Power Purchase Agreement Project Selection Policy

February 28, 2025

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Workforce Activities

3 Focus Areas - Building Demand, Education, Stakeholder Outreach. Activities include:

- **Contractor Electrification Training**: 288 contractors completed program, $500 for 5 hours of training
- **Robust programs and voluntary prevailing wage**
- **Convening contractors**: Learn about barriers to electrification
- **Funding**: $1.3M for workforce partnerships to prepare for Air District Rules

Purpose of Power Purchase Agreement (PPA) Project Selection Policy and Current Practice

- PPA Project Selection Policy guides evaluation of PPA proposals

- Current labor provisions – require prevailing wage, which can be satisfied upon execution of a Project Labor Agreement.

Proposed PPA Project Selection Policy

Key elements

- Maximize regulatory and market value for best fit and value while balancing risk mitigation and reliability goals.
  - Workforce Standards
  - Environmental Stewardship
  - Technology Diversification
  - Location

Communications with Stakeholders

Stakeholder groups included:

- Working Partnerships USA
- South Bay Labor Council
- IBEW 332
- Santa Clara and San Benito Building Trades Council
- CCA Workforce and Environmental Justice Alliance
- SF Electrical Construction Industry
- Center for Sustainable Neighborhoods

Changes as result of stakeholder feedback

Partial list

- **Workforce Standards**: Project Labor Agreements as highest preference
- **Environmental Stewardship**: Preference for projects on previously disturbed/urban land
- **Community Engagement**: Developers that engage the community
- **CC Power**: Will use policy to determine whether to participate in CC Power projects
- **Reporting**: Added annual supplier diversity reporting
- **Board Direction**: GHG emissions evaluation

Additional Stakeholder Requests

Summary List

- **Local Hire**: 30% goal
- **Targeted Hire**: 10% goal hiring from workforce pipeline programs
- **Apprentices**: Medium priority projects
- **Location**: 1) Service Territory, 2) in State of California **and** CAISO, 3) interconnect with CAISO, and 4) all other projects
- **Environmental:** Earlier stage projects and measurable offsets

Recommended Action

Staff requests the Executive Committee recommend the Board of Directors adopt the Power Purchase Agreement Project Selection Policy.

Energy Risk Management Policy Recommended Revisions

Amrit Singh, CFO;
Scott Wrigglesworth, Director Risk & Analytics;
February 2025

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Executive Summary

- The PG&E PCIA is financial hedge, affirmed by
  - ✓ Analysis using 3rd Party Model (NewGen)
  - ✓ 5-year historical back-cast performance between market price and rates
  - ✓ Stress test analysis consistently shows benefits for high prices and not low
  - ✓ Strong revenues in recent years (real PG&E MPB after high market prices)

- Adverse outcome can easily occur if PCIA is not considered a hedge
- If SVCE pegs its rates to PG&E using a discount from PG&E, the pegged PG&E Generation Rate may also provide some level of hedging

- Staff is seeking Board Approval of Policy Revisions which include, but are not limited to:
  - ❑ Recognize financial hedge impacts of PCIA and potentially, the PGE Gen Rate
  - ❑ Inclusion of PCIA, and potentially, and Gen Rate in hedge ratios
  - ❑ Modifications to move certain operational and reporting requirements to CEO-approved Standards

Recommendation and ERMP Changes

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Recommendation

SVCE Executive Committee recommend the Board of Directors approve revisions to SVCE's Energy Risk Management Policy.

Key proposed change to the ERM Policy is the inclusion of the PCIA & PG&E Gen Rate 'hedge' when assessing overall position.

Key ERM Policy Revision: PCIA Impact

Language change to put policy revision into effect

- Change section 3.3

3.3 Net Revenue Risk

Net Revenues are the total of all revenues received (from retail sales to customers and from the sale of any energy products ~~that were surplus or unneeded~~), including any calculated financial impacts from the Power Charge Indifference Adjustment (PCIA) and any retail rate(s) indexed to any other rate(s) and/or component(s) such as PG&E rate(s), less the total costs (including the costs of long-term contracts, forward transactions, and spot market purchases plus all other operating costs). Net Revenue Risk is the risk that any of those factors—revenues or costs—changes (e.g. changes in market prices or retail sales volumes,or failures of counterparties). Net Revenue is the "bottom line" for SVCE as it determines the financial viability of the authority.

One of the main components of net revenue risk is on the retail revenue side, which is at risk when customers opt out from service by SVCE and return to PG&E, or if customers choose to find another supplier through direct access opportunities that may arise. In addition, when the ~~Power Charge Indifference Adjustment (~~PCIA~~)~~ ~~is changed~~and any other rate(s) or index(es) to which the retail rates are indexed are changed, it directly affects SVCE's ~~bottom line~~financials if SVCE compensates by changing its retail rates.

Key ERM Policy Revision: Thresholds

Hedge thresholds eliminate the prompt quarter limit and add PCIA and Indexed Gen Rate as factors

- Change section 6.4

SVCE will maintain Net Open Position (NOP) portfolio hedge levels, inclusive of a percentage related to the PCIA and any retail rate(s) indexed to any other rate(s) and/or component(s) such as PG&E rate(s), within the tolerances outlined in Table 1 below:

Table 1 Calendar Year Energy NOP Tolerance Bands

Period*	Minimum Tolerance	Maximum Tolerance
~~Prompt Quarter~~	~~85%~~	~~110%~~
Current Balance of Year	80%	110%
Year 2	70%	90%
Year 3	55%	80%
Year 4	50%	80%
Year 5	50%	80%

*For example, if the current year calendar year is 2023, then Year 2 is 2024.

Removing the prompt quarter tolerance band and replacing with seasonal 12 month forward hedging guideline in standards. The guidelines will honor the Annual policy NOP bands.

Note that Staff is not recommending changing the NOP Tolerance Bands; only including the representation for the PCIA and Gen Rate financial hedge impact

Other ERM Policy Revision

There are other more minor ERM Policy Revisions included

- Move some metric definitions and metric lists to a ERM Standards
- Move some operational elements to a ERM Standards document
- Add references to the ERM Standards document where appropriate
- Update CEO references from ‘he/his’ to ‘they/their’ references
- Clarify that, for authorized traders, notional dollar values per transaction and cumulative across the tenors of the limits.
  (was understood but not explicitly stated in the policy)

Technical Walk-Through

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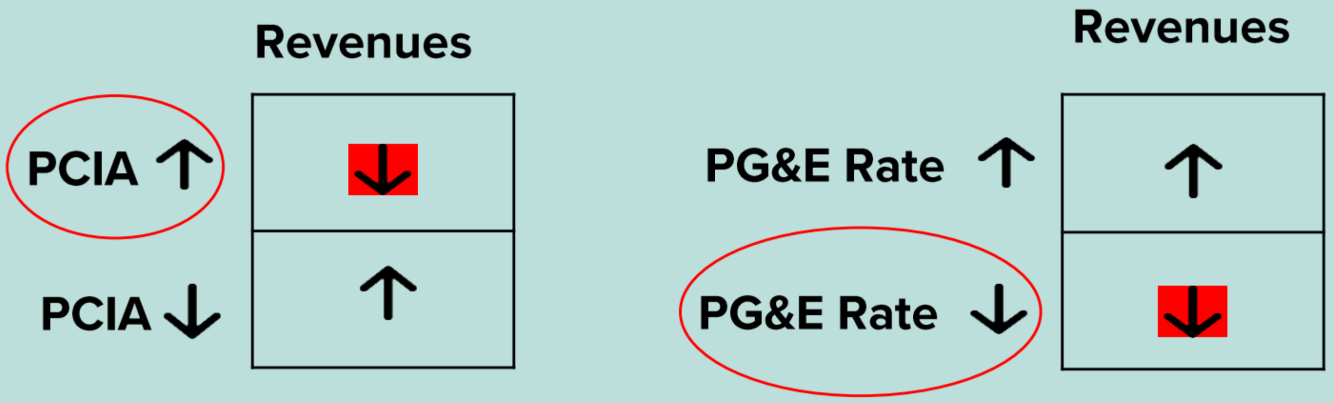
PCIA Reminder

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

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



PCIA increases and PG&E generation rates decrease when energy prices decline

Because of hedging, power supply costs are locked

Financial Planning & Risk Management

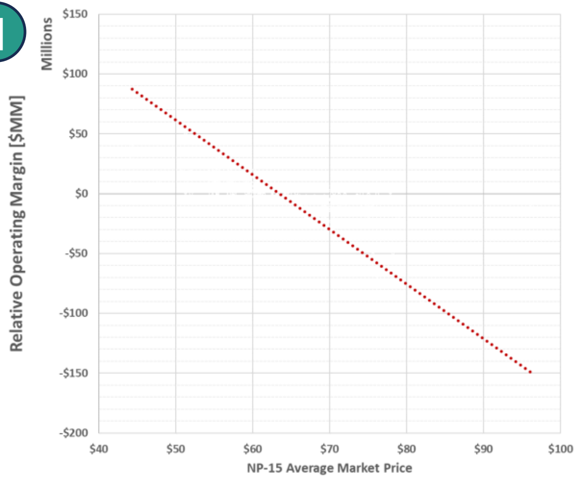
Incorporating the PCIA and Indexed Generation Rate as a hedges allows SVCE properly mitigate portfolio risk

ILLUSTRATIVE Charts Show Relative SVCE Portfolio Market Price Sensitivity without and with <u>Dynamic PCIA & Revenue Rate</u>

1

Unhedged, SVCE is naturally 'short' the market

Load Only Position w/out accounting for dynamic PCIA



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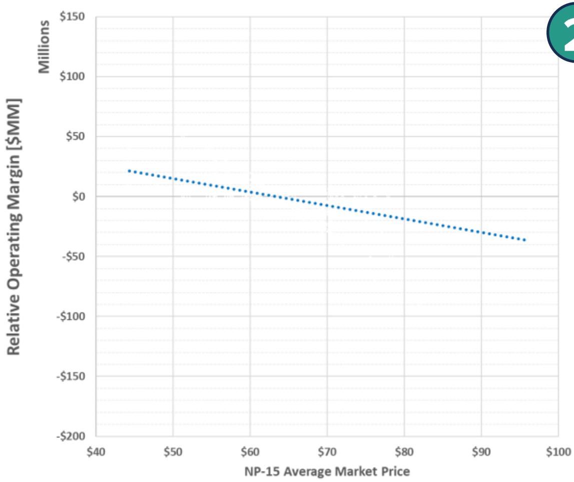


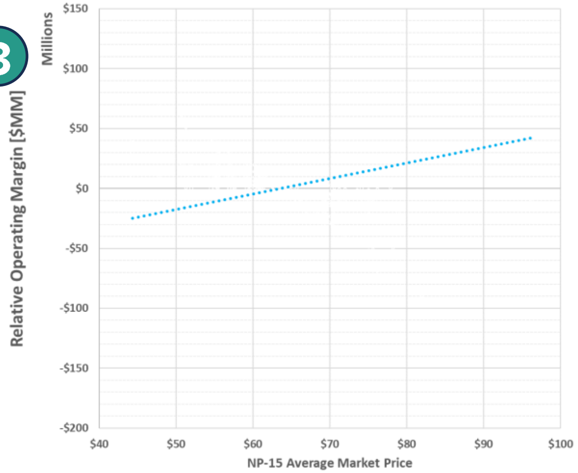
SVCE volumetrically hedges to 'flatten' its market price risk

Current Portfolio 70% Volumetric Hedge Level w/out accounting for dynamic PCIA

3

However, the PCIA has a financial (not physical) hedge effect; so it is actually 'long' the market

Current Portfolio 70% Volumetric Hedge Level <u>WITH</u> dynamic PCIA.



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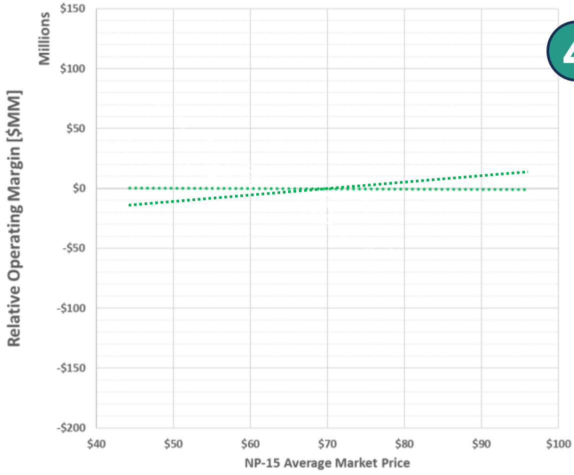


Adjusting its hedging metrics will allow SVCE to bring its market price risk sensitivity back into alignment by being flat or slightly long

Eventual Goal of measuring and hedging to a <u>finically</u> flat position with dynamic PCIA

PCIA & Gen Rate Hedge as Power

Introduction to a prospective methodology for incorporating PCIA & Gen Rate Hedge Impact

Current Approach

Load MW	ISTs Mw	PPAs MW	Net MW	Hedge Ratio
(400)	80	200	(120)	70%

Approach being Evaluated for Recommendation

*Risk Minimizing Hedge w/ **Dynamic** PCIA & Gen Rate* – *Risk Minimizing Hedge w/ **Static** PCIA & Gen Rate* = *Volumetric Equivalent of PCIA & Gen Rate Financial Hedge*

Load MW	PCIA|Gen Financial MW	ISTs MW	PPAs MW	Net MW	Hedge Ratio
(400)	180	80	200	60	115%

Note: Conceptual Examples

- PCIA & Gen Rate Hedge is Financial; methodology creates physical representation
- Calculation of impact is a function of market conditions, regulatory updates and NewGen vendor model
- This potential methodology streamlines implementation operationally and avoids a complete overhaul of metrics

Implementation

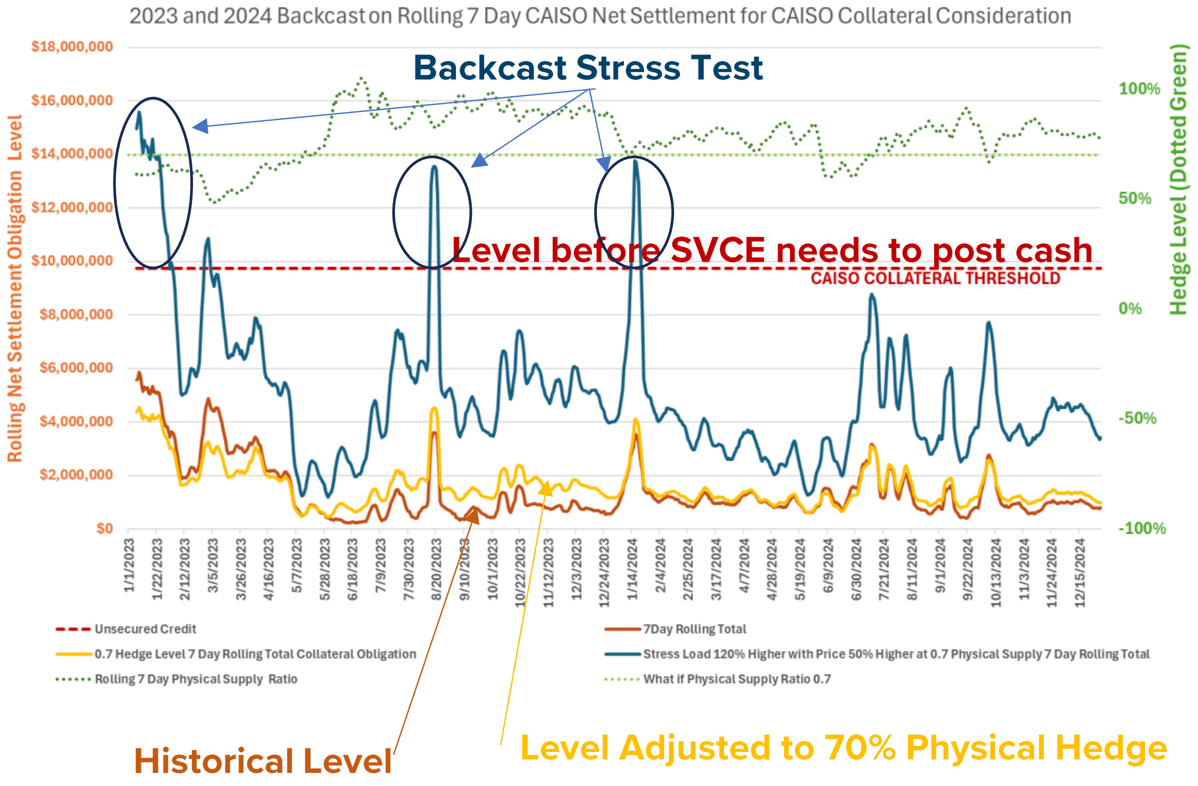
Upon approval for SVCE Staff

1. Immediately update reporting & position management for the PCIA financial hedge using the NewGen model to consistently measure the hedge level(s) based on portfolio risk forward price simulations.
2. Further explore the PICA & PG&E Generation Rate financial hedge implementation taking into account rate strategy, compliance obligations, and overall portfolio management.
3. Report back to the ROC on outcomes of item 2 ahead of implementation of changes.
4. Monitor the regulatory proceedings on the PCIA and Market Price Benchmark to anticipate implications of regulatory change.

Implications Considered

Accounting for the PCIA Financial Hedge may have operational implications

- CAISO Collateral
  - net settlement of weekly invoices will not have a material impact on days liquidity.
  - an extreme shock to net settlement on a backcast creates limited cash exposure.
  - CAISO pays interest on money they hold on par with out other investments
- No Impact on PGE POLR Collateral
- Potential hurdles related to possible future CPUC Regulation of CCA Hedging Programs



Recommendation

SVCE Executive Committee recommend the Board of Directors approve revisions to SVCE's Energy Risk Management Policy.

Next Step:

Seek Board approval at the March 12, 2025 meeting as a consent item on the agenda.

New and Improved eHub

Leslie Madarang
February 28, 2025

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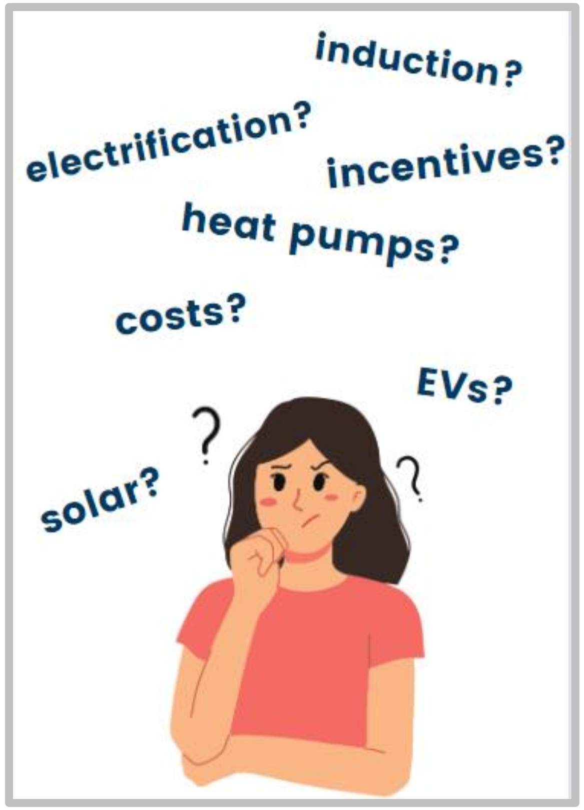
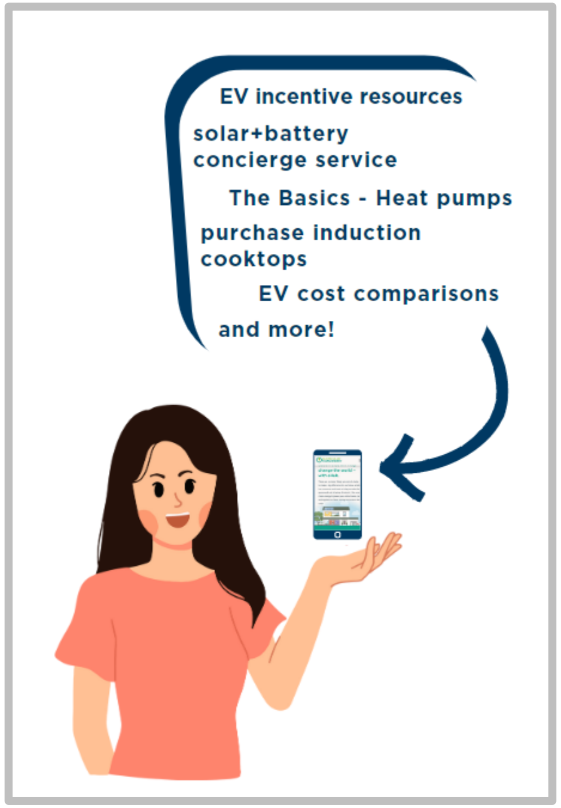
Addressing the Electrification Knowledge Gap

‘One-stop shop’

how it started



how it’s going



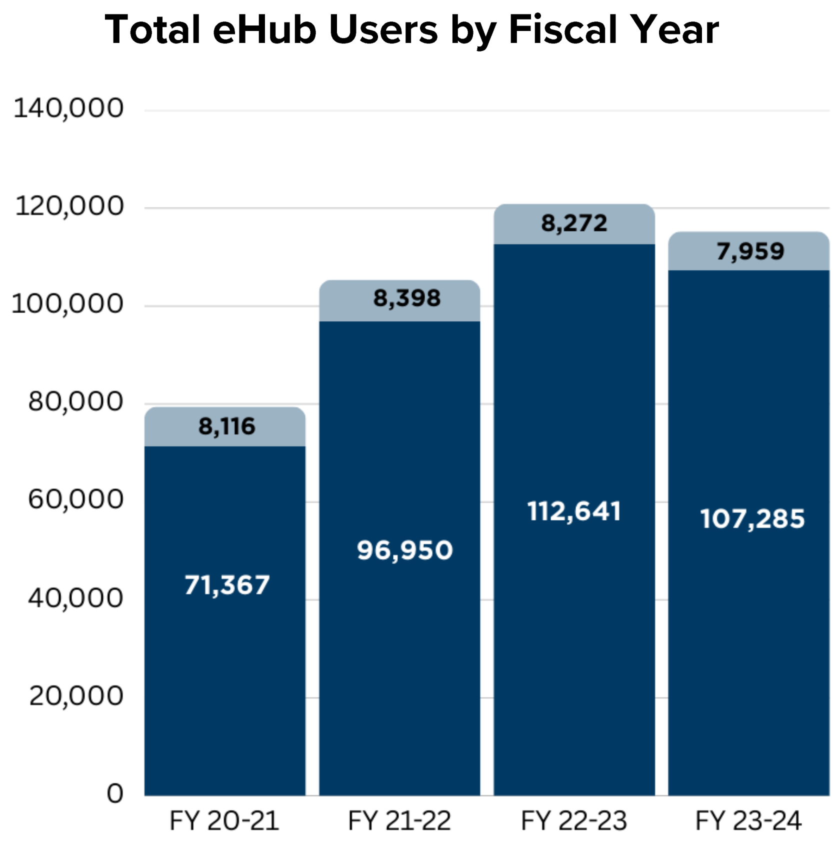
Scaling electrification engagement

Customers Are Engaging with eHub Resources

Inspiration & Awareness

Bring electrification to customer's minds

- Email marketing with online promotions and sweepstakes
- Digital, in-language and out-of-home advertising
- Collaboration with member agencies to further engage customers and meet jurisdiction-specific objectives



Customers Are Spending Time Learning About Electrification

Educate

Provide knowledge to customers of the benefits of electrification

- Customers are engaging with the online content

eHub Resource	Average Time on Page
SVCE eHub Webpages	2 min 17 seconds
EV Assistant	2 min 05 seconds
Solar+Battery Assistant	1 min 50 seconds
Appliances Assistant	1 min 39 seconds

- Delivered over 9 million emails with a 46% average open rate

Customers Are Participating in SVCE Promotions and Rebates

Action

Assisting customers to take action

- Online tools that allowed customers to take the next steps right from eHub
  - EV Assistant
  - Solar + Battery Assistant
  - Appliances Assistant

- Seamless flow from information to SVCE programs, external programs, and member agency promotions

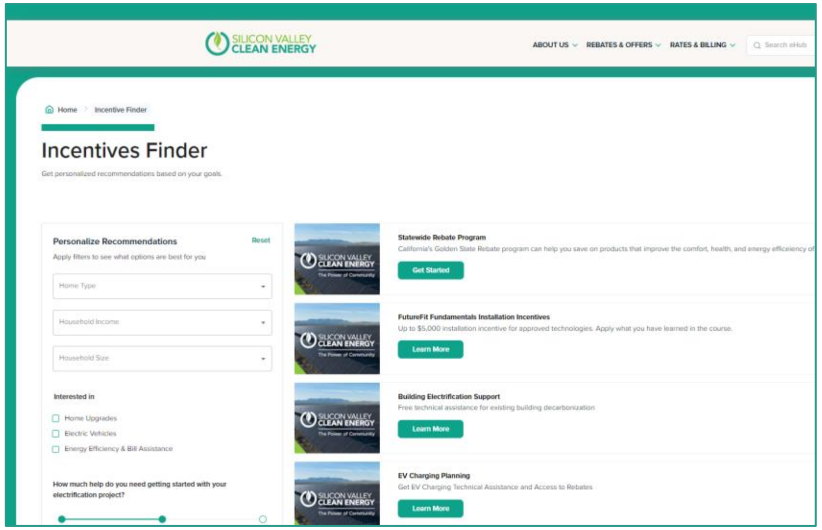
Appliances Assistant Promotion Participation

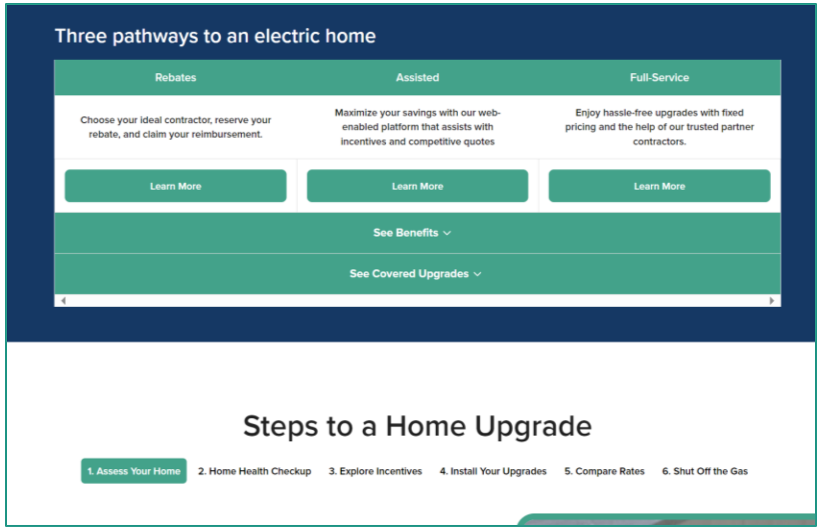
2,164 Total eHub Promotion Participants

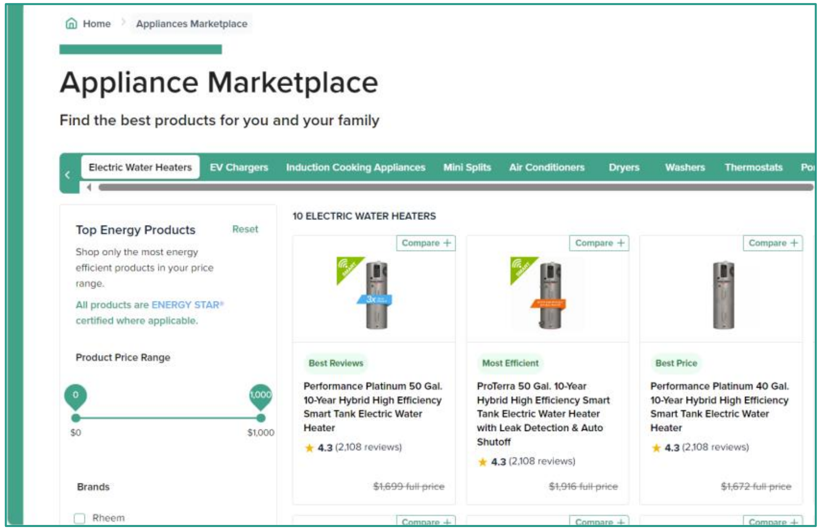
172 applied for FFH

~8% of total eHub promotion participants

The New eHub is Connecting Customers to SVCE Rebates and Resources More Easily







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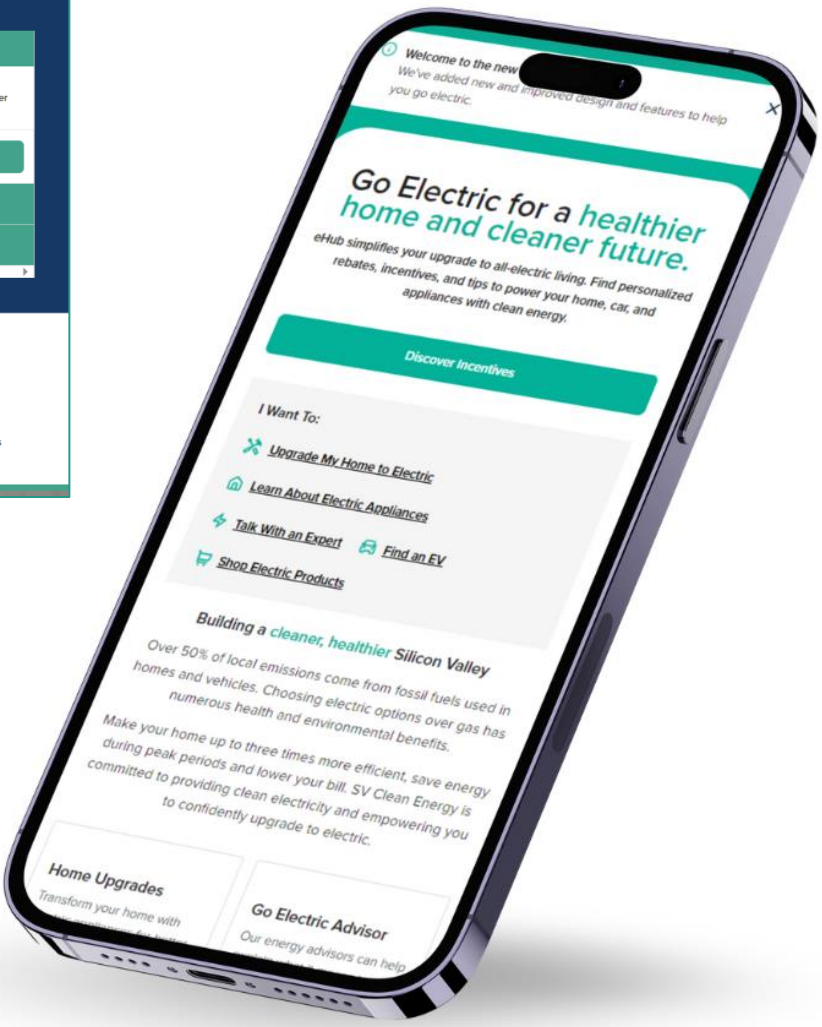


The New eHub is Reaching Customers

Launch Tactics

- Press Release
- Blog and Newsletter

Post Launch Tactics

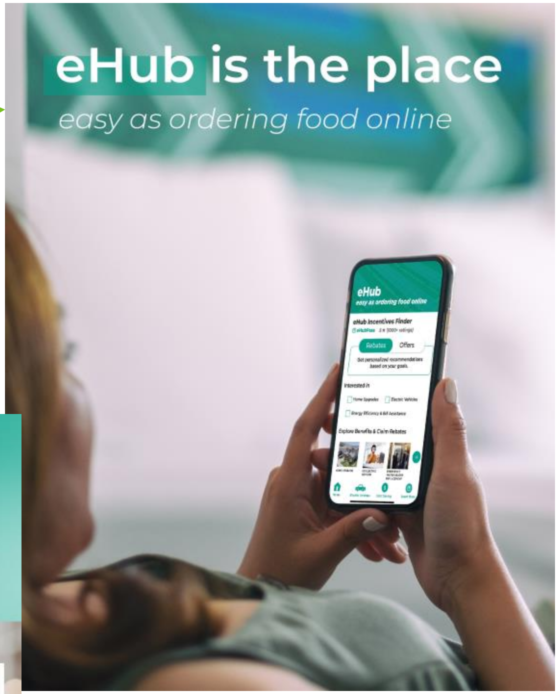
- Mailer
- Email
- Digital Ads
  - 2/12 – 3/14
  - 3/17 – 5/18
- Transit and Print Ads
  - 3/17 – 5/ 18

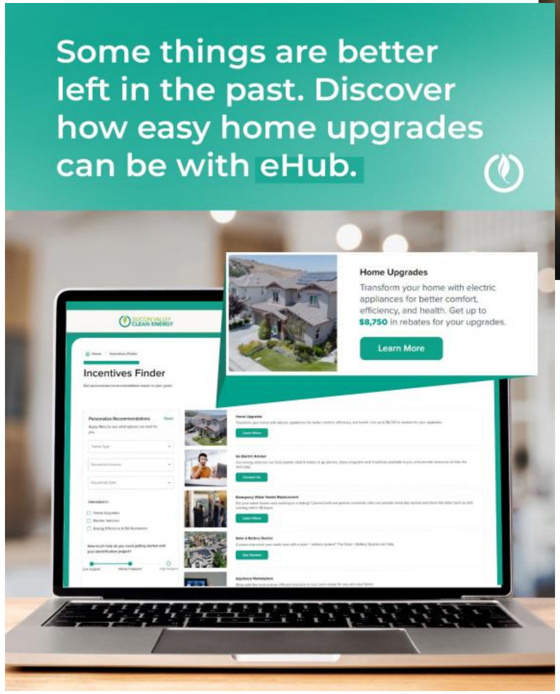
Next Tactics

- Targeted Emails
- Promotional Rebates
- Digital Ads
- Multi-lingual Webpages

Digital and Social Media Ads

Feb 12 – Mar 14





Learn more

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