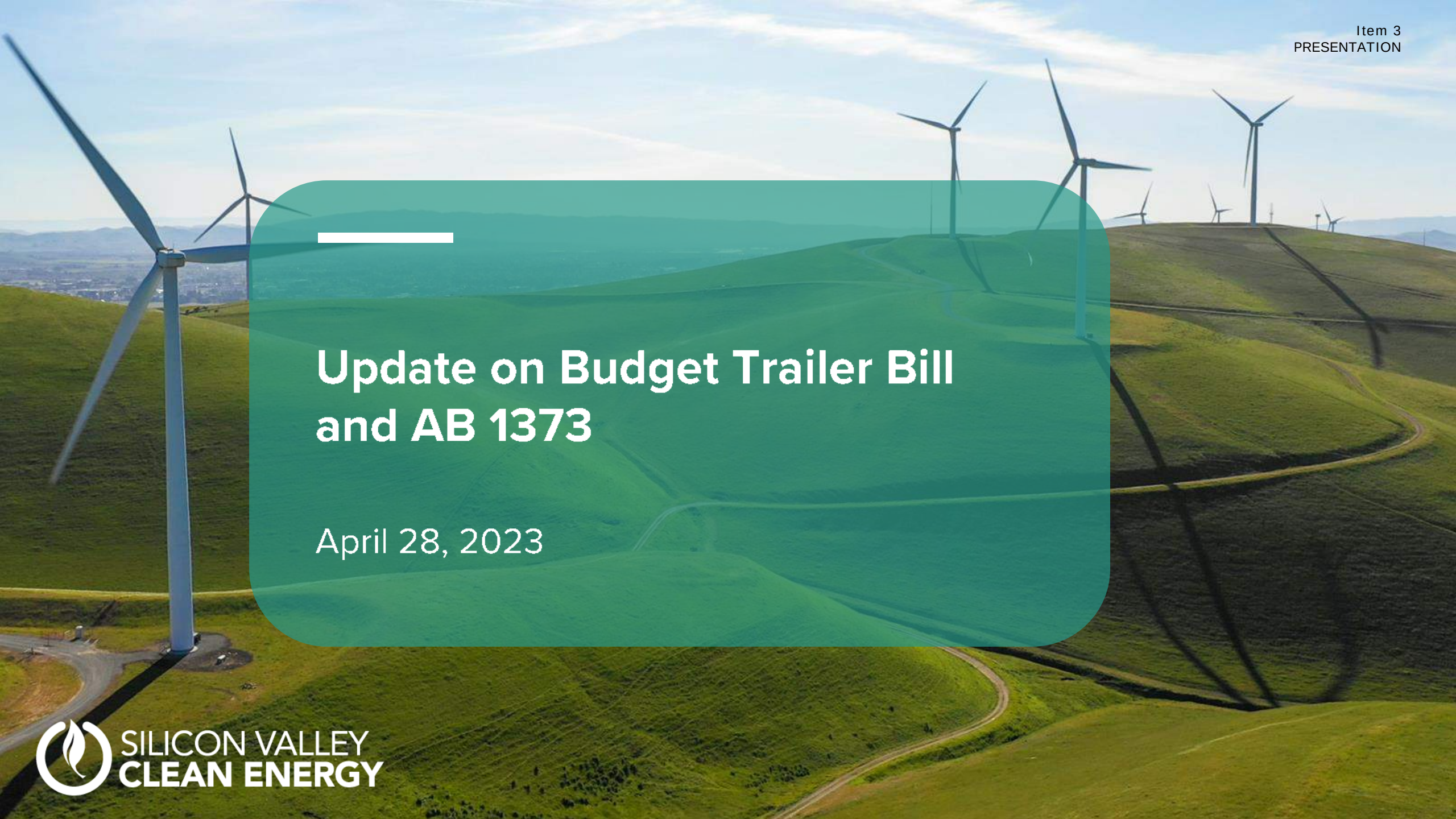


Update on Budget Trailer Bill and AB 1373

April 28, 2023

SILICON VALLEY CLEAN ENERGY

Governor's Budget Trailer Bill/AB 1373

Two vehicles for energy policy discussion. Both proposals share major provisions:

Key Provisions

1) **Central Procurement**: Would allow the CPUC to direct the IOUs or Dept. of Water Resources to centrally procure resources.

   Challenge: Very broad CPUC authority to order central procurement of any resources.

2) **Expanded CPUC Authority**: Broad expansion of CPUC's authority over CCAs.

   Challenge: Infringes on CCA Board governance.

3) **Capacity Payments**: Additional payment on top of CPUC's RA penalties and CAISO backstop payments for when state back-up resources are used for reliability.

   Challenge: Additional penalty doesn't change behavior - impacts affordability.

SVCE Actions & Next Steps

Conversations on-going

- Working closely with CalCCA on developing both strategy and policy in response to the Budget Trailer Bill and AB 1373.
- Conversations about both the Budget Trailer Bill and AB 1373 continue with policymakers.
- Will keep Board informed.

Load Management Standards Extension Discussion

April 28, 2023

SILICON VALLEY CLEAN ENERGY

Load Management Standards (LMS): subsection of Title 20

- Revisions to LMS were driven by CEC's conclusion that demand programs, while effective at reducing power use, do not encourage use to shift to nonpeak hours.
- LMS revisions effective 4/1/23. Large CCAs (includes SVCE), POUs and IOUs must comply.
- **Revisions require all large IOUs, CCAs and POUs to populate a newly created California-wide online database, MIDAS (Market Informed Demand Automation Server), with time-dependent rates.[1]**
- This is an administrative discussion and typically would not be brought to the Board. However, CalCCA recommends requesting Board approval to seek an extension for LMS deliverables.

[1] Time-dependent rates are rates that can vary depending on the time of day to encourage off-peak electricity use and reductions in peak electricity use (e.g., time-of-use rates).

LMS Objectives

Encourage the use of electrical energy during off-peak hours

Control daily and seasonal peak loads

Improve equity, efficiency and reliability

Lessen/delay need for new electrical capacity

Reduce fossil fuel consumption

Reduce GHG emissions

LMS Timeline

Today's Focus on 7/1/23 Deliverable

7/1/2023

Upload Time-Dependent Rates Into MIDAS

4/1/2024

- Rate Identification Number (RIN) on Billing Statements
- Compliance Plan Adopted

10/1/2024

- Load Flexibility Programs Defined
- RIN Tool Approved, Implemented

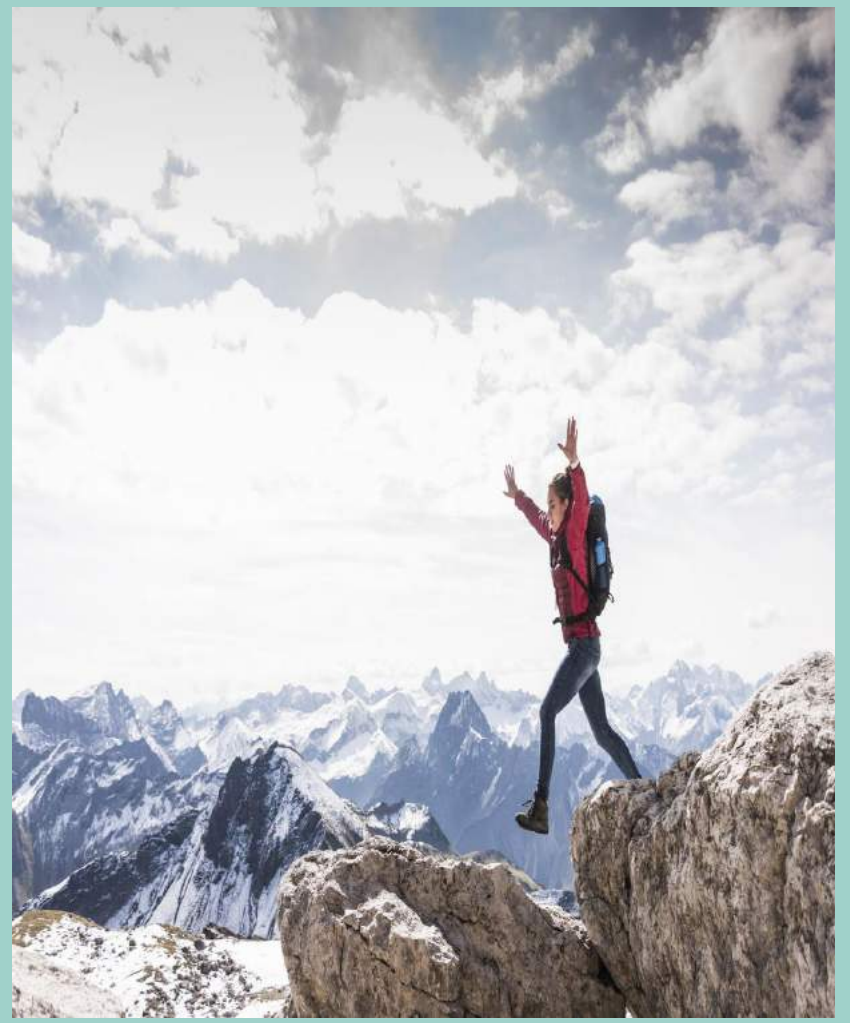
7/1/2025

BOD approved Marginal Cost-Based Rate

7/1/2027

Customers offered voluntary participation in either marginal cost-based rate(s) or Load Flexibility Programs

LMS 7/1/23 Deliverable Cannot be Met



The 7/1/23 requirements cannot be met.

- Protocols required to meet existing 7/1/23 upload to MIDAS are not final.
- Disagreement over how to compile rates – CCAs are responsible for generation rate component for unbundled customers; IOUs are responsible for transmission & distribution rate components

Noncompliance may result in either a filed complaint with the CEC or injunctive relief (enforcement of the 7/1/23 deliverable).

Proposal

<u>Recommendation:</u> AUTHORIZE REQUEST FOR EXTENSION TO COMPLY WITH LOAD MANAGEMENT STANDARDS

All large IOUs and CCAs agree – 7/1/23 requirements and deadline must be amended and/or extended.

- Joint letter signed by all large CCAs and IOUs expected to be issued to CEC this week.
- If the CEC enforces 7/1/23 deliverable deadline, then SVCE must request extension or risk being noncompliant.
- Board approval may not be necessary if CEC extends or augments 7/1/23 deadline.

Discussion

Enterprise Risk Management (ERM) Framework and Stress Testing

Amrit Singh
Executive Committee
April 28, 2023

SILICON VALLEY CLEAN ENERGY

Purpose

Information Item:

Present Enterprise Risk Management (ERM) Framework

Main Areas of Discussion

- Timeline
- Quick Review of Last Year's Stress Tests
- ERM and Stress Test Distinction
- Components of ERM Framework
  - Risk Matrix
  - Risk Register
  - Stress Tests

FY23-24 Risk Assessment Timeline

Background – Last Year's Stress Tests

- Conducted 5 Stress Test Scenarios
- Expanded Towards ERM
- Enhancing Towards a Comprehensive ERM Program

Stress Test Scenarios

Extreme but plausible scenarios that can deplete reserves and make SVCE uncompetitive.

- Ensure adequacy of reserves and organizational resiliency
- Guide development of strategic plan
- Shape FY 22-23 budget and reserve targets
- Price uncertainty Drives the first 4 scenarios

Stress Scenarios for CY 2023 to CY2027 (five-year horizon):

1. Significant drop in energy prices including REC
   - Higher PCIA and lower PG&E Gen Rate
2. Insufficient financial liquidity
   - Price collapse triggers credit downgrade
   - Collateral calls from counterparties and CAISO
   - Increase in POLR (Provider of Last Resort) funding (called FSR – Financial Security Requirement)
3. PPAs default, renegotiate for higher prices, and/or delay start
   - RPS non-compliance penalty
   - Replacement at higher prices
4. Load loss due to direct access and distributed load
5. Threat to Public Services or Facilities

Stress Tests and ERM

Stress Test

An essential component of ERM

- Assess the interrelatedness of risks in the ERM framework and model extreme but plausible scenarios resulting from one or more risks that can have major adverse consequences for SVCE
- Important for commodity trading portfolios because of the inherent weakness of market risk measures in assessing black swans, such as disruptions in markets

ERM

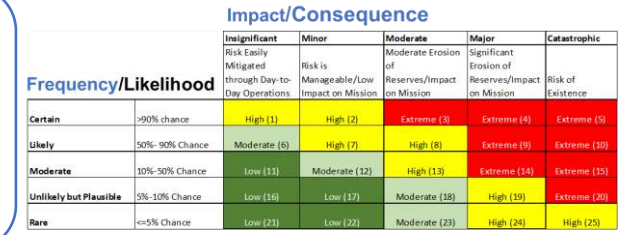
A more comprehensive organization-wide assessment of risks that leads to a more disciplined approach to achieving the organization's mission and objectives

- Ensure risks that can be optimally managed do not derail us from achieving the organization's objectives efficiently and effectively
- Can also aid in identifying opportunities that affect the organization's strategic priorities

Key Components of our ERM Framework

Risk Matrix

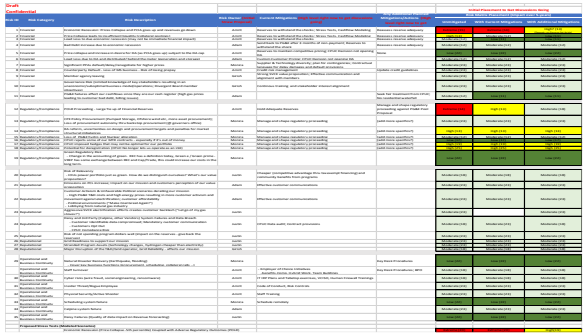
- Risk Rubric. Assess the likelihood and consequence of risk events
- Calibrate risks
- Identify risk tolerance – level of acceptance



Frequency/Likelihood		Impact/Consequence: Insignificant — Risk Easily Mitigated through Day-to-Day Operations	Minor — Risk is Manageable/Low Impact on Mission	Moderate — Moderate Erosion of Reserves/Impact on Mission	Major — Significant Erosion of Reserves/Impact on Mission	Catastrophic — Risk of Existence
Certain	>90% chance	High (1)	High (2)	Extreme (3)	Extreme (4)	Extreme (5)
Likely	50%- 90% Chance	Moderate (6)	High (7)	High (8)	Extreme (9)	Extreme (10)
Moderate	10%-50% Chance	Low (11)	Moderate (12)	High (13)	Extreme (14)	Extreme (15)
Unlikely but Plausible	5%-10% Chance	Low (16)	Low (17)	Moderate (18)	High (19)	Extreme (20)
Rare	<=5% Chance	Low (23)	Low (22)	Moderate (23)	High (24)	High (25)

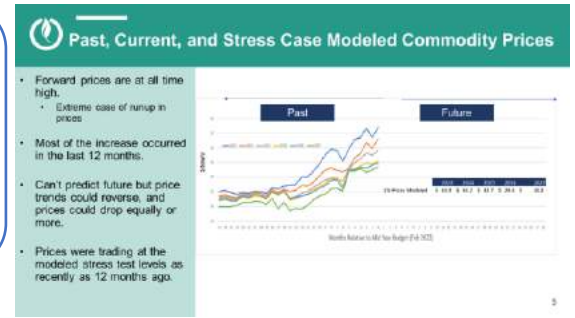
Risk Register

- Record of organization's risks
- Identify current and additional planned mitigations
- Identify risk owner



Stress Tests

- Model scenarios (financial position, systems, and processes) of interrelated risks that are extreme but plausible
- Develop appropriate risk management strategies, including the adequacy of reserves



Risk Matrix

- Assess the likelihood (frequency of occurrence) and consequence (impact)
- Calibrate risks and optimally direct resources
- Identify risk tolerance or acceptable level of risk
- Most risks assessed based on the subject matter expert's (SME) judgment
- Will continue to refine further and attempt to quantify risks
- Significant financial risks will be explicitly quantified and used for reserve planning, like last year's stress test analyses

Impact/Consequence

Frequency/Likelihood

		Insignificant Risk Easily Mitigated through Day-to-Day Operations	Minor Risk is Manageable/Low Impact on Mission	Moderate Moderate Erosion of Reserves/Impact on Mission	Major Significant Erosion of Reserves/Impact on Mission	Catastrophic Risk of Existence
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Rare	<=5% Chance	Low (21)	Low (22)	Moderate (23)	High (24)	High (25)

Risk Register

- Risk Register:
  - Record of risks
  - Briefly describes each risk
  - Lists existing and planned mitigations
  - Ranks risks
  - Identifies risk owner
- Cross-functional teams brainstormed and identified an initial set of critical risks
- Bucketed the risks into the following initial categories:
  - Financial
  - Regulatory and Compliance
  - Reputational
  - Operational and Business Continuity

Draft and illustrative

Risk ID	Risk Category	Risk Description	Risk Owner	Current Mitigations	Additional Planned Mitigations	Risk Matrix Placement (Impact over 5-years)		
						Unmitigated	With Current Mitigations	With Additional Mitigations
1	Financial	Prices Collapse; PCIA Increases; Revenues Decrease	Amrit	Reserves to withstand the shocks; Stress Tests, Cashflow modeling	Reassess reserve adequacy	Extreme (15)	Extreme (14)	High (13)
.								
7	Financial	Significant Number of PPAs Default/Delay/Renegotiate for higher prices	Monica	Supplier & Technology Diversity; Plan for Contingencies; Contractual language for delay damages and default provisions		Moderate (14)	Moderate (12)	Moderate (12)
13	Regulatory/Compliance	POLR Proceeding - Large Tie Up of Financial Reserves	Amrit	Hold Adequate Reserves	Manage and shape regulatory proceeding	Extreme (14)	High (13)	Moderate (18)
26	Reputational	Ineffective or sluggish spending of approved program dollars	Justin	Program plans developed with stakeholders, ongoing feedback during design/management, increased staff/resources, and emphasizing larger-scale programs.	Additional staffing, new supporting systems, and public reporting on impacts.	Moderate (23)	Moderate (23)	Moderate (23)
.								
29	Reputational	Major disruption of the T&D/Grid operator, Grid Reliability - affects our mission	Girish	Shape Regulatory and Legislative Initiatives		Moderate (18)	Moderate (18)	Moderate (18)
30	Operational and Business Continuity	Natural Disaster Recovery (Earthquake, flooding) - Cover key business functions (procurement, scheduling, collateral calls …)	Monica	System backups and desk procedures	Add'l Desk Procedures and Continuity Plans	Low (22)	Low (22)	Low (22)
.								
35	Operational and Business Continuity	Calpine system failure	Adam			Moderate (23)	Moderate (23)	Moderate (23)
Proposed Stress Tests (Modeled Scenarios)								
	Economic Recession (Price Collapse -1 percentile) Coupled with Adverse Regulatory Outcomes (POLR); Increase RA/procurement costs; MTM Losses on Investments			Reserves; Strong Advocacy	Additional Reserves; Revist Hedging Strategy	Extreme (20)	High(19)	Moderate (18)

An expanded view is also shown in the appendix.

Thank you! / Questions?

Draft and illustrative

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Stress Test Analyses

Amrit Singh

Executive Committee

April 28, 2023

SILICON VALLEY CLEAN ENERGY

Purpose

Present findings of the stress test analyses

Presentation Highlights

- Construction of Stress Test Scenario
- Overview of Modeled Price Collapse
- Results and Implied Reserve Targets
- Discussion – Only Have Min and Max Reserve Thresholds

Stress Test

Extreme but plausible scenarios that can deplete reserves and make SVCE uncompetitive.

Insight from 2022 analyses

- Last year, SVCE conducted five stress test scenarios – four of them were impacted by market price uncertainties
- Among them, the price collapse scenario was the most consequential
- Price collapse scenario under an economic recession remains as one of the most significant risks

Stress Test Scenarios

Extreme but plausible scenarios that can deplete reserves and make SVCE uncompetitive.

- Ensure adequacy of reserves and organizational resiliency
- Guide development of strategic plan
- Shape FY 22-23 budget and reserve targets
- Price uncertainty Drives the first 4 scenarios

Stress Scenarios for CY 2023 to CY2027 (five-year horizon):

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3. PPAs default, renegotiate for higher prices, and/or delay start
   - RPS non-compliance penalty
   - Replacement at higher prices
4. Load loss due to direct access and distributed load
5. Threat to Public Services or Facilities

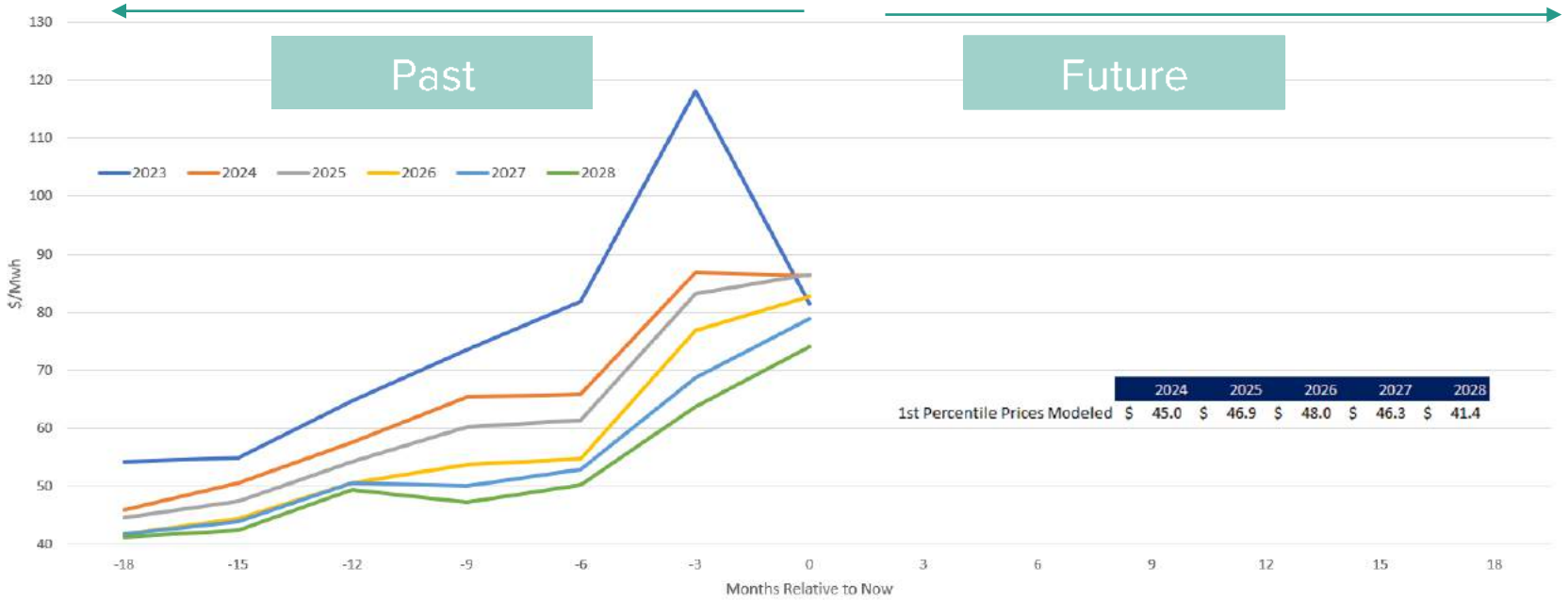
2023 Stress Test Scenario Description

Economic Recession

- Forward Energy Prices Collapse to the one percentile level
- Economic Recession Creates Load Loss
- Customer Uncollectables Increase
- Additional Financial Liquidity Stress
  - Increase in POLR (Provider of Last Resort) funding (called FSR – Financial Security Requirement)
  - Large Counterparty Collateral Postings
  - MTM Losses on Investments

Past, Current, and Stress Case Modeled Commodity Prices

- Forward prices are at all time high.
  - Extreme case of runup in prices
- Can't predict future but price trends could reverse, and prices could drop equally or more.
- Prices were trading closer to the modeled stress test levels as recently as 15 to 18 months ago.

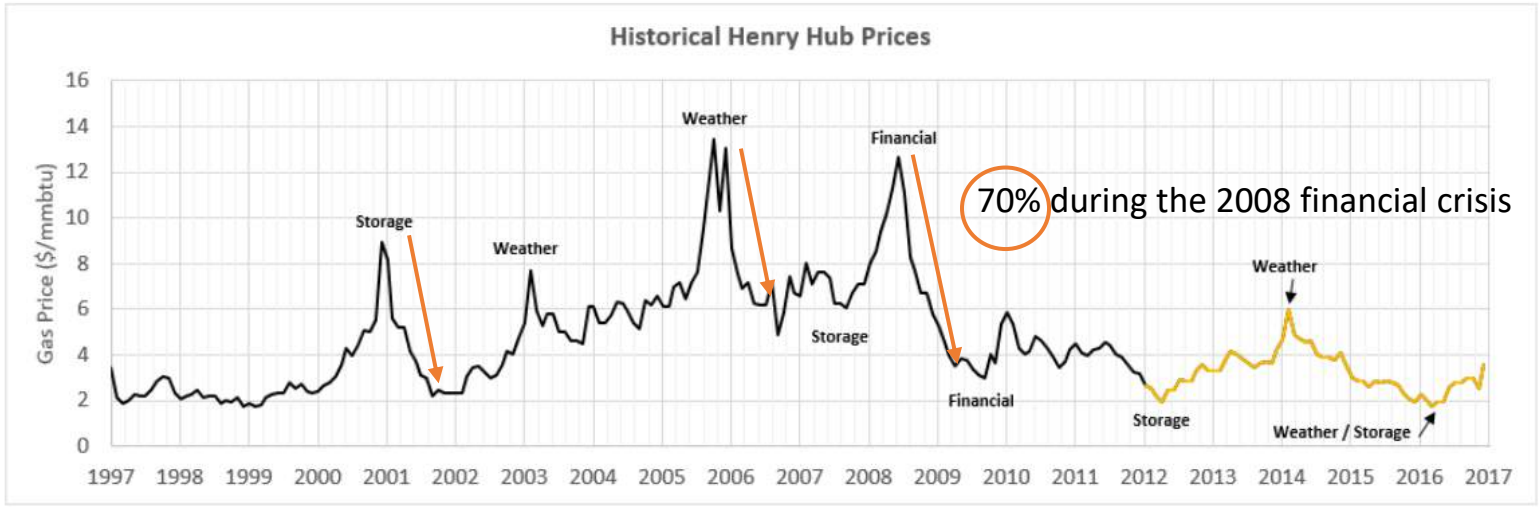


	2024	2025	2026	2027	2028
1st Percentile Prices Modeled	$ 45.0	$ 46.9	$ 48.0	$ 46.3	$ 41.4

Modeled Price Collapse Comparison to Past Prices

- 2008 financial crisis natural gas prices dropped ~70% with a corresponding drop in power prices
- Stress test modeled price drop from base case to the one percentile level is about a 44%
  - Depended on assessment of current market volatility

Volatility in Natural Gas Markets Translates to Volatility in Electricity Markets



Source: http://epis.com/powermarketinsights/index.php/2017/05/18/how-good-is-the-eia-at-predicting-henry-hub/

Base Case versus Stress Scenario

Base Case

- High forward prices result in low PCIA and high PG&E Gen rates resulting in healthy SVCE Margins
- If current forward prices are realized and other model assumptions prevail:
  - Significant growth in reserves from FY2023 level of $219 million to $390 million at the end of FY2024
  - Continued strong growth in margins over the next 5 years
- Caveats:
  - PCIA and PG&E Gen Rate portfolio assumptions based on public data as best modeled by NewGen Consultants
  - PG&E's portfolio management strategy and portfolio contents may change from those modeled
  - CPUC may moderate rate impacts
  - Uncertainty increases further out in time
- Focus on delta of base case to stress test results

Stress Case

- If the modeled stress scenario were to occur, reserves would drop from $224 million at the end of FY2023 to only $39 million at the end of FY2025 (A drawdown of $185 Million from our reserves)
- Projected Days Cash on hand will also be below the minimum target of 120 DCH

	2024	2025	2026	2027	2028
Days Cash on Hand	157	41	(14)	(62)	(123)

Below minimum target of 120 DCOH.

Risk Mitigations

- Best Mitigation
  - Hold Sufficient Reserves
- Other Mitigations
  - Revisit the current energy hedging strategy
    - Allow for loss in revenues from price collapse to be mitigated by a reduction in power supply costs
    - Challenge: Determining the level of hedging given the uncertainty in modeling PCIA and PG&E Generation Rates
    - SVCE is spearheading analysis jointly with CalCCA consultant, NewGen Strategies

- Use the results of these analyses to propose a reserve target for the next fiscal year's budget
- Build reserves such that if the stress scenario were to occur, reserves do not fall below the minimum reserve threshold of holding 120 DCOH over the next 2 years and 90 DCOH over the years 3 to 5

	Current	New Targets
Minimum	120	120
Goal (Target)	285	270
Maximum (Upper Target)	490	390

- The stress test analysis will be updated using prices consistent with those used to construct next year's fiscal budget. The above table will then be revised and will be used to update the targets in the reserves policy.

Discussion – Only Min and Max Reserve Thresholds?

- Current Policy:
  - Replenishment of Reserves: Should SVCE draw down reserves below the Minimum Operating Reserve level, SVCE will implement plans to return reserves to their minimum targets within two (2) fiscal years.
  - 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.
  - 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.

Proposal for Consideration:

- Remove the reserve target threshold
- No action is required once the target is reached

Next Steps


May 12, 2023
Staff presents stress analysis to the Finance Committee
June 14, 2023
Staff presents stress analysis to the Board
August
Finance Committee and Board reviews and provides staff feedback on the proposed budget
September 13, 2023
Board approves FY 2023 – 2024 budget with updated reserves targets

Appendix

SILICON VALLEY CLEAN ENERGY

Stress Test Scenario Construction -2023

Economic Recession

- Price Drop
- Increase in POLR
- Resource Adequacy (RA) reform and market uncertainties, along with increased procurement targets and potential penalties, increase procurement costs
- Bad Debt @ 1%
- Potential Load Loss
- Large Counterparty Collateral Postings
- MTM Losses on Investments

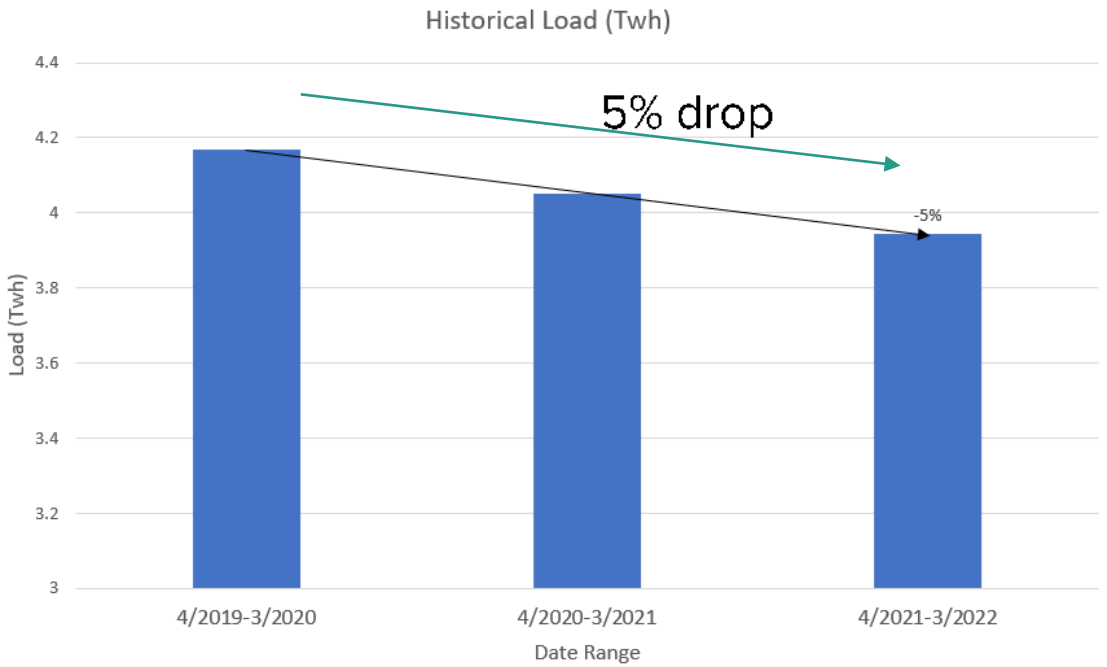
Scenario Construction (revenue side)

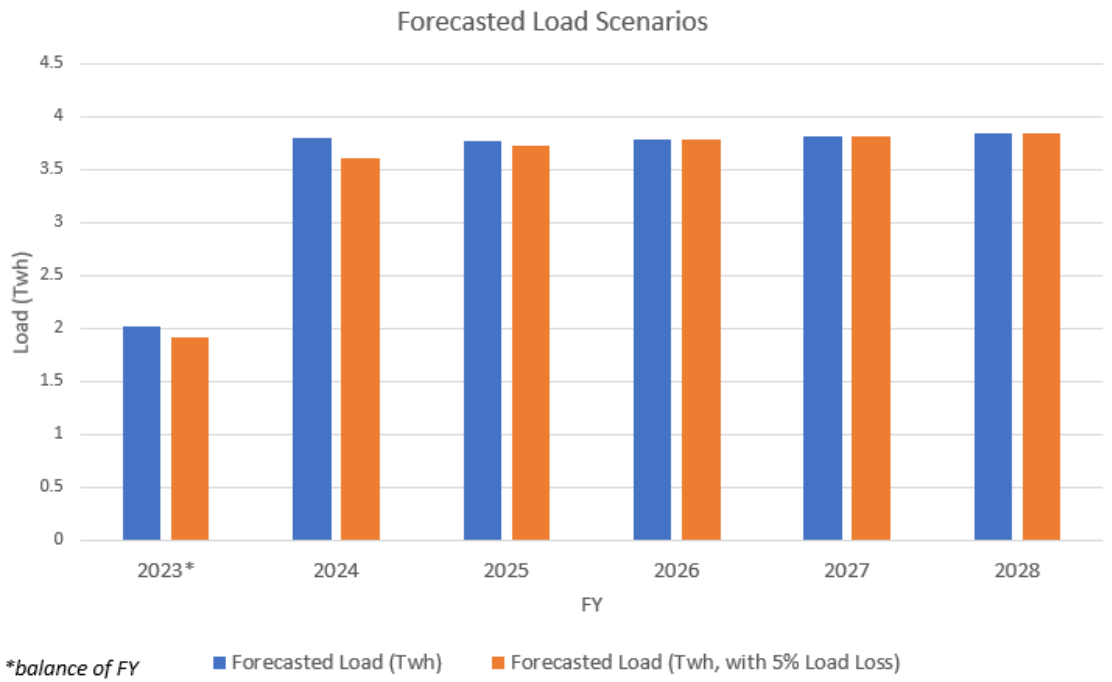
- Bad Debt @ 1%
- 4% Discount until Dec 2023 and 1% thereafter
- 5% Load Loss
- 10% modeling error adjustment to NewGen model forecast based on past trends

Scenario Construction (cost side)

- Energy: Statistical 1 percentile low case prices (extreme but plausible scenario)
- RA : Fundamental Forecast based
- Term : Balance of fiscal year 2023 to FY2028 (5+years)
- Price drops for all forward months to the 1 percentile level taking into account current forward prices
- Hedges and MTR executed per ERM thresholds (hedge to max targets)
- Evaluation of Collateral postings at stress price levels

Load Assumptions and Forecast





Days Cash on Hand CCA Comparable

SVCE Target Days on Hand is 285

CCA	Published Targets
SCP	280
MCE	240
3CE	183
EBCE	183
PCE	180
SJCA	180

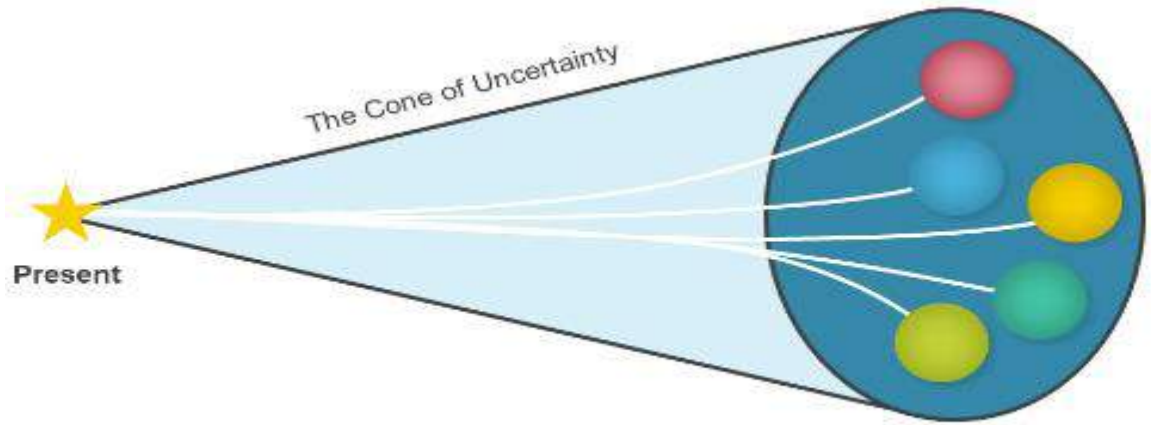
Summary of Base Case Results

High forward prices result in low PCIA and high PG&E Gen Rates resulting in healthy SVCE Margins.

Base Case $ millions

Fiscal Year (BY)

	2023	2024	2025	2026	2027	2028
Revenues	$ 251	$ 573	$ 574	$ 525	$ 498	$ 471
Power Supply Cost	$ 212	$ 364	$ 377	$ 387	$ 379	$ 372
Operating Margin	$ 39	$ 210	$ 196	$ 138	$ 119	$ 98
Other Costs	$ 29	$ 39	$ 32	$ 32	$ 32	$ 33
Net Contribution to Reserves	$ 10	$ 170	$ 164	$ 106	$ 86	$ 66
Reserve Balance	$ 219	$ 390	$ 554	$ 660	$ 746	$ 812
Days Cash on Hand		353	494	575	662	732



Summary of Stress Test Results

Base Case

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Stress Case

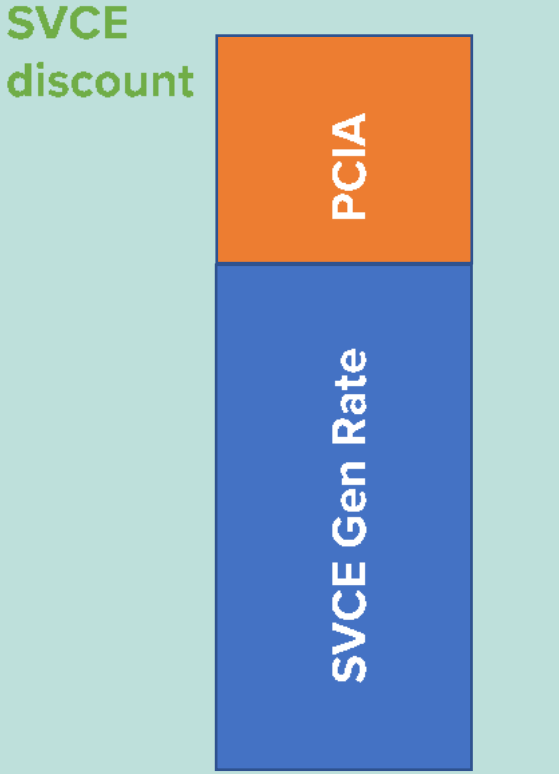
P1

	BY 2023	2024	2025	2026	2027	2028
Revenues	$ 242	$ 333	$ 228	$ 289	$ 294	$ 280
Power Supply Cost	$ 198	$ 322	$ 313	$ 308	$ 306	$ 303
Operating Margin	$ 44	$ 11	$ (85)	$ (19)	$ (12)	$ (23)
Other Costs	$ 29	$ 39	$ 32	$ 32	$ 32	$ 33
Net Contribution to Reserves	$ 15	$ (29)	$ (117)	$ (51)	$ (45)	$ (55)
Reserve Balance	$ 224	$ 196	$ 79	$ 27	$ (18)	$ (73)
Reserve Balance after POLR Adjustment	$ 224	$ 156	$ 39	$ (13)	$ (58)	$ (113)
Days Cash on Hand		157	41	(14)	(62)	(123)

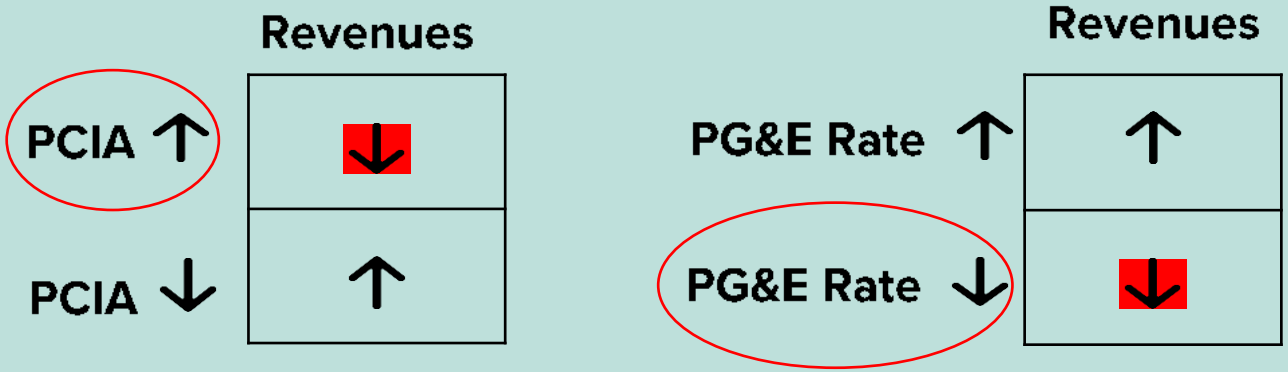
Key Takeaways – Price Uncertainty

Biggest contributor to risk: PCIA and PG&E Generation Rate Uncertainty.

PG&E Gen Rate:



PCIA and PG&E Gen Rate determine SVCE Rates and therefore Revenues



Revenues decline when prices decline

Key Takeaways – Price Uncertainty – Cont'd

Big contributor to PCIA and PG&E Generation Rate Uncertainty is Market Prices.

Next Year's PCIA & PG&E Gen Rate » **Current Year's actual realized Prices** & **Forecast of Next Year's Market Prices**

Can't fully bank current year's margin

- Deviations between actual and forecast costs are tracked in balancing accounts and trued up next year
- If prices drop, then there can be substantial draw from reserves

- $PCIA_{2023}$ = PCIA Balancing $Account_{2022}$ + Forecast Balance
  - Balancing Account = (Prior Year's Forecast $Prices_{2022}$ - Actual $Prices_{2022}$)* PCIA Portfolio
  - Forecast Balance = (Legacy Contract Costs – Forecast $Prices_{2023}$)* PCIA Portfolio
- PG&E Gen Rate Set Similarly
  - PG&E Gen Rate = ERRA Balancing Account + Forecast Costs

** Simplified representation of concepts*

Key Takeaways – Price Uncertainty – Cont'd

Price collapse poses biggest financial risk.

- Revenues drop significantly
- Loss of revenues far exceed savings from lower power procurement costs
  - Power procurement savings dampened by existing hedges

	2024 Prices ↑	2024 Prices ↓
2023 Prices ↑	PCIA ↓ PG&E Rate ↑ **SVCE Revenues ↑**	
2023 Prices ↓		PCIA ↑ PG&E Rate ↓ **SVCE Revenues ↓**

Programs Snapshot – Expanding Charging Incentives to New Affordable Housing

April 28, 2023
Executive Committee Meeting

SILICON VALLEY CLEAN ENERGY

Expanding EV Charging Access for Low-Income Multifamily Residents

Incentives for EV charging equipment at new construction affordable housing developments

Program Goals

- Help affordable developments meet local EV reach code standards
- Maximize EVI installed in new construction affordable housing

Program Budget: $7.5M

Program Launched: February 2023

Design Decisions

- **Eligible properties** are <u>new construction</u> affordable housing developments that:
  - Are in an SVCE jurisdiction with a 2019 or 2022 EVI reach code, **or**
  - Exceed state CALGreen code minimums.

- Integrated into SVCE's existing EV charging incentive program for multifamily (CHIIP)

Applications are open!

$1,000 per Level 1 or 2 Outlets
$2,000 per Level 2 Charging Station

SVCleanEnergy.org/multifamily-charging

Appendix

SVCE EVI Incentives for All Multifamily

Property Category	Property Type	Port Type	Port Incentive	Applicable Cap
Existing	Multi-Unit Dwelling	L1 outlet	**$1,500**	75% of costs, up to $50k
		Smart L1	**$2,500**	
		L2 EVSE port	**$5,500**	
		Pre-wiring	**$3,000**	
	Affordable Housing Multi-Unit Dwelling	L1 outlet	**$1,500**	100% of costs, up to $60k
		Smart L1	**$2,500**	
		L2 EVSE port	**$5,500**	
		Pre-wiring	**$3,000**	
New Construction	Affordable Housing Multi-Unit Dwelling	L1 or L2 outlet	**$1,000***	100% of costs*
		L2 EVSE port	**$2,000***	

*Incentives available for EVI installed above CALGreen Code