Silicon Valley Clean Energy
Finance and Administration Committee Meeting

Monday, August 1, 2022
2:00 pm

Teleconference Meeting
Webinar:
https://svcleanenergy-org.zoom.us/j/84747296331

Or by Telephone (Audio only):
US: +1 669 219-2599
Webinar ID: 847 4729 6331

This meeting will be conducted in accordance with California Government Code Section 54953(e), in consideration of the Coronavirus (COVID-19). All members of the Silicon Valley Clean Energy Finance and Administration Committee and staff will participate in this meeting by teleconference.

Members of the public may observe this meeting electronically by accessing the meeting via instructions above. Public Comments can be sent in advance of the meeting to Board Clerk Andrea Pizano at Andrea.Pizano@svcleanenergy.org and will be distributed to the Finance and Administration Committee. The public will also have an opportunity to provide comments during the meeting. Members of the public using Zoom may comment during public comment or the applicable agenda item by using the Raise Hand feature and you will be recognized by the Chair. Those using the telephone (audio only) feature should press star 9 on your phones to initiate the "Raise Hand" function in Zoom. You will then be announced, unmuted, and your time to speak will begin.

The public may provide comments on any matter listed on the Agenda. Speakers are customarily limited to 3 minutes each, however, the Committee Chair may increase or decrease the time allotted to each speaker based on the number of speakers, the length of the agenda and the complexity of the subject matter. Speaking time will not be decreased to less than one minute.

If you are an individual with a disability and need a reasonable modification or accommodation pursuant to the Americans with Disabilities Act ("ADA") please contact Board Clerk Andrea Pizano at Andrea.Pizano@svcleanenergy.org prior to the meeting for assistance.

AGENDA

Call to Order

Roll Call

Public Comment on Matters Not Listed on the Agenda

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333 W El Camino Real
Suite 330
Sunnyvale, CA 94087

The public may provide comments on any matter not listed on the Agenda provided that it is within the subject matter jurisdiction of SVCE. Speakers are customarily limited to 3 minutes each, however, the Committee Chair may increase or decrease the time allotted to each speaker based on the number of speakers, the length of the agenda and the complexity of the subject matter. Speaking time will not be decreased to less than one minute.

Consent Calendar (Action)

1) Approve Minutes of the May 26, 2022 Finance and Administration Committee Meeting

Regular Calendar

2) Recommend Approval of the FY 2022-23 Proposed Operating Budget and Approve the Updated Reserves Policy (Action)

3) SVCE Investment Policy Update (Discussion)

Committee/Staff Remarks

Adjourn

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Silicon Valley Clean Energy
Finance and Administration Committee Meeting
Thursday, May 26, 2022
3:30 p.m.

Pursuant to State of California Gov't Code Section 54953 (e) the meeting was conducted via teleconference.

DRAFT MINUTES

Call to Order

Chair Rennie called the meeting to order at 3:31 p.m.

Roll Call

Present:
Chair Rob Rennie, Town of Los Gatos
Director Liz Gibbons, City of Campbell
Alternate Director Hung Wei, City of Cupertino
Alternate Director Bryan Mekechuk, City of Monte Sereno (arrived at 4:41 p.m.)
Director Margaret Abe-Koga, City of Mountain View
Director Larry Klein, City of Sunnyvale

Absent:
None.

All present committee members participated via teleconference.

Public Comment on Matters Not Listed on the Agenda
No speakers.

Consent Calendar

MOTION: Alternate Director Wei moved and Director Klein seconded the motion to approve the Consent Calendar.

Chair Rennie opened public comment.
No speakers.
Chair Rennie closed public comment.

The motion carried by verbal roll call vote with Alternate Director Mekechuk absent.

1a) Approve Minutes of the December 16, 2021, Finance and Administration Committee Meeting
1b) Approve Direction to Staff to Poll Committee Members for Next Meeting Date

Regular Calendar

2) Selection of 2022 SVCE Finance and Administration Committee Chair and Vice Chair (Action)

Committee Chair Rennie introduced the item and opened the floor for nominations and/or volunteers for the position of Chair of the 2022 SVCE Finance and Administration Committee.

MOTION: Director Gibbons moved and Alternate Director Wei seconded the motion to nominate Director Rob Rennie to serve as Chair of the 2022 SVCE Finance and Administration Committee.

Chair Rennie opened public comment.
No speakers.
Chair Rennie closed public comment.

The motion carried by verbal roll call vote with Alternate Director Mekechuk absent.

Chair Rennie opened the floor for nominations for the position of Vice Chair of the 2022 SVCE Finance and Administration Committee.

MOTION: Director Gibbons moved and Director Abe-Koga seconded the motion to nominate Alternate Director Hung Wei to serve as Vice Chair of the 2022 SVCE Finance and Administration Committee.

The motion carried by verbal roll call vote with Alternate Director Mekechuk absent.

3) SVCE Investment Policy Update (Discussion)

Amrit Singh, CFO and Director of Administrative Services, introduced the item and Jim Steele of Management Partners, who provided brief introductory comments on his supportive role in the investment policy effort. CFO and Director of Administrative Services Singh introduced Monique Spyke of PFM Asset Management LLC, who presented a PowerPoint presentation to the committee on SVCE's engagement with PFM Asset Management and an overview of illustrative investment strategies, demonstrating return and risk considerations, and discussed next steps for recommendations and potentially revising SVCE's investment strategy.

Ms. Spyke, Mr. Steele and SVCE staff responded to committee member questions.

Director Gibbons recommended staff consider requesting PFM Asset Management file a Statement of Economic Interest (Form 700) given the work that will be performed.

Chair Rennie opened public comment.
No speakers.
Chair Rennie closed public comment.

4) Results of the Stress Test Analyses (Discussion)

Alternate Director Mekechuk arrived during Item 4.

CFO and Director of Administrative Services Singh presented a PowerPoint presentation on Stress Test Analyses results which included highlights on the construction of stress test cases, expectation versus results, and insights on drivers of biggest financial risks.

Staff responded to committee member questions and discussed hedging strategy, risk management, and stress test scenarios.

Chair Rennie opened public comment.
No speakers.
Chair Rennie closed public comment.

Committee/Staff Remarks
None.

Public Comment on Closed Session
No speakers.

The Committee convened to Closed Session at 5:04 p.m.

Convene to Closed Session
THREAT TO PUBLIC SERVICES OR FACILITIES
Consultation with: Amrit Singh, Chief Financial Officer and Director of Administrative Services, Kevin Armstrong, Deputy Director of Administrative Services

The Committee returned from Closed Session at 5:33 p.m.

Report from Closed Session
Chair Rennie reported the Committee met in Closed Session to discuss threat to public services or facilities and took no actions that require reporting under the Brown Act.

Adjournment
Chair Rennie adjourned the meeting at 5:33 p.m.

SILICON VALLEY CLEAN ENERGY

Staff Report – Item 2

Item 2:	**Recommend Approval of the FY 2022-23 Proposed Operating Budget and Approve the Updated Reserves Policy**
From:	Girish Balachandran, CEO
Prepared by:	Amrit Singh, CFO and Director of Administrative Services Kevin Armstrong, Deputy Director of Administrative Services
Date:	8/1/2022

RECOMMENDATION

Staff recommends that the Finance and Administration Committee recommend that the Board of Directors approve the fiscal year (FY) 2022-23[1] Proposed Operating Budget that projects depositing $115.5 million into the reserves and approve the updated Reserves Policy.

EXECUTIVE COMMITTEE REVIEW

On June 24, 2022, staff presented the methodology and framework for developing the proposed budget to the Executive Committee (EC). The EC agreed with the methodology and the framework and made few suggestions including ensuring there's sufficient staffing contingency and to further clarify some of the proposals in the presentation including adding a metric displaying revenues per number of employees over time and explaining the load projection. The EC's comments are incorporated in this proposed budget and the accompanying presentation.

ANALYSIS & DISCUSSION

The FY 2022-23 Proposed Operating Budget is balanced and presents Silicon Valley Clean Energy (SVCE) in stable financial condition. The projected balance available for reserves of $115.5 million is an increase of $53.9 million above the $61.6 million presented in the FY 2021-22 Mid-Year Budget.

Energy Revenues

The Proposed budget shows an increase in revenues of $98.4 million compared to the FY 2021-22 adjusted mid-year budget. The biggest contributor to this increase in revenues is the favorable SVCE margins based on a reduced PCIA rate. SVCE margins relative to the current rates that went in effect March of 2022, with slight adjustment in June of 2022, is about 10 percent higher. However, compared to the average margin over the entire FY 2021-22 period, the current margin is about 26 percent higher.

The proposed budget anticipates no PCIA charge (currently at ~1.88 cents/kWh) and a ~12 percent decrease in PG&E's generation rates (from ~14.3 cents/kWh to ~12.79 cents/kWh) starting in January 2023. Both estimates are based on CalCCA's NewGen Model using SVCE's updated market prices and an adjustment for modeling error.

PG&E's forecast of 2023 rates in the ERRA filing made in May 2022, shows a lower PG&E Generation Rate (~12.62 cents/kWh) and a charge of about 1.43 cents/kWh for PCIA, implying a reduction in SVCE margin of about ~10 percent. PG&E's filing, however, is based on results using market prices in late March 2022 and

[1] The fiscal year 2022-23 starts on October 1, 2022, and ends on September 30, 2023.

since then market prices have increased about ~20 percent. Based on the ERRA filing schedule, PG&E will update its rate forecast in early fall, and the CPUC is expected to approve new rates in late December. Based on current market data and using the NewGen Model, PG&E's update in the fall should show a higher PG&E generation rate and a negative PCIA charge.

To test the accuracy of the NewGen model and working with the NewGen consultant, staff calibrated the model to PG&E's forecast using the same period market data PG&E used in developing its 2023 rate forecast. The calibration shows that the model results in about 10 percent higher SVCE margin. Using the methodology discussed with the EC[2], to account for potential modeling error, staff reduced the resulting margins from the current model using latest market prices by 10 percent. The results show PCIA to be slightly negative. Because PG&E tariffs do not allow for negative rates, PCIA was set at zero. If PCIA does turn negative, PG&E will account for the negative portion in the following year's PCIA rates.

Using the NewGen model with latest prices and an adjustment for modeling error likely better aligns revenues closer to the rates that PG&E will update in October, and it also better aligns revenues with power supply costs because both estimates are made using the same set of market data. Nevertheless, the results are based on a forecast and the actual rates won't be known until the CPUC approval, expected in late December. Between now and when the rates are finalized, market prices will change, which can create less or more favorable results. Staff recommends that SVCE change its rates when the CPUC makes the new PCIA and PG&E generation rates effective. At that time, the Board can revisit the customer discount rate and make its decision based on the actual rates. For the purposes of setting the Budget, the effective discount is set at 3% starting January 2023. The current 1 percent discount remains until the end of December 2022. The 3 percent effective discount rate is composed of 2 percent relative to comparable PG&E generation rates for all customers and an additional 1 percent converted to dollar bill credits to the CARE & FERA customers, which amounts to $3.6 million or about $10.50 per month bill credit for 12 months. The budget shows the bill credit as a separate cost item.

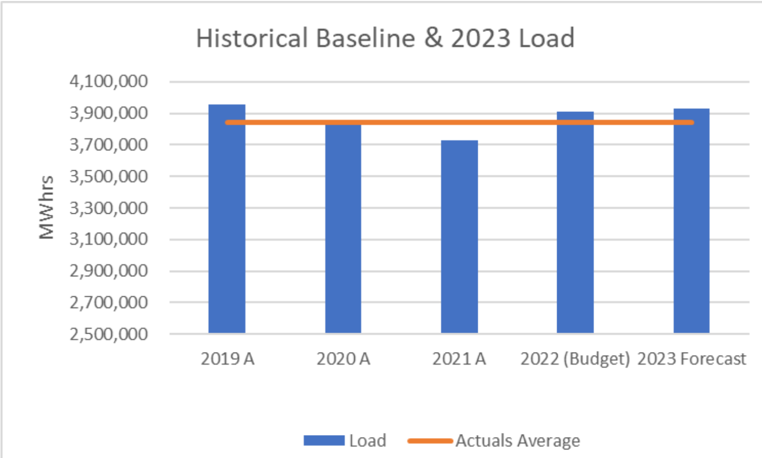
The proposed budget continues to reduce revenues to account for potential write-offs that SVCE could incur because of the large accounts receivable balances resulting from our customers facing economic hardships. SVCE is currently budgeting revenues to include a 0.9% write-off rate, which amounts to roughly $4.4 million. This is a conservative estimate, as statewide efforts are underway to potentially cover a large portion of those losses.

Power Supply Expenses

Power supply expenses are expected to increase to $325.3 million due to increasingly volatile market prices. In addition, the costs for non-RPS, carbon-free attributes are expected to remain high, due to the ongoing drought in the western US and the resultant low hydropower production. SVCE does expect to receive PG&E allocations in 2022 to offset some of those costs increases, but the volumes are unknown at this time. Changing resource adequacy (RA) requirements along with high RA prices also contribute to higher costs relative to the last fiscal year. While long-term PPAs continuing to come online puts downward pressure on SVCE's power supply costs, potential delays in their operational starts and negotiations subject SVCE to additional energy, RPS, and RA volumes at currently high market prices.

While commercial load is yet to fully recover to pre-Covid levels and the Covid related increases in residential load is starting to taper off, load relative to the Mid-year budget forecast, including the growth from new load moving into SVCE portfolio, is higher and contributes to the increase in Power Supply cost.

[2] Using the same methodology resulted in a ~20% reduction in SVCE margins when staff presented the results to the EC. Since the EC presentation, NewGen released a new model (version 3.1 versus 2.5 used for the EC presentation).



<u>Updated Reserves Policy</u>

At the June 8th, 2022 Board of Directors meeting, staff presented the results of the stress test analyses and emphasized the need to hold sufficient reserves to ensure SVCE can withstand risks such as those modeled in the analyses. The most consequential stress test was scenario 2 that modeled a collapse in energy prices that substantially reduce revenues along with a substantial increase in the financial posting requirements to the Provider of Last Resort (PG&E). Staff has since updated the stress test scenario 2 analysis with market and portfolio data consistent with those used to develop the proposed budget and computed the results on a fiscal year basis as opposed to calendar year view presented in the initial analyses.

Staff proposes that the reserves targets in the Reserves Policy, as redlined in the attachment, be updated such that SVCE can maintain at a minimum 120 Days of Cash on Hand (DCOH) for the next two fiscal years under Stress Test Scenario 2 conditions. Staff also proposes to reset the upper reserves target such that if stress test 2 were to occur, reserves over the next remaining 5 fiscal years do not fall below 90 DCOH.

As presented in the June Stress Test report and presentation, the upcoming fiscal year margins are not guaranteed given the true-up in 2024 for PCIA and PG&E generation rates. If the adverse-<u>modeled</u> risk conditions materialize, the updated reserves policy targets to maintain at least 120 DCOH, which will be needed to reshape strategy and secure additional liquidity. Staff's proposal to also increase the upper reserves target is intended to take advantage of good margin years to manage risks over the 5-year period.

The table below summarizes the change in the reserve targets:

Reserve Targets (DCOH)	Current	New Targets
Minimum	120	120
Goal (Target)	230	285
Maximum (Upper Target)	320	490

If stress test 2 were to occur, the draw on reserves in the Fiscal Year 2023-24 would be about $186 million. To end Fiscal Year 2023-24 with 120 DCOH, SVCE needs to end FY 2022-23 with about $288 million in reserves, which is equivalent to holding 285 DCOH based on a daily burn rate slightly higher than a million dollars. Similarly, the new upper reserves target was computed to ensure that each of the latter 3 years of the 5-year forecast stays above 90 DCOH.

Operating Expenses

Operating expenses are expected to grow in the proposed budget, increasing by $6.5 million from the FY2021-22 adjusted midyear budget. The increase in projected operating expenses is largely comprised of costs associated with an increase in staffing and professional services. In addition, the operating budget includes an overall 5% contingency, which amounts to $1.34 million.

Overall personnel expenses are expected to increase by $3.5 million, of which $1.8 million is associated with the request for ten new positions, spread across the organization. These new positions will focus on program deployment, power market data analysis, commercial and industrial services, and risk control. In addition to these new positions, SVCE continues to work with specialized consultants who provide critical skills that are needed to bridge gaps between full-time staff. Of the increase in personnel costs, $370 thousand arise from proposed benefit improvements, intended to bring SVCE up to a competitive position with its peer CCAs and retain staff. Proposed improvements include increases to the monthly medical premium and cash in-lieu amounts, an increase to the monthly technology allowance, the creation of a paid parental leave benefit for new parents, and an amount for staff to participate in programs alongside our customers, but without competing for existing program funds.

The salary portion of the staffing budget includes a 5.3% cost-of-living adjustment to salaries, based on a trailing six-month average for the Bay Area CPI, which adds $350 thousand in additional cost. SVCE is budgeting for a similar 5% in merit increases, to be determined by management during the upcoming annual review process, and which contribute another $330 thousand. SVCE continues to work to fill positions and anticipates fully staffing up by the end of the calendar year but continues to utilize a 5% long-term vacancy rate in the personnel budget.

The ten new positions being requested through this proposed budget reflect the increasing needs of a mature organization. The new positions include three new program staff, to focus on community programs, policy development, and overall program portfolio effectiveness. On the Power Resources team, an additional regulatory analyst is proposed to deal with the growing volume of work generated by the CAISO and CEC, along with two market data analysts to work on PPA data and load forecasting. The Energy Services and Community Relations team is proposing three new positions, including two Energy Services Specialists to support commercial and industrial offerings, along with an outreach specialist to coordinate with member agencies and community groups. Finally, the Finance and Administration team is proposing a Risk Control Analyst to support middle office functions and Business Process Optimization (BPO) technology solutions implementation.

Professional services costs are proposed to increase by $2.25 million, largely accounted for by a $1.5 million request for potential litigation costs, along with a $375 thousand increase in the Phase 1 implementation costs for the BPO project, a $150,000 request for funds to develop and launch a structured financing program, and a $125 thousand increase in recruiting costs to account for the continued potential for a competitive hiring market.

The final notable increase in operating expenses is the $600,000 increase in general and administrative costs, which is largely the result of increased hardware, travel, training, and conference fees anticipated for a larger staff, and a return to pre-COVID levels of outside engagement. SVCE is also budgeting additional funds for insurance costs, as we’ve seen large increases in cybersecurity insurance and directors’ and officers’ coverage over the past year. Administrative staff is planning to conduct a comprehensive insurance review this fiscal year, to determine both the appropriate levels of coverage, and whether any savings can be found through bundling our various coverages. SVCE continues to prioritize cybersecurity efforts and maintains a budget of $250 thousand for system improvements and hardening. Staff intends to work with a virtual Chief Information Security Officer (vCISO) this fall on an updated cybersecurity assessment, which may identify additional funding needed at mid-year.

Programs Budget

SVCE will continue to incorporate projected programs spending over the 5-year forecast period into the reserve balance projections. This includes remaining CRCR funds (expected to be drawn down by the end of FY23-24) and the double down program allocation from FY21-22 (expected to be drawn down by FY24-25). For this coming fiscal year, programs spending is projected to be $15 million, with an additional $3.2 million in CRCR spending. In addition to these previously allocated funds, staff is currently including $1.9 million from the PG&E nuclear allocation, which represents the savings to the portfolio from accepting the allocation. Options for these funds were presented to the Board of Directors in June 2022.

Non-Operating Revenues

Non-operating revenues are projected to increase by about $290,000. This increase reflects the increase in interest earned on the growing reserve balance, although rates remain quite low.

STRATEGIC PLAN

The recommendation supports all goals of the Board adopted Strategic Plan. Specifically, the recommendations strongly support Goal 13 - "Commit to maintaining a strong financial position" and the accompanying Measure "Balanced budget that achieves cash reserve targets and maintains customer value"

ALTERNATIVE

Staff is open to feedback and suggestions from the Committee. At a strategic level, the Board can change the discount to PG&E, reduce the carbon-free percent of power supply, reduce the renewable percent of the power supply, and cut the programs expenditure.

Considering any of the above options requires an extensive policy level discussion, and the Board can consider them while finalizing SVCE's strategic priorities during the coming months as well as revisit the customer discount rate when actual PCIA and PG&E generation rates are known. Given a sufficient projected reserve balance that maintains SVCE's stable financial condition staff does not recommend any specific reductions at this time.

FISCAL IMPACT

The FY 2022-23 Proposed Operating Budget includes total revenues of $483.9 million and total expenses, non-operating revenues, and transfers of $368.4 million, resulting in a surplus / contribution to reserves of $115.5 million.

ATTACHMENTS

1. FY 2022-23 Proposed Operating Budget
2. Updated Financial Reserves Policy

SILICON VALLEY CLEAN ENERGY
FY 2022-23 OPERATING BUDGET
($ in thousands)

DESCRIPTION	FY 2021-22 ADJUSTED BUDGET	FY 2022-23 PROPOSED BUDGET	VARIANCE $	VARIANCE %
ENERGY REVENUES				
Energy Sales	384,498	482,930	98,432	25.6%
Green Prime	1,005	931	(74)	-7.4%
TOTAL ENERGY REVENUES	**385,502**	**483,860**	**98,358**	**25.5%**
ENERGY EXPENSES				
Power Supply	274,979	325,296	50,317	18.3%
OPERATING MARGIN	**110,523**	**158,564**	**48,041**	**43.5%**
OPERATING EXPENSES				
Data Management	3,249	3,413	163	5.0%
PG&E Fees	1,450	1,470	20	1.4%
Salaries and Retirement	8,535	12,024	3,490	40.9%
Professional Services	5,669	7,922	2,252	39.7%
Marketing & Promotions	908	862	(46)	-5.1%
Notifications	131	131	0	0.0%
Lease	525	525	0	0.0%
General & Administrative	1,225	1,857	633	51.7%
TOTAL OPERATING EXPENSES	**21,693**	**28,204**	**6,512**	**30.0%**
OPERATING INCOME (LOSS)	**88,831**	**130,360**	**41,529**	**46.8%**
NON-OPERATING REVENUES				
Other Income	50	50	0	0.0%
Interest Income	300	592	292	97.3%
Grant Income	0	0	0	-
TOTAL NON-OPERATING REVENUES	**350**	**642**	**292**	**83.4%**
NON-OPERATING EXPENSES				
Financing	40	3	(37)	-92.5%
Interest	0	0	0	-
TOTAL NON-OPERATING EXPENSES	**40**	**3**	**(37)**	**-92.5%**
TOTAL NON-OPERATING INCOME (EXPENSES)	**310**	**639**	**329**	**106.1%**
CHANGE IN NET POSITION	**89,141**	**130,999**	**41,858**	**47.0%**
CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER				
Capital Outlay	150	200	50	33.3%
Transfer to CRCR Fund	0	0	0	-
Transfer to Program Fund	6,781	9,765	2,984	44.0%
Nuclear Allocation	600	1,900	1,300	216.7%
Add'l Programs Allocation	17,000	0	(17,000)	-100.0%
Add'l Customer Bill Relief	3,000	3,600	600	20.0%
Other	0	0	0	-
TOTAL CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER	**$27,531**	**$15,465**	**($12,066)**	**-43.8%**
BALANCE AVAILABLE FOR RESERVES	**$61,609**	**$115,534**	**$53,924**	**87.5%**

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FP9

Category: FINANCE

FINANCIAL RESERVES POLICY

I. PURPOSE

This Reserve Policy outlines the appropriate types and levels (minimum, goal, and maximum) of financial reserves as prescribed in the following policy. The primary reason for a reserve policy is to be prepared for contingencies, but other reasons also exist. Seven important purposes of a reserve policy are as follow:

1. **Plan for contingencies.** To maintain sufficient reserves to minimize rate increase due to market volatility(power supply shocks or maintain rate competitiveness), weather impacts on demands, economic downturns, emergencies (such as natural disasters), and regulatory changes.
2. **Maintain good standing with rating agencies.** By maintaining sufficient reserves, SVCE can preserve good credit ratings, allowing it to secure power at lower costs, that is, without posting credit enhancements, in the energy markets.
3. **Avoid interest expense.** To avoid interest expense to cover short-term cash shortfalls by having sufficient reserves to use for this purpose, rather than debt.
4. **Ensure cash availability when revenue is unavailable.** To bridge times of the year that normally see temporary low levels of cash.
5. **Plan for anticipated future rate increases by gradually raising those rates, using reserves to cushion the full impact on customers over an extended time period.** For example, if it is expected that rates are highly likely to increase in 3 to 5 years, higher reserves on hand can cushion those rate increases over a more gradual timeframe by drawing down on the accumulated funds that may be in excess of the reserves' goal.
6. **Manage the risks identified in the Energy Risk Management Policy, which are:**

Adopted: 3/08/2017
Proposed Amendment: ~~9~~8/~~8~~1/~~2021~~2022

- Market price risk,
- Net revenue risk,
- Counterparty credit and performance risk,
- Load and generation volumetric risk,
- Operational risk,
- Liquidity risk, and
- Regulatory/legislative risk.

7. **Establish clear expectations between the Board of Directors and staff.** A formal reserve policy creates a shared understanding of the proper level and use of reserves.

II. POLICY

Reserve Levels Established

Financial reserves shall be set aside as follows:

The **Reserve targets** cover the operations of SVCE over a number of days in the event of emergencies or other significant unforeseen events. Three levels are defined, with the first being baseline. Given the purposes stated above, the Reserve shall be maintained at no less than the minimum described in (a) below. The reserve level described in (b) is recommended as the goal. The Maximum reserve level described in (c) would provide solid reserves for significant fluctuations in revenue or unforeseen circumstances. The Board shall review its reserve levels annually in context of SVCE's overall financial condition of the agency, as well as due to changes to the industry and/or risk factors as described in periodic review of targets below.

(a) ***Minimum Operating Reserve (baseline)*** shall be the minimum maintained to cover 120 days of operations of the annual operating budget;

(b) ***An Operating Reserve* goal** of covering ~~230~~285 days of operations of the annual operating budget;

(c) ***Maximum Operating Reserve*** to cover ~~320~~490 days of operations of the annual operating budget.

Adopted: 3/08/2017
Proposed Amendment: ~~9~~8/~~8~~1/~~2021~~2022

SILICON VALLEY CLEAN ENERGY

FP9

Category: FINANCE

Conditions for Use of Reserves

For purposes of this policy, use of reserves is defined as a projected or estimated[1] reduction in reserves by fiscal year-end. A temporary reduction in cash consistent with the expected peaks or dips in revenues and expenditures are normal cyclical occurrences to be expected during the fiscal year, and do not constitute a use of reserves.

The reserves may be drawn down upon by the CEO during the year, up to the lesser of 10% of the year's budgeted cost of power supply, or $30 million, to:

1. Cover increases in power supply expenses due to spikes in costs and/or due to higher customer demand;
2. Provide necessary funds to make up for unanticipated revenue shortfalls;
3. Meet any margin or collateral posting requirements under energy supply contracts; and,
4. Provide resources to meet emergency expenditures.

If further use of reserves are needed to manage the operations of the organization, or if the use of reserves would bring the balance below the Minimum Operating Reserve baseline, the CEO must present recommendations to the Board and the Board must authorize any such use.

Replenishment of Reserves

Should SVCE drawdown reserves below the Minimum Operating Reserve level, SVCE will implement plans to return reserves to their minimum targets within two (2) fiscal years. Such plans will be provided in subsequent budget and rate discussions with the Board.

[1] It is not practical to wait the formal fiscal year end closing of the accounting records to determine if the reserves have been "used". Therefore, it is appropriate for staff to estimate reserve levels, with the important amount being what is estimated for fiscal year end.

Excess Reserves

If reserve funds are projected to exceed the maximum level, the CEO shall present options for consideration by the Board of Directors for proper disposition of those reserves during the next budget cycle.

Reserves between Minimum and Maximum

To the extent that reserves are above target and below the maximum, no other action by SVCE would be required.

Periodic Review of Reserve Goals

Reserve goals shall be periodically reviewed for consistency with industry standards. If significant risk factors are eliminated or significant new risks emerge as a result of changes in the industry, legislation, or economic conditions, the basis of the reserve policy shall be reviewed, and the funding level shall be adjusted accordingly. Unless the Reserves are approaching minimum levels, formal Reserve funding discussions with the Board may await the next budget process.

Reporting

Reserve levels will be monitored during the fiscal year and reported in the quarterly financial reports. Reserve target levels (minimum and maximum) will be analyzed annually, and over/under reserve determination shall be made in conjunction with year-end financial results. These results will be reported to the Board of Directors as part of the year-end financial report presentation.

Staff Report – Item 3

Item 3:	**SVCE Investment Policy Update**
From:	Girish Balachandran, CEO
Prepared by:	Amrit Singh, CFO and Director of Administrative Services
Date:	8/1/2022

RECOMMENDATION
Staff is requesting the Committee receive a presentation from PFM Asset Management on updating SVCE's investment policy and investment strategy.

BACKGROUND
At the December 2021 meeting, the Committee received a presentation from consultant Jim Steele of Management Partners with recommended next steps to engage in contract negotiations with a vendor to assist in the development of an amended investment policy. At the May 26, 2022, meeting, PFM Asset Management presented information on SVCE's engagement with PFM Asset Management and an overview of illustrative investment strategies, demonstrating return and risk considerations, and discussed next steps for recommendations and potentially revising SVCE's investment strategy.

ANALYSIS & DISCUSSION
Since then, Staff and Management Partners have been working with PFM Asset Management to review potential investment strategies and revisions to SVCE's investment policy. PFM will further expand on previous discussions on developing SVCE's investment strategy including risk and return tradeoffs.

STRATEGIC PLAN
The recommendations support SVCE Strategic Plan Goal 13 – "Commit to maintaining a strong financial position".

ALTERNATIVE
N/A

FISCAL IMPACT
When the new investment policy and strategy is adopted, SVCE's investment portfolio will be further diversified with more favorable returns with an acceptable risk tolerance level.

ATTACHMENT
1. PFM Asset Management Glossary

The presentation for this item is posted to SVCE's website.

GLOSSARY

ACCRUED INTEREST: Coupon interest accumulated on a bond or note since the last interest payment or, for a new issue, from the dated date to the date of delivery.

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The official annual report of the *(entity).* It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

ASSET-BACKED SECURITIES: Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BASIS POINTS: Refers to the yield on bonds. Each percentage point of yield in bonds equals 100 basis points (1/100% or 0.01%). If a bond yield changes from 2.25% to 2.39%, that is a rate of 14 basis points.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BOOK RETURN: Book return includes interest, amortization/accretion of premiums/discounts, realized gains and losses, over a given period of time.

BOOK VALUE: The value at which an asset is carried on a balance sheet.

BROKER: A broker brings buyers and sellers together for a commission.

CALLABLE SECURITIES: An investment security that contains an option allowing the issuer to retire the security prior to its final maturity date.

CERTIFICATE OF DEPOSIT: A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender at the end of the loan period. Certificates of Deposit (CDs) differ in terms of collateralization and marketability. Those appropriate to public agency investing include:

Negotiable Certificates of Deposit

Generally, short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor). Negotiable CDs are insured by FDIC up to $250,000, but they are not collateralized beyond that amount.

Non-Negotiable Certificates of Deposit

CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for non-negotiable CDs, but redemption includes a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the Federal Deposit Insurance Corporation up to the amount of

$250,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or agency securities such as those issued by the Federal National Mortgage Association**.**

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

CREDIT RISK: The chance that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of an issuer/borrower's credit will cause the market value of a security to fall, even if default is not expected.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Noninterest-bearing money market instruments that are issued a discount and redeemed at maturity for full face value *(e.g., U.S. Treasury Bills.)*

DIVERSIFICATION: The allocation of different types of assets in a portfolio to mitigate risks and improve overall portfolio performance.

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

EFFECTIVE DURATION: Duration measures the weighted average of the present value of the cash flows of a fixed-income investment. Effective duration measures the price sensitivity of fixed-income investments, especially for those with embedded option features such as call options. As yields rise, the effective duration of a callable investment rises to reflect the fact that it has become less likely to be called. The more rates rise, the longer the effective duration will become, approaching the duration to maturity. The converse is true in a declining interest rate environment (that is, the more rates fall, the shorter the effective duration will become, approaching the duration to call). For securities without an embedded option, the duration to call, maturity, and effective duration are all the same. The calculation for effective duration is complicated and involves averaging the duration under a simulation of many possible interest rate scenarios in the future.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per entity.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB): A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

GOVERNMENT SPONSORED ENTERPRISES (GSE): Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Securities issued by GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries.

INTEREST: The amount a borrower pays to a lender for the use of his or her money.

INTEREST RATE RISK: Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, spread between two rates, shape of the yield curve, or any other interest rate relationship.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL AGENCY INVESTMENT FUND: A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer’s Office.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET RISK: The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES: Corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers’ acceptances, etc.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: MMF’s are mutual funds that invest exclusively in short-term money market instruments. MMF’s seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing income representative of the market for short-term investments.

MORTGAGE BACKED SECURITIES: Mortgage-backed securities (MBS) are created when a mortgagee or a purchaser of residential real estate mortgages creates a pool of mortgages and markets undivided interests or participations in the pool. MBS owners receive a prorata share of the interest and principal cash flows (net of fees) that are “passed through” from the pool of mortgages. MBS are complex securities whose cash flow is determined by the characteristics of the mortgages that are pooled together. Investors in MBS face prepayment risk associated with the option of the underlying mortgagors to pre-pay or payoff their mortgage. Most MBS are issued and/or guaranteed by federal agencies and instrumentalities (e.g., Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC)).

MORTGAGE PASS-THROUGH OBLIGATIONS: Securities that are created when residential mortgages (or other mortgages) are pooled together and undivided interests or participations in the stream of revenues associated with the mortgages are sold.

MUNICIPAL NOTES, BONDS, AND OTHER OBLIGATIONS: Obligations issued by state and local governments to finance capital and operating expenses.

NET ASSET VALUE: Net asset value (NAV) is a term used in the mutual fund industry to determine the average price per share of a pool or mutual fund. How this measure varies over time provides information on whether the pool is stable or variable. NAV is the market value of all securities in a mutual fund, less the value of the fund's liabilities, divided by the number of shares in the fund outstanding. Shares of mutual funds are purchased at the fund's offered NAV.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

PAR AMOUNT OR PAR VALUE: The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the "face amount" of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

PORTFOLIO: Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT INVESTOR STANDARD: A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, re-investing, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

PUBLIC BANK: A corporation, organized as either a nonprofit mutual benefit corporation or a nonprofit public benefit corporation for the purpose of engaging in the commercial banking business or industrial banking business, that is wholly owned by a local agency, as specified, local agencies, or a joint powers authority.

QUALIFIED INSTITUTIONAL BUYER: Federal regulations define qualified institutional buyer (QIB) as any of the following entities, acting for its own account or the accounts of other QIBs, that in the aggregate owns and invests on a discretionary basis at least $100 million in securities of issuers that are not affiliated with the entity: insurance company, investment company, small business investment company, a Rural Business Investment Company, a plan (established and maintained by a public agency) for the benefit of its employees, employee benefit plan, trust fund (bank or trust company), business development company, 501(c)(3), investment adviser, and dealer, an institution that qualifies as an accredited investor. 17 CFR § 230.144A and 230.145

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REINVESTMENT RISK: The risk that interest rates may be lower than the yield on a fixed income security when the investor seeks to reinvest interest income or repaid principal from the security.

REPURCHASE AGREEMENT (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate them for this.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, FHLMC, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

SUPRANATIONAL INSTITUTIONS: International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals. There are three supranational institutions that issue obligations that are eligible investments for California local agencies: the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

TOTAL RETURN: Total return includes interest, realized gains and losses, and unrealized gains and losses over a given period of time.

U.S. TREASURY OBLIGATIONS: Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

WEIGHTED AVERAGE MATURITY (WAM): The average maturity of all the securities that comprise a portfolio, typically expressed in days or years.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

ZERO-COUPON BOND: A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. Zero-interest bonds are typically issued at a discount and repaid at par upon maturity.