existing, costly (~$50k/yr)
  o Standard option

• New Conduit JPA
  o Elevate CCA brand
  o Reduces costs
Summary - Benefits and Risk Prepay Program

• Benefits
  ✓ Savings over the 30-year term expected to be 8% - 12% per year on power quantities delivered under the pre-pay structure compared to spot market purchases / current contracts
  ✓ Equates to @$2.5MM to $3.5MM per year or @0.50% to 0.75% rate reduction
  ✓ Favorable risk allocation where SVCE only pays for energy that is delivered (same as contracts today)
  ✓ Debt is non-recourse to SVCE
  ✓ Rating agencies comfortable with comparable deals at SMUD, SCPPA, others

• Risks
  – Loss of savings and back to square one
  – Lost investment of staff time
Timing and Cost

• **Timing**
  - Transaction is dependent on number of market factors which are in constant fluctuation; opportunities to transact can be episodic
  - Moving forward and preparing paperwork takes months
  - Invest the time now to prepare for future approval, execution and success

• **Cost**
  - Majority of the costs are contingent and paid through bond proceeds at closing
  - Various parties involved: bond underwriter, energy supplier, lawyers (bond/tax/disclosure/underwriter’s), municipal advisor, and rating agencies
  - Estimated costs of $1.5MM (paid for by bond issuance)
  - Exploring creation of a JPA Conduit Issuer at a cost of $15k (out of pocket)