FY 21-22 Budget

Amrit Singh
Board of Directors Meeting
September 8, 2021

SILICON VALLEY
CLEAN ENERGY

Presentation Outline

1. Budget Approval Timeline
2. Recommended Budget
3. Variances from August 11th Proposed Budget
4. Revisions to Reserve and Budget Policies
5. Summary of Forward Outlook for FY2021-22
6. Recommendations to Board of Directors

1. Staff presents a Recommended Budget for FY21-22

June 28
Budget Preview at Exec Comm

August 2
Present Draft Budget to Finance & Admin Comm

August 11
Present Draft Budget to BOD

Late August
Incorporate changes based on BOD feedback

Sept. 8
Present Recommended Budget to BOD.

March 2022
Mid-Year Budget Review / Adjustment

2. Recommended vs Mid-Year Budget

Revenue increase, due to higher margins, outpaces rising energy costs

	FY 2020-21 MIDYEAR BUDGET*	FY 2021-22 RECOMMENDED BUDGET	VARIANCE $	VARIANCE %
Energy Revenues	251,728	339,073	87,345	35%
Power Supply Expense	235,237	273,561	38,325	16%
Operating Margin	**16,491**	**65,511**	49,021	297%
Operating Expenses	17,147	22,407	5,260	31%
Non-Operating Revenue/(Expense)	300	310	10	3%
Transfers and Other Expenses	5,670	6,931	1,261	22%
BALANCE AVAILABLE FOR RESERVES	**($6,025)**	**$36,483**	**$42,509**	

3. Proposed vs Recommended Budget

Minor variance due to updated CalCCA & other Leg / Reg costs

	FY 2021-22 PROPOSED BUDGET*	FY 2021-22 RECOMMENDED BUDGET	VARIANCE $	VARIANCE %
General & Administrative	1,129	1,213	84	7%
BALANCE AVAILABLE FOR RESERVES	$36,567	$36,483	($84)	($0)

Legislative and Regulatory Policy membership fees are anticipated to increase by $80k, up from the Proposed Budget allocation.

- CalCCA membership fees (up $40k from the existing $360k)
- $40k budget increase to cover additional strategic memberships (CA Energy Storage Alliance, plus future additions)
- Additional $4k in the variance is due to the application of the 5% continency on all operating expenses.

4. Reserve and Budget Policy Revisions

Enable a portion of the reserves to be used for power supply uncertainty

- Staff proposed revising the reserve and budget policies to grant CEO authority to exceed the power supply budget by up to 10% to respond to market conditions
- Based on Board feedback at the August 11th Meeting, staff made the following modifications:
  - Limit CEO authority to the lesser of 10% of power supply budget, or $30 million
  - Clarify that Board approval is required if use of reserves will go below the Minimum Operating Reserve baseline (proposed to increase to 120 days of operating expenses)
  - Clarify that the CEO must present recommendations to the Board and receive authorization for any other use of reserves

5. Despite ongoing uncertainty, the overall financial picture looks good for FY21-22

Summary

- Power supply and operations cost increase, but margins showing favorable improvement in 2022
- Biggest risks include:
  - Late-year adjustments to PCIA / PG&E Gen Rate
  - Significant increase in power prices
- Keep 1% customer discount rate and revisit once PG&E and PCIA rates are known
- Update the reserves and budget policies to allow CEO to use reserve funds in an amount that is lesser of 10% of budgeted power supply costs or $30 million
- Increase reserve targets to support operations and eliminate Line of Credit

6. Recommendations to the Board

- Approve the following:
  - Resolution 2021-21, Adopting the FY 2021-22 Operating Budget
  - Updated Budget Adoption, Control and Reporting Policy
  - Updated Financial Reserves Policies
  - Resolution 2021-22, Creating a Personnel System and authorizing CEO as Chief Personnel Officer

Thank you! / Questions?

2021-2022 Recommended Operating Budget

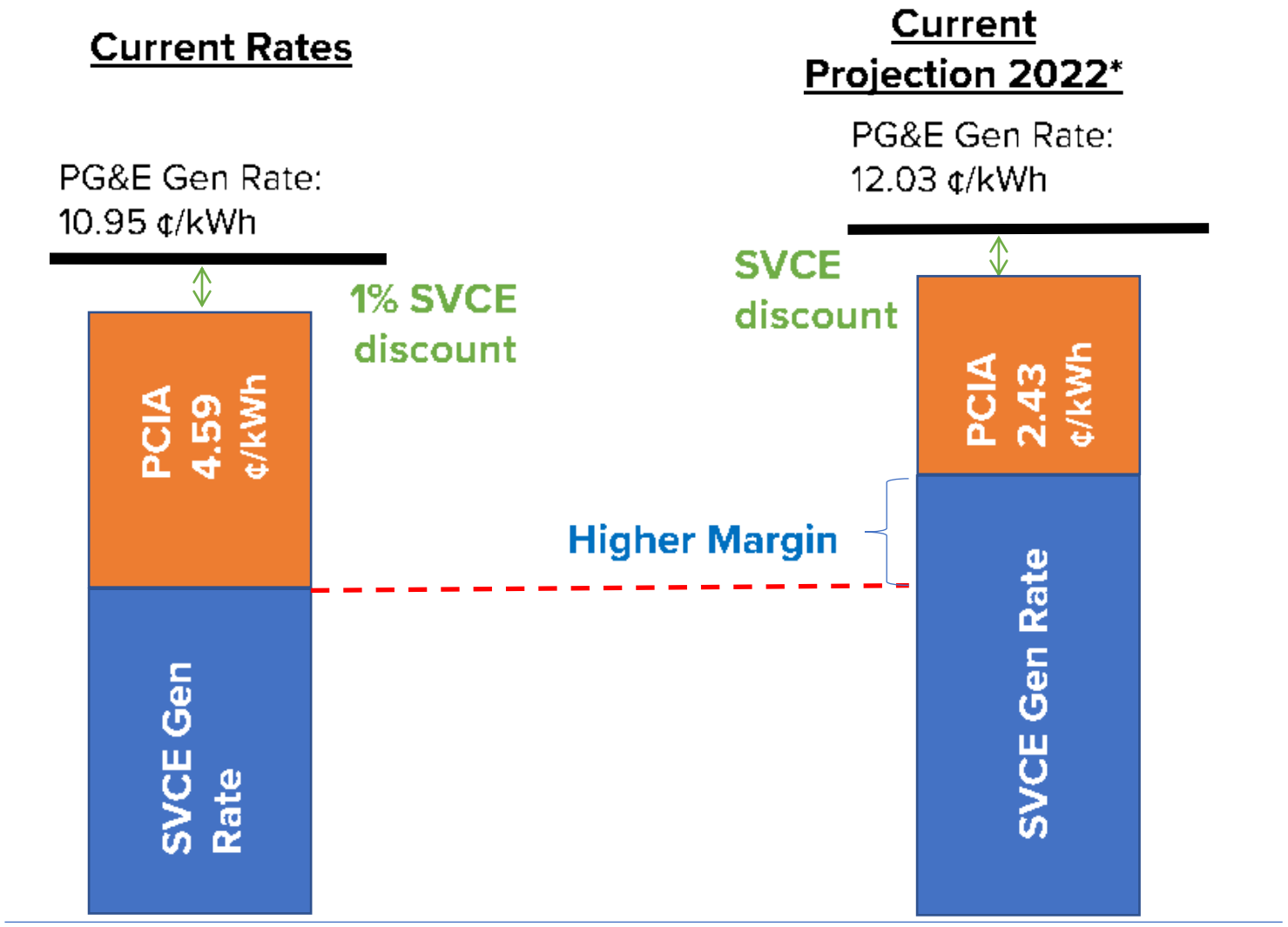
	DESCRIPTION	FY 2021-22 RECOMMENDED BUDGET
	ENERGY REVENUES	
1	Energy Sales	338,603
2	Green Prime Premium	470
3	**TOTAL ENERGY REVENUES**	**339,073**
	ENERGY EXPENSES	
4	Power Supply	273,561
5	**OPERATING MARGIN**	**65,511**
	OPERATING EXPENSES	
6	Data Management	3,249
7	PG&E Fees	1,450
8	Employment Expenses	9,271
9	Professional Services	5,648
10	Marketing & Promotions	919
11	Notifications	131
12	Lease	525
13	General & Administrative	1,213
14	**TOTAL OPERATING EXPENSES**	**22,407**
15	**OPERATING INCOME (LOSS)**	**43,105**
	NON-OPERATING REVENUES	
16	Other Income	50
17	Interest Income	300
18	Grant Income	0
19	**TOTAL NON-OPERATING REVENUES**	**350**
	NON-OPERATING EXPENSES	
20	Financing	40
21	Interest	0
22	**TOTAL NON-OPERATING EXPENSES**	**40**
23	**TOTAL NON-OPERATING INCOME (EXPENSES)**	**310**
24	**CHANGE IN NET POSITION**	**43,415**
	CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER	
25	Capital Outlay	150
26	Other	0
27	Transfer to CRCR Fund	0
28	Transfer to Programs Fund	6,781
29	**TOTAL CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER**	**$6,931**
30	**BALANCE AVAILABLE FOR RESERVES**	**$36,483**

5-year forecast

($ in Thousands)	2021	2022	2023	2024	2025	2026
Operating Revenue	(Budget)	(Budget)	(Forecast)	(Forecast)	(Forecast)	(Forecast)
GWh Sales	3,762	3,914	3,949	3,983	4,001	4,014
Electricity Sales, Net	$ 250,747	$ 338,603	$ 329,066	$ 316,925	$ 334,013	$ 346,258
Available for PCIA/Gen Rate/Power Supply Cost Changes	-	-	(55,000)	(55,000)	(55,000)	(55,000)
GreenPrime Electricity Premium	981	$ 470	$ 474	$ 478	$ 480	$ 482
Other Income	-	-	-	-	-	-
Total Operating Revenues	**251,728**	**339,073**	**274,540**	**262,403**	**279,493**	**291,740**
Operating Expense						
Power Supply	235,237	$ 273,561	$ 238,522	$ 231,043	$ 233,526	$ 239,219
Operating Margin	**16,491**	**65,511**	**36,018**	**31,360**	**45,967**	**52,521**
Data Management	3,258	3,249	3,412	3,583	3,762	3,950
PG&E Service Fees	1,350	1,450	1,522	1,598	1,678	1,762
Staff Compensation	6,248	9,271	9,735	10,222	10,733	11,270
Consultants and other Professional Fees	3,800	5,648	5,931	6,228	6,539	6,866
Communications and Noticing	920	1,050	1,103	1,158	1,216	1,277
General and Administration	1,570	1,738	1,825	1,916	2,012	2,113
Programs	5,270	6,781	5,491	5,248	5,590	5,835
Total Operating Expenses	**257,653**	**302,749**	**267,541**	**260,996**	**265,056**	**272,292**
Operating Income	**(5,925)**	**36,324**	**6,999**	**1,407**	**14,437**	**19,448**
Nonoperating Revenue (Expense)						
Investment Income	321	300	908	1,019	1,045	1,089
Capital Outlay & Financing Costs	(539)	(190)	(108)	(108)	(108)	(108)
Grant/Other Income	118	50	50	50	50	50
Total Non-Operating Revenue (Expense)	**(100)**	**160**	**850**	**961**	**987**	**1,031**
Change in Net Position/Available for Reserves	**(6,025)**	**36,484**	**7,849**	**2,368**	**15,424**	**20,479**

2. Substantially Improved Margins

- PG&E's generation rate is expected to increase by about 9.5%
- PCIA is expected to decrease by about 47%
- Actual rates not known until late December
- If these rates prevail, SVCE's margin improve by about 50% (in calendar year 2022)
- Staff recommends to keep SVCE customer discount at 1% for the budget
- Revise the discount rate after PG&E publishes its rate



** Source: PG&E 2022 ERRA Forecast Application*

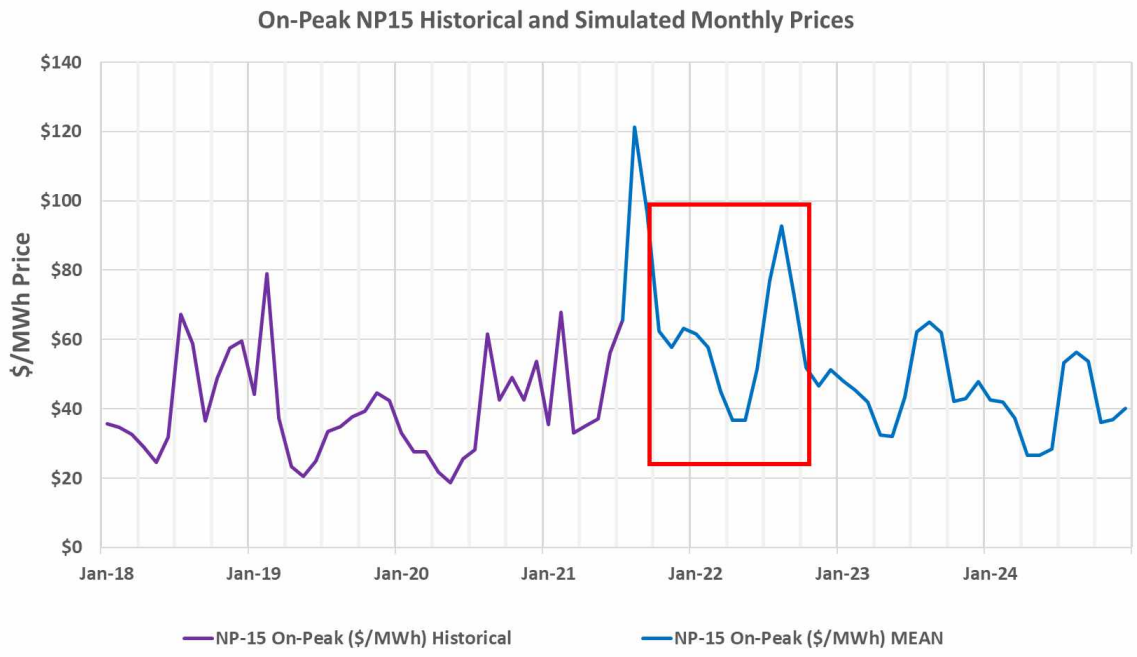
FY 22 Power Supply Cost Drivers

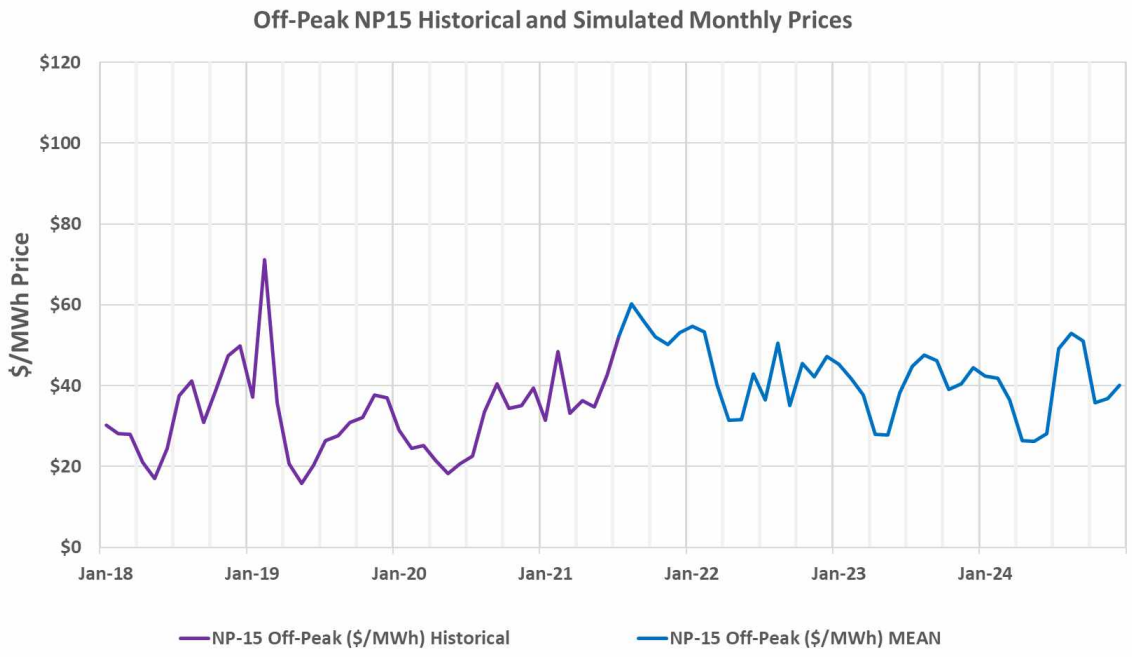
Power Supply Costs are expected to increase for FY 22 – estimated ~$273.5M

- Load remains stable
- Cost to serve load is high due to high and volatile market prices.
  - 82% of load is hedged, remaining 18% exposed to market
- Cost for Carbon-free, non-RPS, attributes high due to low hydro conditions, but expect to receive PG&E allocations in 2022
- RPS PPAs will come on-line end of 2021 and 2022, driving down Power Supply Costs, but expected delays require substitute RPS and RA driving costs up
- Resource Adequacy – RA requirements changing, products are expensive and SVCE is subject to penalties for non-compliance
- CAISO non-energy costs – driven by many variables but remain stable

Power Market Price Volatility

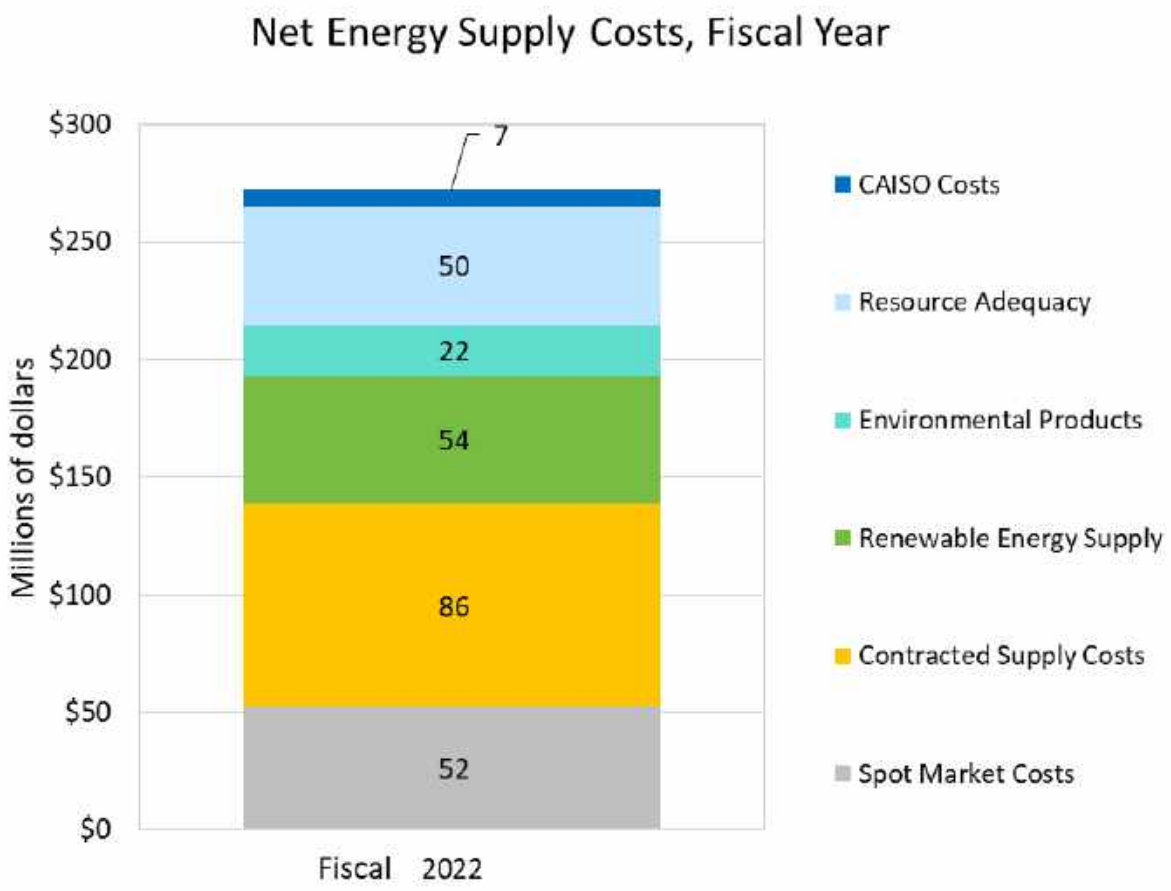
Forward Price Levels elevated compared to history





Power Supply Costs

FY 22 costs are estimated to be higher than FY 21.



- FY 22 Power Supply Cost ~$273.5M:
  - Load Cost - CAISO energy **(+)**
  - Energy hedges (net of CAISO revenues) **(+)**
  - Renewable Energy Supply (PPAs) **(+)**
  - Clean Environmental Products – short-term index + RECs and carbon-free resources **(+)**
  - Resource Adequacy **(+)**
  - CAISO non-energy costs **(+)**

Source: FY2021-22 Early Draft numbers

Current Power Supply Controls

Hedging and Reserve policies offset inherent power market risk

- Hedging Strategy – Energy Risk Management Policy sets minimum and maximum tolerance bands
  - CEO authorized to purchase fixed-price energy to hedge load cost for terms up to 60 months with prequalified suppliers under the EEI
- Clean Procurement – to meet community goals and state mandated RPS
  - CEO authorized to purchase carbon-free and RPS resources for terms up to 60 months with prequalified suppliers under the EEI
- Reliability – to meet state mandated Resource Adequacy (RA)
  - CEO authorized to buy RA for terms up to 60 months with any supplier
- Risk Oversight Committee reviews CEO procurement monthly
- All long-term PPAs, and contracts greater than 60 months require Board approval

Energy Risk Management Min/Max Bands

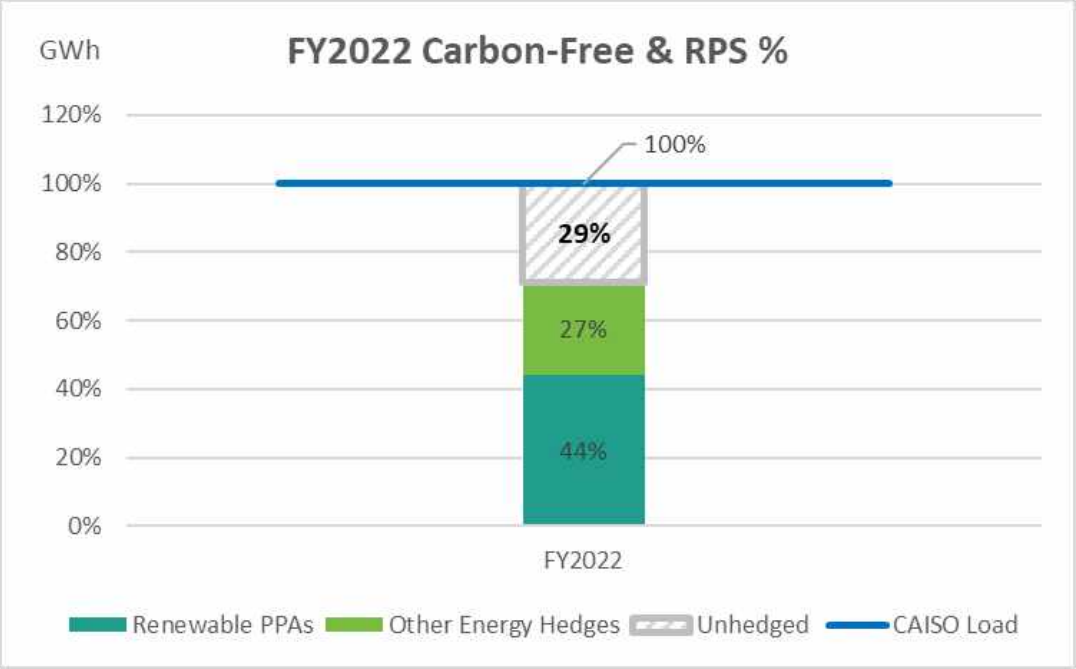
We hedge to manage market price risk. 82% of FY 22 load is hedged.

Period	ERM Min Tolerance – LRB %	ERM Max Tolerance LRB %	Current LRB %	Target LRB % per Plan
Prompt Quarter (Q3 2021)	85%	105%	98%	100% monthly
Balance of Year (July-December 2021)	80%	105%	99%	100% monthly
Year 2 – 2022*	70%	90%	79%	100% monthly
Year 3 – 2023	55%	75%	66%	75% annual
Year 4 – 2024	40%	60%	69%	TBD
Year 5 - 2025	0%	50%	58%	TBD

Current Power Supply Portfolio Positions

We buy clean energy to meet 100% carbon-free goals and reliability mandates.

100% Clean Target

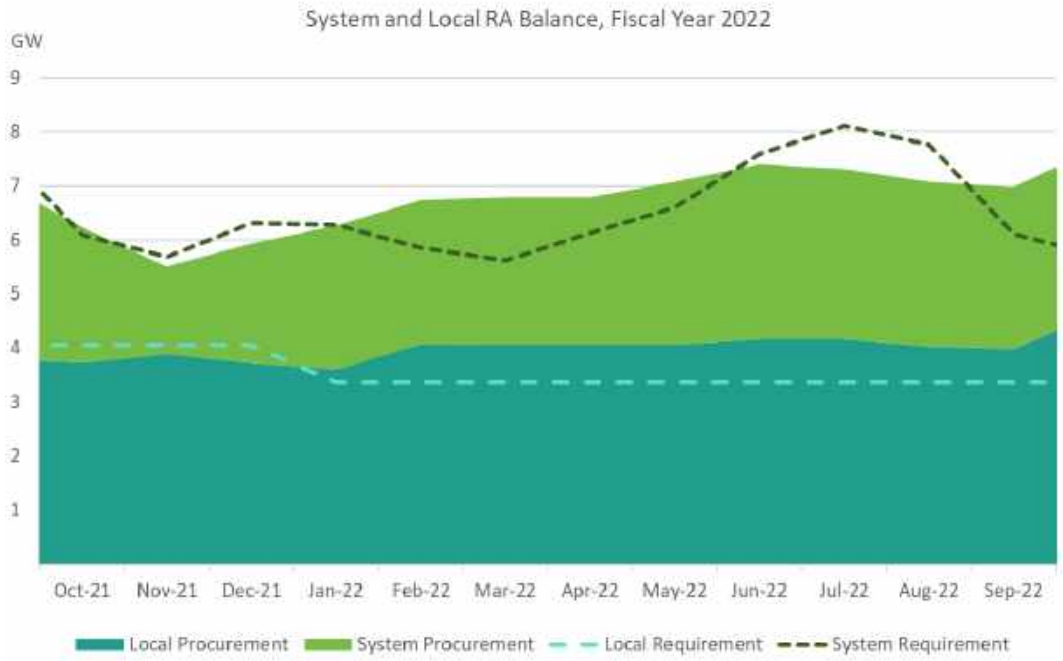


Reference:

	Calendar 2022
SB 100 RPS % Target (State RPS %)	38.50%
SVCE RPS % Target (Agency RPS %)	50.00%
RPS Target* (max of the above)	50.00%
Carbon Free Target*	56.00%

*The denominator is retail sales

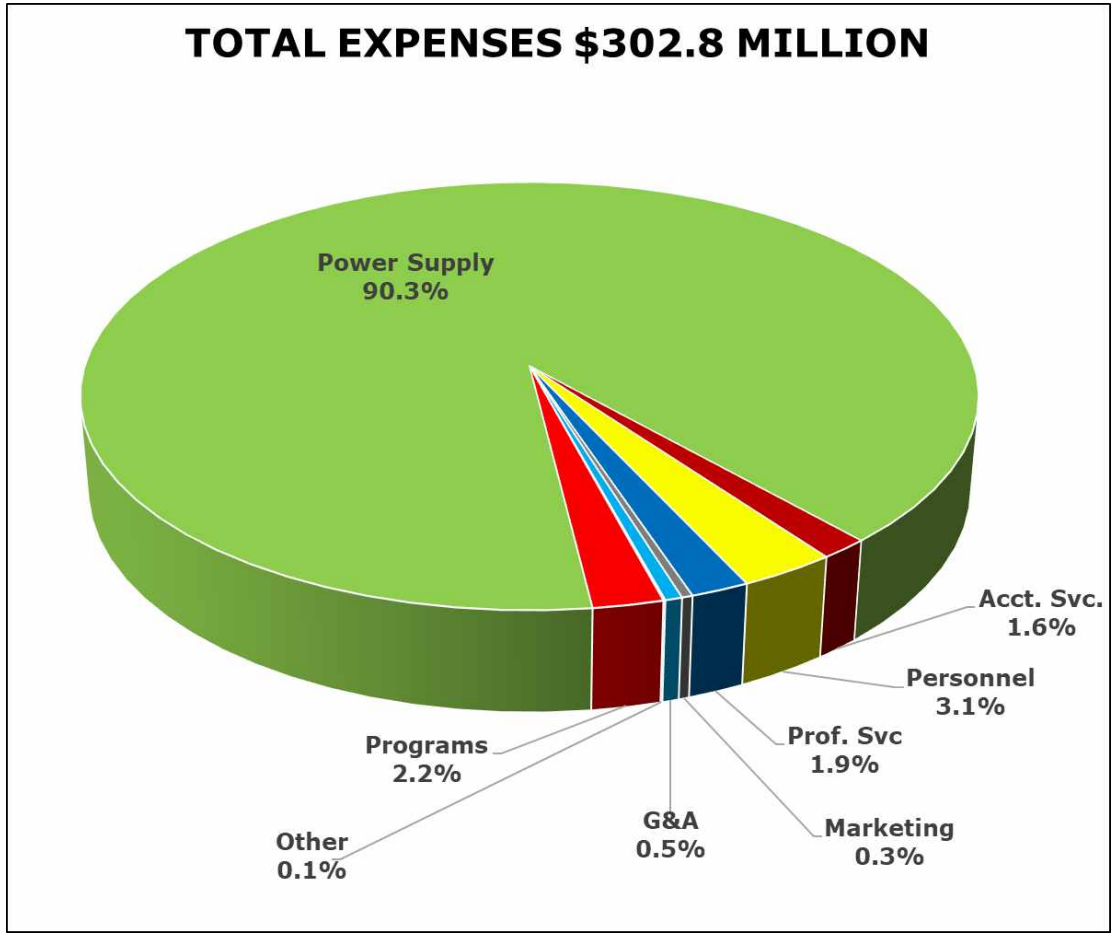
Resource Adequacy



CPUC sets RA procurement mandates for year-ahead and month-ahead

Breakdown of Expenses

~90% of expenses are power supply costs. SVCE's overhead costs are low.



- FY 22 Power Supply Cost ~$273.5M:
  - Load Cost - CAISO energy
  - Energy hedges (net of CAISO revenues)
  - Clean Environmental Products – short-term index + RECs and carbon-free resources
  - Resource Adequacy
  - CAISO non-energy costs

Source: FY2021-22 Recommended Budget

Higher Operating Expenses

Organizational maturity is introducing additional needs

Expense Category	Description	Increase from FY20-21
Operationalizing PPAs	Scheduling Coordination Services Technical Consulting (Portfolio Modeling / CAISO Integration) Legal Support (PPA Implementation / 3CE coordination)	$550,000
Staffing Capacity / Recruiting	Six New Staff Positions; Annualized positions from FY20-21 Four External Consultants Additional Recruiting Support	$2,600,000
Business Process Optimization	Detailed Roadmap and Implementation for Phase 1 (Trade Capture and Contract Management)	$900,000
Cybersecurity Improvements	Upgrades and Training as identified through Gap Assessment and Architecture Review	$150,000
Operating Expense Contingency	5% Spending Contingency on all operating expenses	$1,000,000
		$5.2 million

Designate the CEO as Chief Personnel Officer to provide flexibility while responding to changing conditions

Board approves personnel budget; CEO implements staffing plan

Current Practice

- Staffing modifications brought to Board for approval
  - Job Descriptions
  - Headcount Changes
  - Salary Range Adjustments
  - Organizational Chart Changes

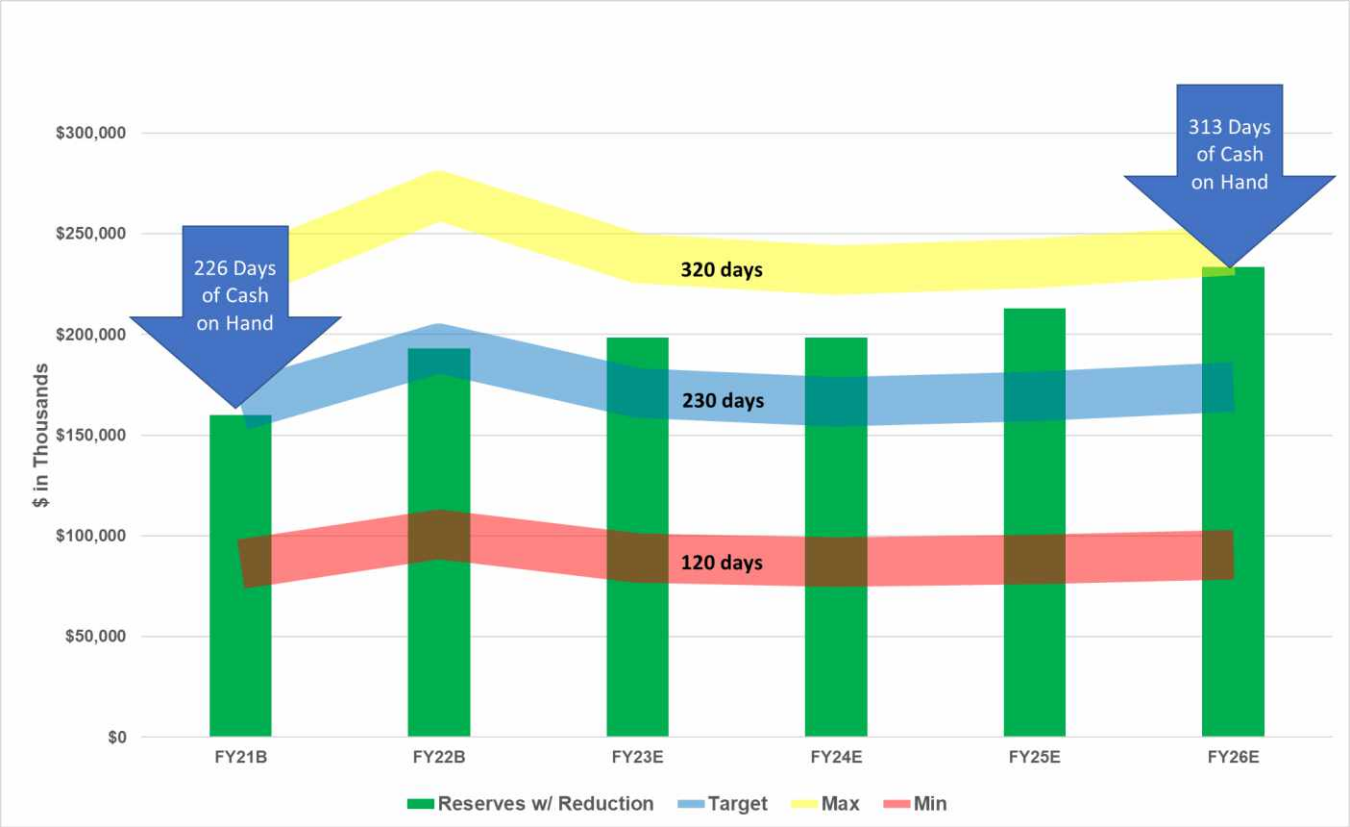
Proposed Practice

- Provide flexibility to manage staffing within an approved overall budget
  - CEO can approve job titles, salary ranges, and org chart positions
  - Positions can be swapped / changed and added within Board-approved budget
  - Additions will not exceed 10% of authorized number shown in budget
  - Changes / hires communicated in next CEO report to Board

SVCE will start Next Year with Healthy Reserves

Do not renew line of credit (LOC); Update Reserve Targets.

- $35 MM LOC up for renewal in October
- Given substantial cash reserves, and improved outlook, let LOC expire (savings of about $150k per year)
- Depending on the year's operating expenses, LOC provided an additional liquidity of 30 to 50 days
- In lieu of LOC, Staff recommends to increase reserve targets
  - Minimum from 90 to 120 days
  - Target from 180 to 230 days
  - Maximum from 270 to 320 days



Source: FY2021-22 Recommended Budget

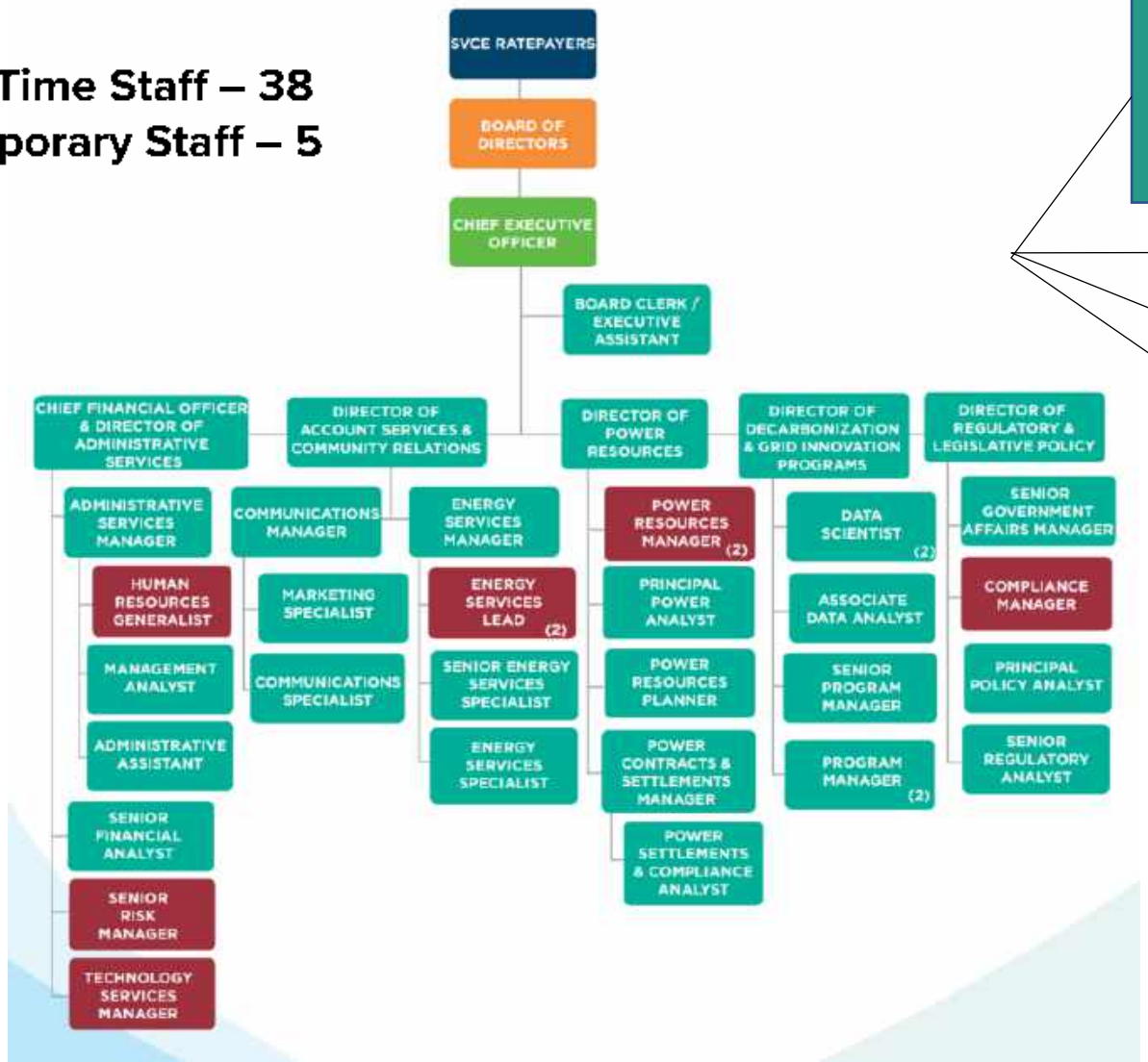
New Staff Positions

Organizational Maturity brings new staffing needs

- Six new positions are being requested:
  - Account Services
    - Energy Services Lead – lead new programs
  - Power Resources
    - Power Resources Manager - oversee operational PPAs
  - Regulatory and Legislative Policy
    - Compliance Manager - centralize our regulatory reporting work
  - Finance and Administration
    - Human Resources Generalist – administer benefits & support hybrid transition
    - Senior Risk Manager - provide credit analysis and middle office oversight
    - Technology Services Manager - lead the technical aspects of the business process optimization effort

Organizational Chart w/ External Resources

Full Time Staff – 38
Temporary Staff – 5



General Counsel
Richards, Watson, Gershon

Accounting
Maher Accountancy

Power Counsel
Hall Energy Law

HR / Benefits
HRtoGo / MMA / Claremont / Bryce

Financial Levers to Manage Margin

Opportunity to reduce costs but lowers our value proposition.

Levers	Potential Savings	
	FY 21/22	2023 -2025 (cumulative)
Maintain minimum RPS compliance	~$0.8	N/A – (Surplus position relative to state mandate given PPAs coming online)
Do not purchase additional carbon free (CF) attributes – with PG&E allocations	*~$2 million*	~$7.5 million
Do not purchase additional carbon free (CF) attributes – without PG&E allocations	*~$6 million*	~$23 million
Cut Programs Expenditure	Up to $5 million	Up to $15 million
Do not provide 1% discount to PG&E Rates	~$4 million	~$12 million
Prepay Transaction	~$1.5 million	~$4.5 million

Numerous External Risks exist that could impact SVCE over FY21-22

Need to maintain healthy reserves to absorb numerous risks

SUPPLY

PPA delays, Market Prices, and new RA rules; Ops and Implementation of PPAs

PCIA

PG&E PCIA/Gen Rate Uncertainty and Whiplash Effects

LOAD LOSS

Uncertainty around return to pre-COVID load level

PAYMENTS

Customer defaults, Collateral Postings, payment issues due to COVID

L&R ISSUES

Regulatory Uncertainty, Central buyer, Direct Access, PSPS

CYBER-RISK

Hardware, Software, and Training to combat Ransomware and Phishing

RATE AFFORDABILITY

Rate increases due to socialized wildfire, COVID arrearage, etc. – will ultimately impact usage and electrification

STRATEGIC FOCUS AREAS

Budget will reflect the 5 Strategic Focus Areas

Additional Staffing to Maintain Capacity

- New positions to manage operational risk and support maturation

Operations Mode with PPA's coming online

- First PPA online December 2021
- Operations, optimization, settlement

Procurement, Clean Energy Mix & Integration

- Long-term RPS% Policy & Procurement
- Mandated procurement, emerging technologies, demand flexibility
- CAISO involvement, Grid Integration

Financial Stability & Trade-Offs

- FY22 – Rebuild Reserves
- Trade-off's (RPS % policy, Clean Energy, Discount, etc.)
- Prepay

Internal Operations & Cyber Risk Management

- Business Process Optimization
- Cyber & Physical Risk
- Post-COVID hybrid work for staff and Board

Business Process Optimization (BPO)

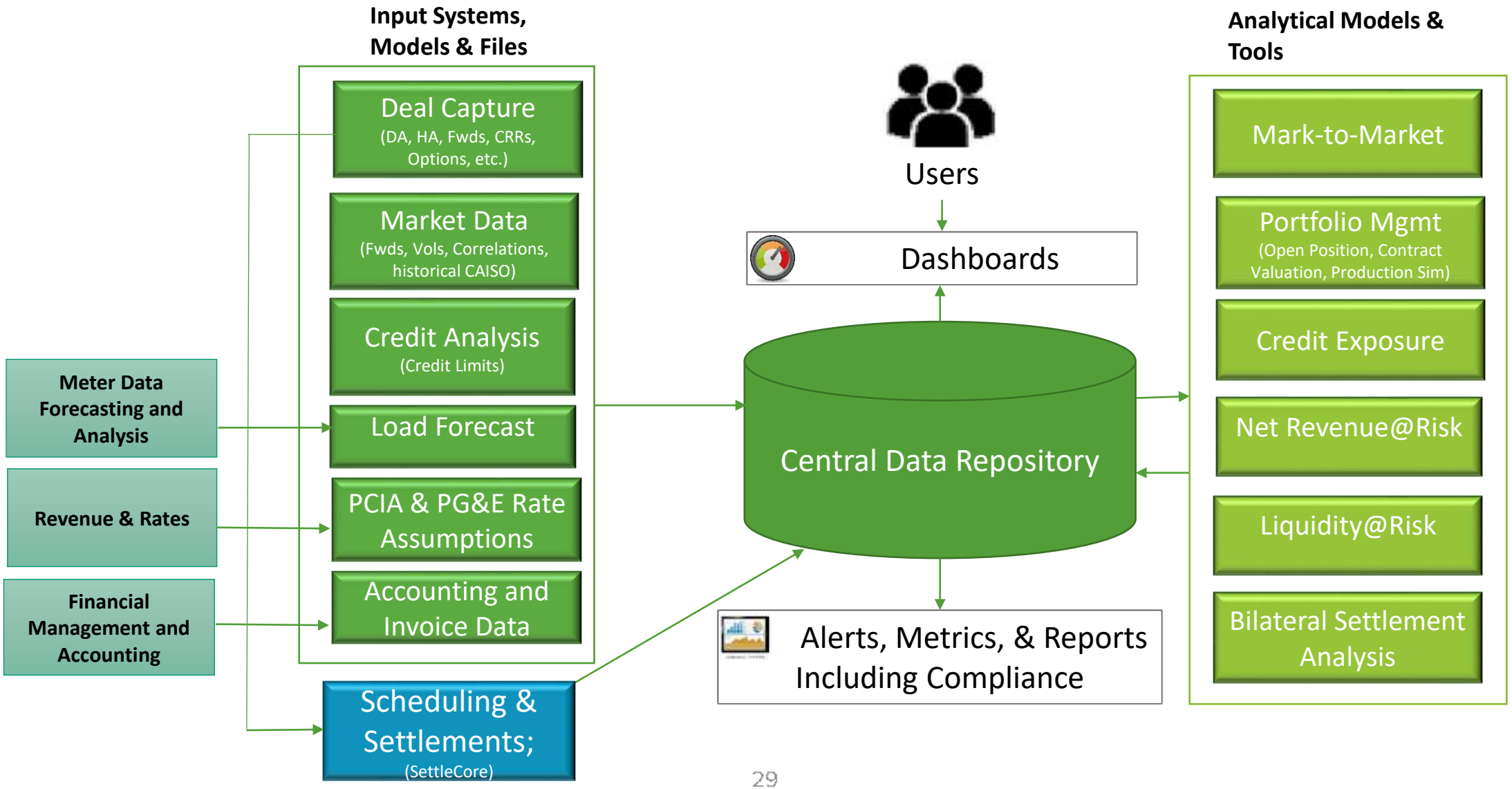
CURRENT STATE

1. Small group of people managing multiple large transactions (~$250MM)
2. Leveraging many consultants & outside experts
3. Adapting to new regulations continuously
4. Manual and labor-intensive processes create operational and business continuity risks
5. Non-integrated data impedes ability to efficiently and effectively make insightful data-driven decisions

Future

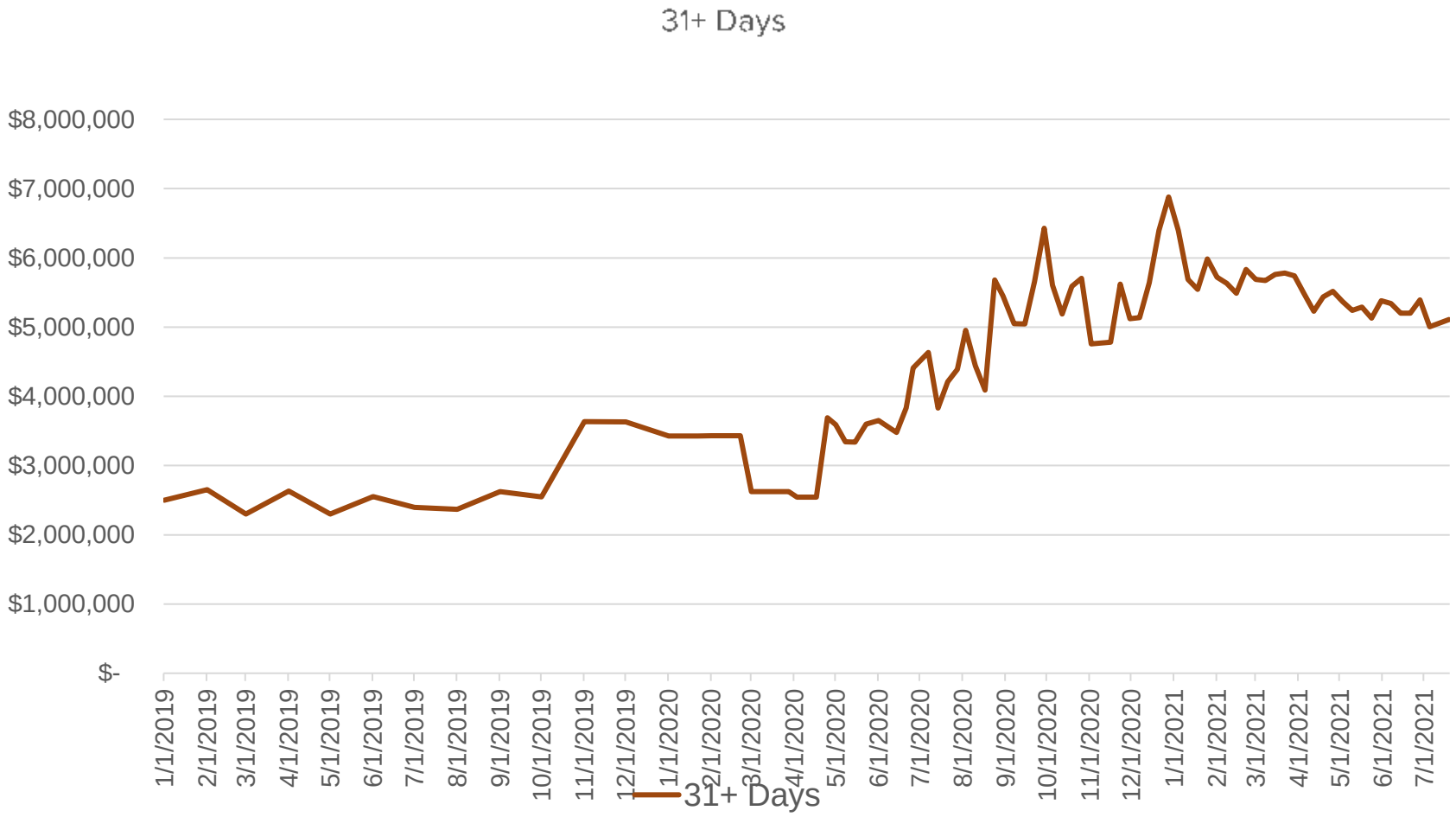
BPO: Energy Trading and Risk Mgmt.

Integrated, Automated, and Auditable Business Process



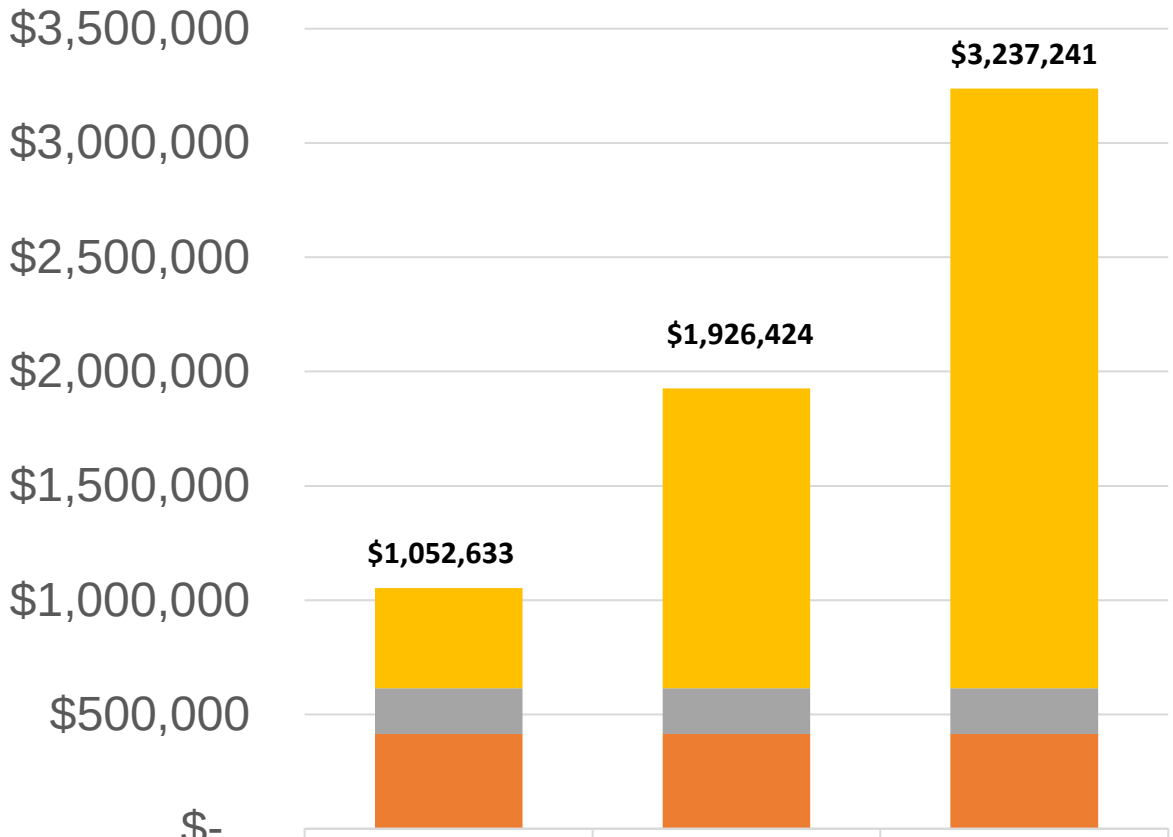
Since March 2020, the overall arrearage amounts have grown roughly twofold.

SVCEs Arrearage Total for customers 31+ days late



	Date	Amount
High	12/28/2020	$6.88M
Low	3/1/2019	$2.30M
Current	**7/19/2021**	**$5.11M**

SVCE 2021 Customer Debt Write-off Bookends



	Low	Medium	High
2021 Additional	$437,026	$1,310,817	$2,621,634
Dec 2020 Large Com Loss	$201,027	$201,027	$201,027
2019 Ordinary Loss	$414,580	$414,580	$414,580

- 2019 Average 31+ Day Arrearage of $2.5M yielded $415k in Write-offs (16.7% of total)
- 2021 Arrearage is $2.6M higher than 2019 and used as the basis of the below assumptions
- Unexpected large customer write-off of $200k included in every scenario

Scenario	Assumptions
Low	16.7% of $2.5M, $200k large customer write off, 16.7% of $2.6M- same as 'normal' year
Medium	16.7% of $2.5M, $200k large customer, 50% of $2.6M
High	16.7% of $2.5M, $200k large customer, 100% of $2.6M

Data Current 7/19/21

SVCE Strategic Focus Areas for FY 22

Girish Balachandran
September 8, 2021
SVCE Board of Directors

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Strategic Plan Update Status

- ✓ May 28 - Executive Committee (strategic plan)
- ✓ June 9 - Board (strategic plan)
- ✓ June 25 - Executive Committee (strategic plan & budget)
- ✓ August 2 - Finance Committee (budget)
- ✓ August 11 - Board (budget)

May
Board starts CEO evaluation

May-Aug
Strategic Plan Input & Updates

September
Approve Budget, Strategic Focus Areas

Sep-Oct
- Complete CEO evaluation, set CEO Priorities (Sep)
- Present detailed work plan and measures (Oct)

Oct-May
Implementation

No Changes to Mission & Measure

Board supported keeping the Mission and the Overall Measure the same

MISSION:

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

MEASURE:

SVCE, working with SVCE member agencies, aspires to achieve energy and transportation GHG reductions of 30% from the 2015 baseline by 2021, 40% by 2025, and 50% by 2030

Recent External Shifts & Opportunities

2020-21 has brought tremendous changes at the national and local level; this leads to some new risks and new opportunities

USA

- Vaccines
- Stimulus
- Equity
- Clean energy
- IPCC "code red" report

California

- COVID recovery
- Budget surplus
- Drought
- Wildfires
- Blackouts

CPUC, CEC, CAISO

- Reliability
- 11,500 MW new clean energy
- PCIA volatility
- PG&E Gen Rate
- Customer utility debt
- Possible 5,000 MW 2022-23 emergency procurement

CCAs

- CalCCA leverage
- CC Power
- WCE bankruptcy
- CCCFA
- Other shared services

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Other Input to be incorporated

Executive Committee and Board provided additional input

- Continue focus on equity
- Enhance work plan focus on Transportation opportunities including funding and regional collaboration
- Resilience to be added to a strategic plan goal
- "Double-down" deployment of decarbonization efforts to accelerate deep decarbonization (IPCC "code red" report)

6th Focus Area added based on Board input

5 Focus Areas discussed, supported and budget allocations provided

NEW: Board discussed need for growing efforts on decarbonization

- Additional Staffing to Maintain Capacity & Organization Succession Planning
- Operations Mode with PPA's coming online
- Procurement, Clean Energy Mix & Integration
- Financial Stability & Trade-Offs
- Internal Operations & Cyber Risk Management
- Grow the organization to expand our strategic efforts on climate change and decarbonization

Next Steps & Budget Impacts

Sep 8 Board

- Approve FY 22 Strategic Focus Areas
- Proposed Budget for FY22 has been reviewed by the Finance Committee, Executive Committee and Board and is presented to the Board in this meeting in a separate item

October 13 Board

Detailed Strategic Work Plan update with Goals and Measures updated

Recommendation

Adopt FY22 Strategic Focus Areas

- Additional Staffing to Maintain Capacity & Organization Succession Planning
- Operations Mode with PPA's coming online
- Procurement, Clean Energy Mix & Integration
- Financial Stability & Trade-Offs
- Internal Operations & Cyber Risk Management
- Grow the organization to expand our strategic efforts on climate change and decarbonization

- Background Slides

6 Focus Areas responsive to internal & external risks & opportunities

Additional Staffing to Maintain Capacity

- New positions to manage operational risk and support maturation
- Organization succession planning

Operations Mode with PPA's coming online

- $1.6 billion in 13 PPA investments over last 3 years
- First PPA online December 2021
- Operations, optimization, settlement

Procurement, Clean Energy Mix & Integration

- Long-term RPS% Policy & Procurement
- Mandated procurement, emerging technologies, demand flexibility
- CAISO involvement, Grid Integration

Financial Stability & Trade-Offs

- FY21 – SVCE in the red
- Power Prepay
- Energy Risk Management
- Trade-off's (RPS % policy, Clean Energy, Discount, etc.)

Internal Operations

- Business Process Optimization
- Cyber & Physical Risk
- Post-COVID hybrid work for staff and Board

Grow the organization to expand our strategic efforts on climate change and decarbonization

- Double-down decarbonization strategy
- Consider increasing resource allocation substantially
- Focus on areas where SVCE can make incremental impact

Aggressive State Goals are Now Supported by Changes at the Federal Level

Statewide GHG Emissions

(including electricity, natural gas, transportation, agriculture and industrial sectors)

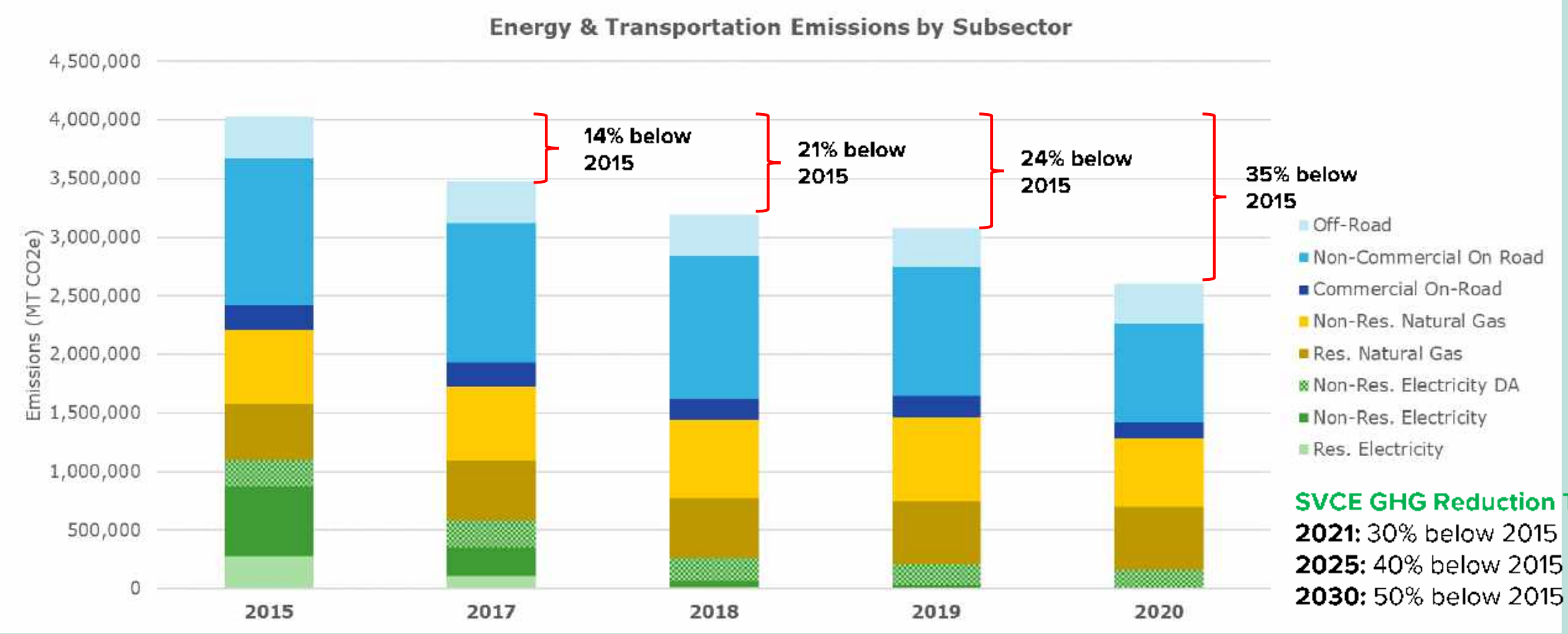
Electricity makes up only **18%** of allowable statewide emissions in **2030**.

Graph based on data from the California Climate Change Scoping Plan: https://ww3.arb.ca.gov/cc/scopingplan/scoping_plan_2017.pdf

SVCE has set aggressive carbon reduction goals

Over the last 4 years SVCE has reduced emissions tremendously

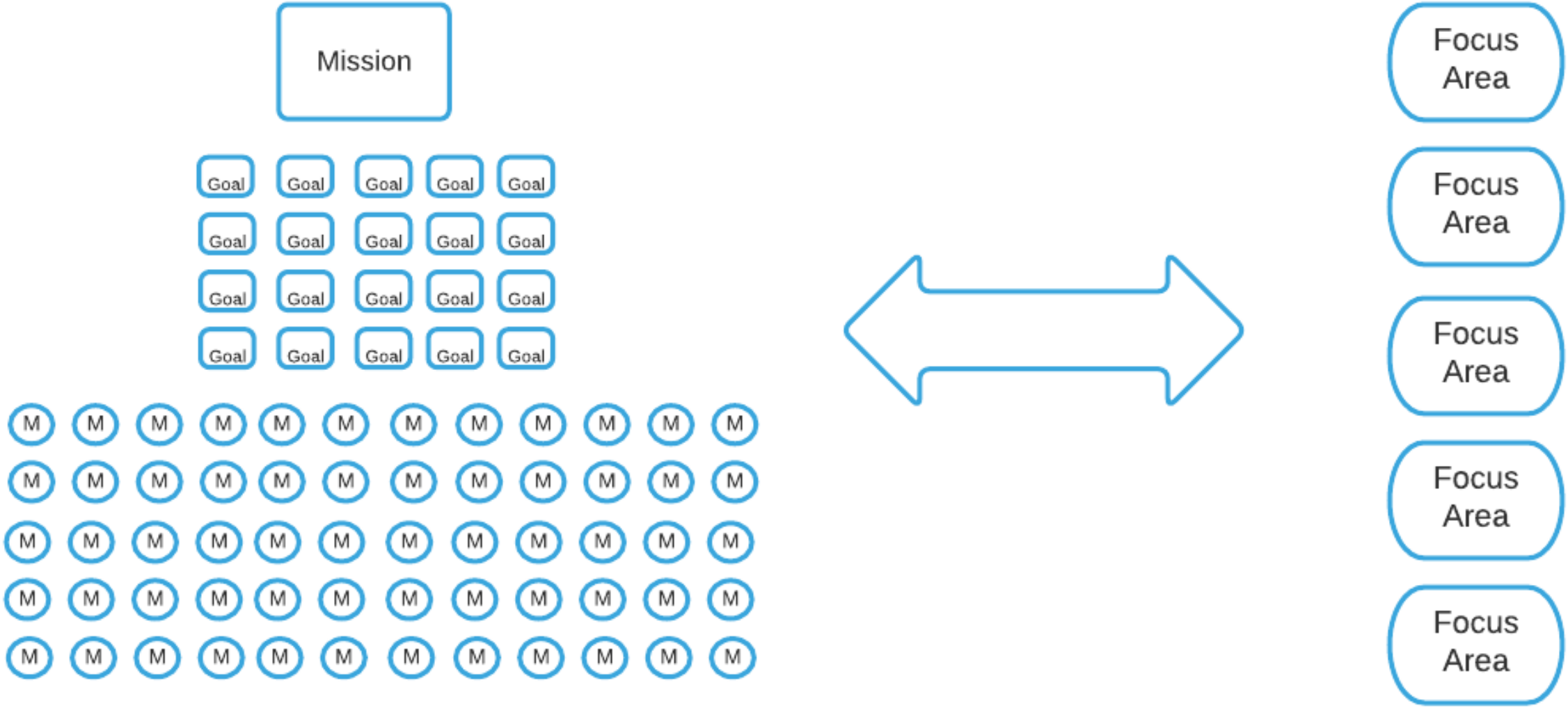
2020 emissions were 35% below 2015 due to COVID, exceeding 2021 target of 30%



SVCE GHG Reduction Targets
2021: 30% below 2015
2025: 40% below 2015
2030: 50% below 2015

2020 emissions: 2.6 million MT CO2e

Distilling Strategic Plan to Focus Areas for Upcoming Fiscal Year



Last Year Focus Areas

- Additional Resources & Efficiencies
- Enterprise-wide systems, metrics & tools
- Focus on Equity
- Digital Pivot - Customer & Community engagement
- Community outreach and leverage