Execute Agreements to Enable Fourth Prepay Transaction

Amrit Singh
Finance and Administration Committee
June 2, 2025

SILICON VALLEY CLEAN ENERGY

Purpose

Action: Recommend Board Authorize CEO to Execute Agreements with Firms Providing Services to Enable SVCE to Execute its Fourth Prepay

Main Areas of Discussion

1. Overview of Request
2. Leverage the Prior Prepay Structure
3. Fees for Consultants and Counsel
4. Fiscal Impact
5. Next Steps
6. Appendix
    - Timeline of First Prepay
    - Details of First Three Prepays and Cost Breakdown
    - Overview of Prepay Structure and Background Information

Request

Recommend the Board Authorize Agreements to Initiate Fourth Prepay Transaction

Staff will later seek Board authorization on the parameters of the transaction:

- Size of Bonds
- Savings Threshold
- Execution of Transactional Agreements

Agreements

1. PFM Financial Advisors LLC & PFM Swap Advisors - $275,000
2. Chapman & Cutler (Disclosure/Issuer's Counsel) - $175,000
3. Ballard Spahr (Bond and Tax Counsel) - $250,000
4. Moody's Investor Service Inc (Credit Rating) - $321,500

Except for Moody's all payments are <u>contingent</u> on the execution of the transaction.

The agreement with Moody's will be executed later when there's more certainty on the likelihood of a transaction.

Request Continued

Recommend the Board Approve Engagement with Morgan Stanley as Prepay Supplier

Morgan Stanley Fee Structure (same as that of First Three Prepays):

- Bond underwriting fee of $5.50/bond plus underwriter expenses not to exceed $0.50/bond.
  - E.g., For issuance of $1 billion in bonds, with a face value of $1000 a bond, the underwriting fee would be $5.5 million.
  - At this time SVCE expects the fee to be $4.50/bond with expenses not to exceed $0.20/bond, but is subject to change given deal sizing, structuring and market conditions at the time the bonds are issued.
- Energy Service Revenue of $1.10 per MWh
- If floating rate debt is issued, up to a 12 basis point charge on an interest rate swap

- *Minimal risk to SVCE.*
- *All costs (underwriting, consultants, and attorneys) are paid from the bond proceeds.*
- *The Board-designated savings target will be net of all costs.*

Review of Prepay Goal and Structure

Substantial savings with minimal risks

Goal

- Reduce the cost of power purchases by leveraging SVCE's ability to fund low-cost tax-exempt debt
- Gain competitive advantage relative to Investor Owned Utilities (IOUs)

How

- Benefit from the spread between taxable and tax-exempt interest rates
- Use of financially engineered prepay structure*
  - Bonds not guaranteed by SVCE or California Community Financing Authority (CCCFA).
  - Bonds secured by the contractual rights and transaction cashflows
- Seasoned team of professionals helps guide, negotiate, and structure the transactions.

**Refer to the appendix for a more detailed overview of the prepay structure*

Minimal Risks

- Fees (except rating agency) are contingent on the execution of the deal and paid from the bond proceeds
- Bonds issued are non-recourse to SVCE

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Leverage the Existing Prepay Structure

Recommend the Board Authorize Agreements to Initiate Fourth Prepay Transaction

Slides in the appendix provide:

- Timeline of the first Prepay transaction
- Details of the SVCE's Three Prepays transactions and cost breakdown
- Overview of the Prepay Structure

- Enhance the existing Prepay transaction structure
  - Benefit from several years of effort to establish the structure
  - Successfully executed three prepays using this structure
  - Combined savings of three completed transactions are about $14 million annually
- Other CCAs have taken or plan to take advantage of market opportunities to execute Prepays
- Since the execution of our first Prepay in partnership with EBCE:
  - 3CE, Ava (EBCE), CPA, MCE, PCE, Pioneer, SCP, SDCP, VCE, have executed Prepays
  - Par Value of CCCFA transactions is over $18 Billion and savings of $100 million/year

RFP Process

Financial Advisor and Energy Prepay Supplier

Financial Advisor

- Required by MSRB
- Selected PFM Financial Advisors who provided most qualified bid
- Worked with PFM on 3 prior deals

Energy Prepay Supplier

- The investment bank that structures the transaction and underwrites the bonds
- A handful of highly qualified and competitive firms in this space
- Selected Morgan Stanley based on: (a) their proposal, (b) experience working with SVCE, (c) continuity of existing settlement structure for portfolio management efficiencies

3rd Party Agreements to Initiate Prepay

- Expected Cost of 3rd Party Agreements is $1,021,500

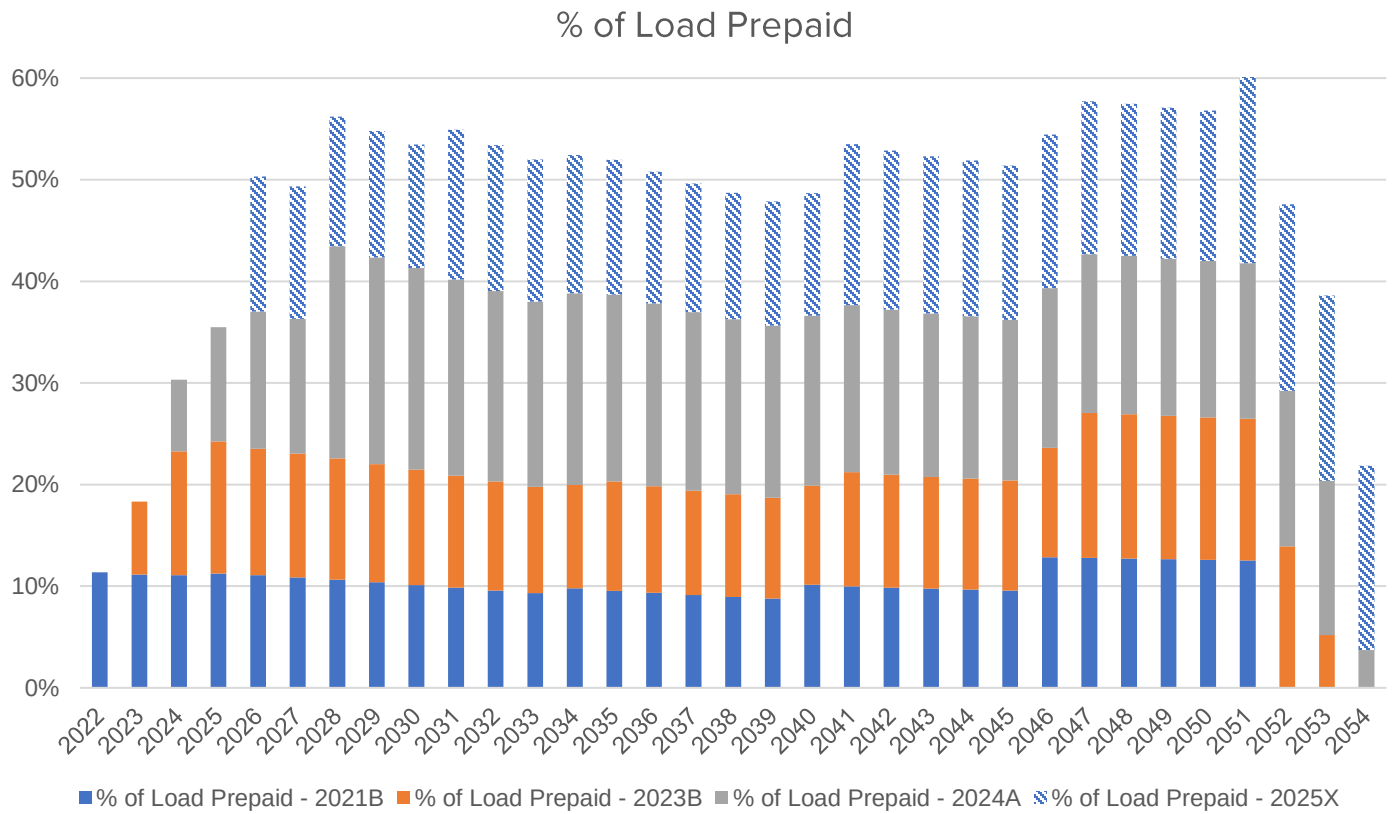
Firms	Role	Proposed Fees for Fourth Prepay
PFM Financial Advisors LLC / PFM Swap Advisors	Municipal Advisor: Advises prepay buyer in negotiations, required by the Municipal Securities Rulemaking Board (MSRB), and on commodity and interest rate swaps.	$275,000
Chapman & Cutler	Disclosure and Issuer's Counsel: Provides legal counsel and prepares official statement and prospectus	$175,000
Ballard Spahr	Bond and Tax Counsel: Represent bondholders and provide tax opinion on the transaction	$250,000
Moody's Investor Service Inc	Rating Agency: Provides the credit rating for the bonds	$321,500
Total		$1,021,500

Except for Moody's all payments are contingent on the execution of the transaction.

The agreement with Moody's will be executed later when there's more certainty on the likelihood of a transaction.

Prepay Load Coverage

Can easily cover >50% of load with fourth prepay



On average:

- Prepay 1 covers about 11% of the Load
- Prepay 2 covers about 12% of the Load
- Prepay 3, covers about 17% of the Load

- Total average load coverage is expected to be around 50-55% of Load

Fiscal Impact

- Actual savings depend on market conditions - the spread between taxable and tax-exempt debt rate
- Illustrative:
  - If we get savings of 8 to 10% for a transaction at current commodity prices, this could amount to $4-6 million savings per year
- Minimal Risk to SVCE
  - Fees (except rating agency) are contingent on the execution of the deal and paid from the bond proceeds
  - Bonds issued are non-recourse to SVCE

Next Steps

- Request SVCE Board Approval to Execute Agreements at the June Meeting
- Work with parties to structure the transaction (June – August 2025)
- Seek Board approval on the parameters of the transaction (August 2025)
  - Size of the Deal and Bond Issuance
  - Target Minimum Savings Threshold
- Seek California Community Choice Financing Authority (CCCFA) Board Approval (August 2025)
- Target bond issuance for Q3-Q4 2025. Timing will depend on market conditions.

Recommend for Approval

Staff requests that the Finance and Administration Committee recommend that the Board authorize the CEO to approve* or execute the following contracts for services these firms will provide to enable SVCE to execute its fourth Prepay transaction for total cost of $1,300,000, which includes about 10 percent contingency.

1. PFM Financial Advisors LLC & PFM Swap Advisors - $275,000
2. Chapman & Cutler (Disclosure/Issuer's Counsel) - $175,000
3. Ballard Spahr (Bond and Tax Counsel) - $250,000
4. Moody's Investor Service Inc (Credit Rating) - $321,500

Staff requests that the Finance and Administration Committee recommend that the Board approve engagement with Morgan Stanley as the Prepay Supplier with the following fee structure:

- Bond underwriting fee of $5.50/bond plus underwriter expenses of $0.50/bond
- Energy Service Revenue of $1.10 per MWh
- If floating rate debt is issued, up to 12 basis points charge on interest rate swap

* CCCFA may execute

Thank you! / Questions?

Timeline of SVCE's First Prepay Transaction

June-2019	**SVCE presents Prepay Structure Overview Presentation (developed by Goldman Sachs) to Finance and Admin Committee**
Aug-2019	SVCE presents a brief verbal update on prepay process to Finance and Admin Committee
Sept-2019	SVCE and PFM Financial Advisors provide update on the upcoming RFP process to Finance and Admin Committee
Nov-2019	SVCE provides Prepay RFP Overview to Executive Committee - PFM issues RFP to select Prepay Bank Supplier on behalf of EBCE and SVCE on Nov 12th - RFP Proposals were due December 5th
Jan-2020	SVCE presents Prepay Structure Overview to Finance and Admin Committee
Spring-2020	SVCE and EBCE conduct RFP evaluations to select Prepay Bank Supplier
July-2020	SVCE and EBCE select Morgan Stanley as Prepay Bank Supplier
Aug-2020	SVCE provides Prepay Status Report to Finance and Admin Committee
Sept-2020	SVCE provides Board with Prepay Overview on preparing for a Prepay Transaction SVCE provides Prepay Status Report to Finance and Admin Committee
Oct-2020	**SVCE Board Authorizes CEO to enter legal service agreements to finalize Prepayment Transaction (Orrick, Herrington & Sutcliffe and Chapman & Cutler LLP)**
Nov-2020	SVCE provides Prepay Status Report to Finance and Admin Committee
Mar-2021	SVCE provides Prepay Status Report to Finance and Admin Committee SVCE provides Prepay Status Report to Executive Committee
April-2021	SVCE Board Approves Participation in the California Community Choice Financing Authority Joint Powers Authority
Aug-2021	The Finance and Admin Committee reviews the Prepay Transaction and votes to recommend Board approval. Board authorizes execution of the first Prepay Transaction subject to parameters including that bonds are not obligations of SVCE, size of the bonds, and minimum savings target.
Sept-2021	Sept 9, 2021 bonds priced
Jan-2022	Power delivery under Prepay began

Details of the First Prepay Transaction

Aggregate Principal Bond Amount	**$1,234,720,000 (SVCE and EBCE combined)**
Total Bond Proceeds	$1,475,895,642.5 (SVCE and EBCE combined)
Municipal Bond Rating	A1
Green Certification	Designated Green Bonds by Kestrel Verifiers
Initial Bond Pricing Period	• 10 years. • After the initial period, bonds will be repriced per the negotiated repricing agreement, and a new discount will be established based on the then prevailing market conditions.
Final Bond Maturity Date	• February 1, 2052.
Discount Achieved	• $4.38 per MWh, about 10% of the energy cost of SVCE's 3-year transaction initially assigned into the Prepay. • ~$1.9 million per year for SVCE during the initial bond pricing period of ten years.
Energy Volume Supported by Bond Proceeds	109 MW, of which SVCE's share is 50 MW (about 11% of load) and EBCE's share is 59 MW for approximately the first ten years of the transaction; after that, the same proportional volume split will be maintained between SVCE and EBCE.

First Prepay Transaction Cost Breakdown ($000)

Bond and Tax Counsel: Orrick, Herrington & Sutcliffe	**425**
Credit Rating: Moody's	315
Issuer's Counsel and Disclosure Counsel: Chapman & Cutler LLP	310
Municipal Advisor: Public Financial Management	250
Investment Advisor: Public Financial Management Asset Mgmt	42
Trustee: Bank of New York (BNY)	32
Trustee Counsel: BNY Counsel	35
Printing Cost	3
Contingency/Other	10
Total COI	1,422
Morgan Stanley Underwriting	6,341
Total	7,763

Details of the Second Prepay Transaction

Aggregate Principal Bond Amount	**$841,500,000**
Total Bond Proceeds	$891,418,648.1
Municipal Bond Rating	A1
Green Certification	Designated Green Bonds by Kestrel Verifiers
Initial Bond Pricing Period	• 6.5 years. • After the initial period, bonds will be repriced per the negotiated repricing agreement, and a new discount will be established based on the then prevailing market conditions.
Final Bond Maturity Date	• July 1, 2053.
Discount Achieved	• $9.77 per MWh, about 10% of the price established for energy deliveries under the power supply contract. • ~$4.7 million per year during the initial bond pricing period of 6.5 years.
Energy Volume Supported by Bond Proceeds	~55 MW (about 12% of load; a slight escalation in the latter half of the transaction)

Second Prepay Transaction Cost Breakdown ($000)

Cost of Issuance (COI)	$ in 000's
Bond and Tax Counsel: Ballard Spahr	300
Credit Rating: Moody's	232.5
Issuer's Counsel and Disclosure Counsel: Chapman & Cutler LLP	200
Municipal Advisor: PFM Financial Advisors LLC	175
Investment Advisor: PFMAM (US Bank)	35
Trustee: BNY Mellon Corporate Trust	30.9
Trustee Counsel: Ballard Spahr	30
Printing Cost: ImageMaster	3.3
Green Bond Second Party Opinion: Kestrel	22
Contingency/Other	16.8
Total COI	1,045.5
Morgan Stanley Underwriting	4,359.2
Total	5,404.7

Details of the Third Prepay Transaction

Aggregate Principal Bond Amount	**$1,101,625,000**
Total Bond Proceeds	$1,165,919,381.75
Municipal Bond Rating	A1
Green Certification	Designated Green Bonds by Kestrel Verifiers
Initial Bond Pricing Period	• ~8 years. • After the initial period, bonds will be repriced per the negotiated repricing agreement, and a new discount will be established based on the then prevailing market conditions.
Final Bond Maturity Date	• May 1, 2054
Discount Achieved	• $11.32 per MWh, about 13.1% of the price established for energy deliveries under the power supply contract. • ~$7.7 million per year during the initial bond pricing period of 8 years.
Energy Volume Supported by Bond Proceeds	~77 MW (about 17% of load; a slight escalation in the latter half of the transaction)

Third Prepay Transaction Cost Breakdown ($000)

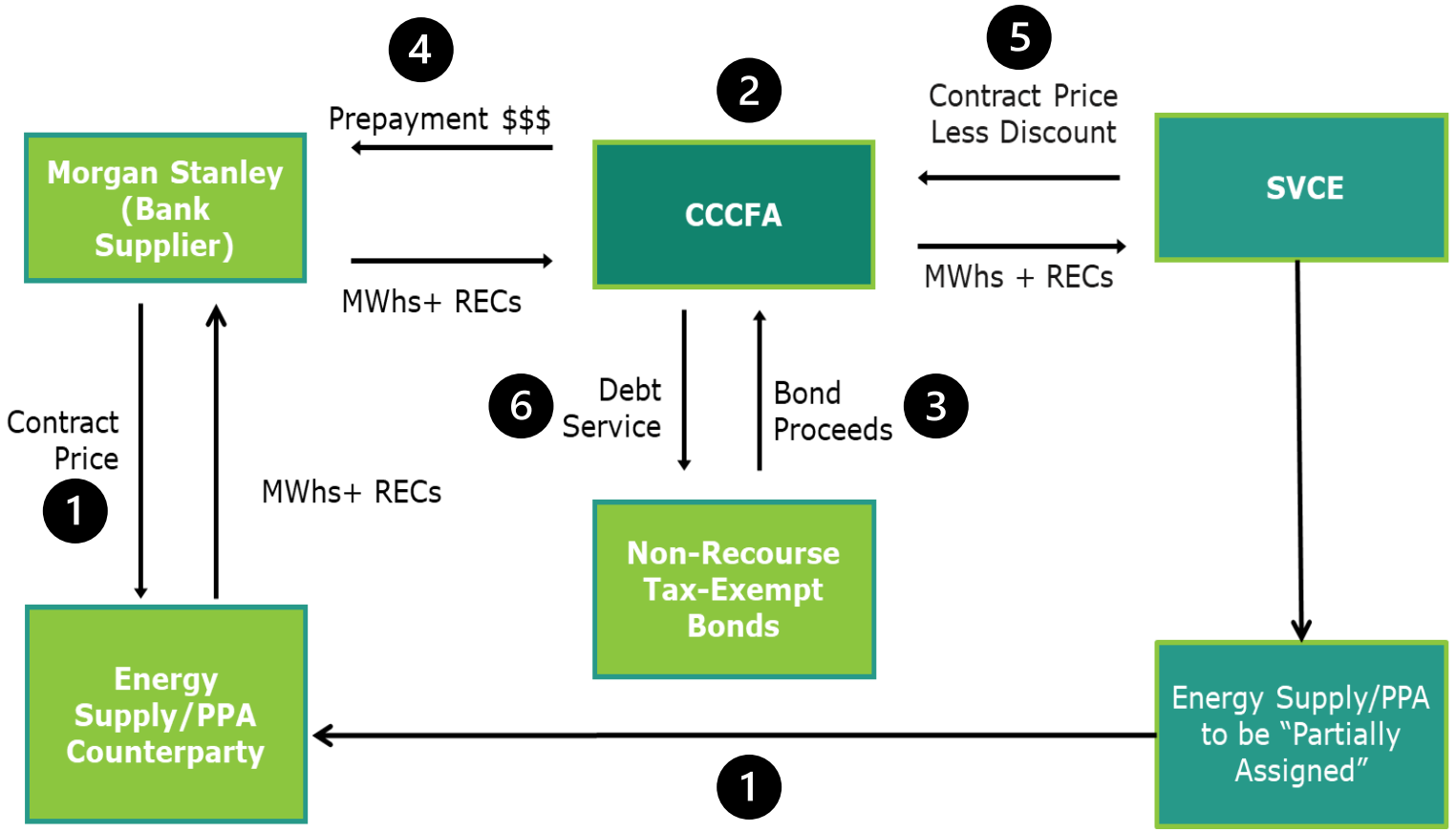
Cost of Issuance (COI)	$ in 000's
Bond and Tax Counsel: Ballard Spahr	250
Credit Rating: Moody's	273
Issuer's Counsel and Disclosure Counsel: Chapman & Cutler LLP	175
Municipal Advisor: PFM Financial Advisors LLC	155
Investment Advisor: PFMAM (US Bank)	30
Trustee: BNY Mellon Corporate Trust	41.4
Trustee Counsel: Ballard Spahr	30
Printing Cost: ImageMaster	4
Contingency/Other	66
Total COI	1,041.3
Morgan Stanley Underwriting	5,712.1
Total	$6,753.4

Overview of Prepay Structure

Term: 30-year with bonds repricing every 5-10 years, depending on the optimal spread between taxable and tax-exempt interest rates.

Process:

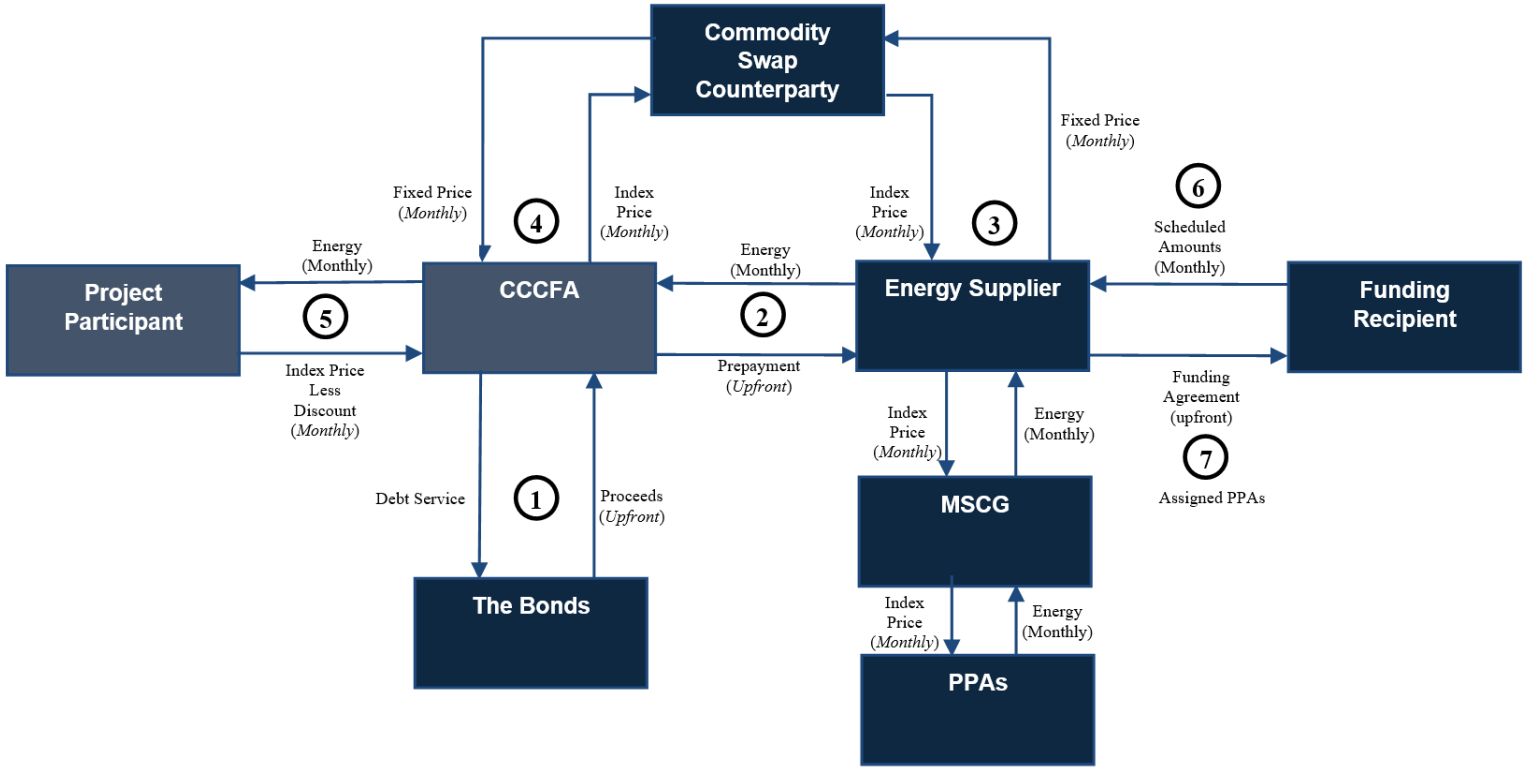
1. SVCE partially assigns, using a Limited Assignment Agreement, an energy contract to Morgan Stanley (MS), Prepay Supplier. MS agrees to pay the contract price to the energy supplier.
2. CCAs created CCCFA, a separate legal entity that can issue tax-exempt debt.
3. CCCFA issues non-recourse tax-exempt bonds.
   - Bonds not guaranteed by SVCE or CCCFA.
   - Bonds secured by the contractual rights and transaction cashflows; Bonds carry MS credit ratings.
4. CCCFA pays bond proceeds, net of transaction fees, to as prepayment for energy and related products that MS will provide over the 30-year term. Executes Prepaid Agreement.
5. SVCE and CCCFA execute a Power Supply Agreement, where SVCE pays CCCFA the contract price less a discount for the energy delivered by CCCFA.
6. CCCFA uses payments from SVCE to pay interest and principal payments to bondholders.



Overview of Prepay Structure w/SPV

1. **Bond Issuance**
2. **Prepayment**
3. **Energy Supplier Commodity Swap**
4. **CCCFA Commodity Swap**
5. **Project Participant (SVCE)**
6. **Funding Agreement**
7. **Assigned PPAs**

The cumulative effect of the Prepaid Energy Sales Agreement, the CCCFA Commodity Swap, the Power Supply Contract and related documents enables CCCFA to receive dependable Energy supplies at a discount below market prices for sale to the Project Participant. The resulting monthly net revenues, regardless of changes in Energy prices, are expected to be adequate to pay Debt Service requirements on the Bonds and program expenses when due.



Review of Prepay Background Info.

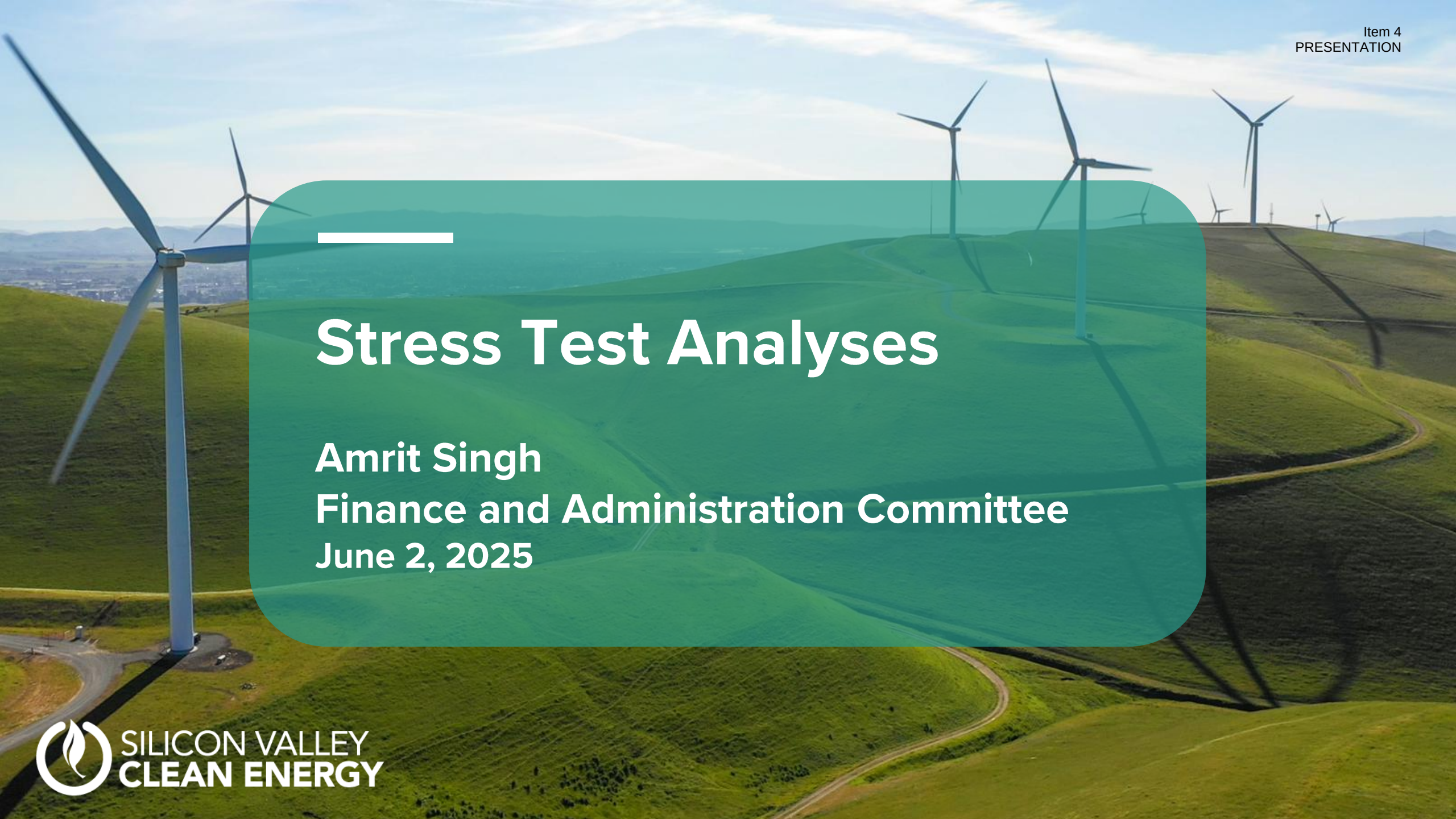
Goal: Reduce the cost of power purchases

- Savings achieved by leveraging SVCE/CCCFA's ability to fund low-cost tax-exempt interest rates
- Used since the 1990s for natural gas transactions
- Codified in the US Tax law
  - Part of the National Energy Policy Act of 2005
- Seasoned professionals will help guide, negotiate, and structure the transactions. Fees for professionals are contingent on the completion of the deal and paid from the deal proceeds.

History and Tax Law Behind Municipal Prepaid Energy Transactions

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

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



Stress Test Analyses

Amrit Singh

Finance and Administration Committee

June 2, 2025

SILICON VALLEY CLEAN ENERGY

Purpose

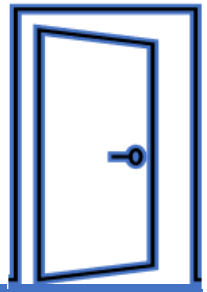
Present findings of the stress test analyses

Main Areas of Discussion

1. Review of the enterprise risk management (ERM) framework and key drivers of financial risks
2. 5-yr Financial Base Case Forecast Update
   - Updated projections compared to Mid-Year
   - Uncertainties surrounding the financial projections
3. Stress test construction
   - By design, extreme but plausible
4. Compare the updated base case with the stress test scenario
5. Recap key messages and discuss staff recommendations

1. Review the Enterprise Risk Management (ERM) framework and Key Drivers of Financial Risks

SVCE's Planning & Budgeting Process



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

Budget

Funding in alignment with achieving the strategic focus areas

Strategic Focus Areas

Organization-wide priorities and alignment toward achieving the mission

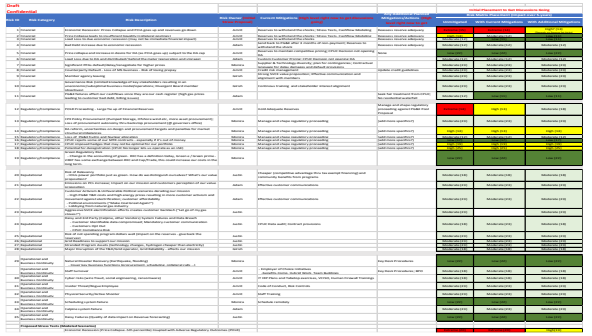
Enterprise Risk Management (ERM)

Comprehensive assessment of risks and opportunities to optimally achieve mission

Key Components of the ERM Framework

Risk Register

- Record of the organization's risks and opportunities – "Living Document"
- Identify current and additional planned mitigations
- Identify risk owner



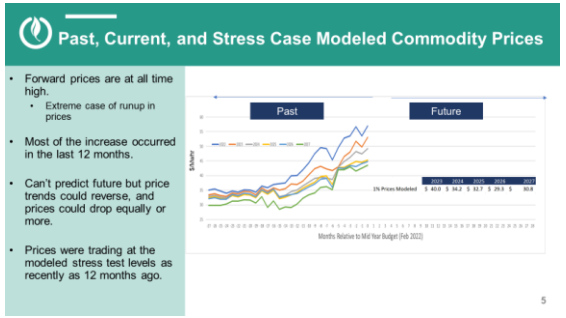
Risk Matrix

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

Frequency/Likelihood		Impact/Consequence				
		Insignificant	Minor	Moderate	Major	Catastrophic
		Risk Easily Mitigated through Day-to-Day Operations	Risk is Manageable/Low Impact on Mission	Moderate Erosion of Reserves/Impact on Mission	Significant Erosion of Reserves/Impact on Mission	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 (21)	Low (22)	Moderate (23)	High (24)	High (25)

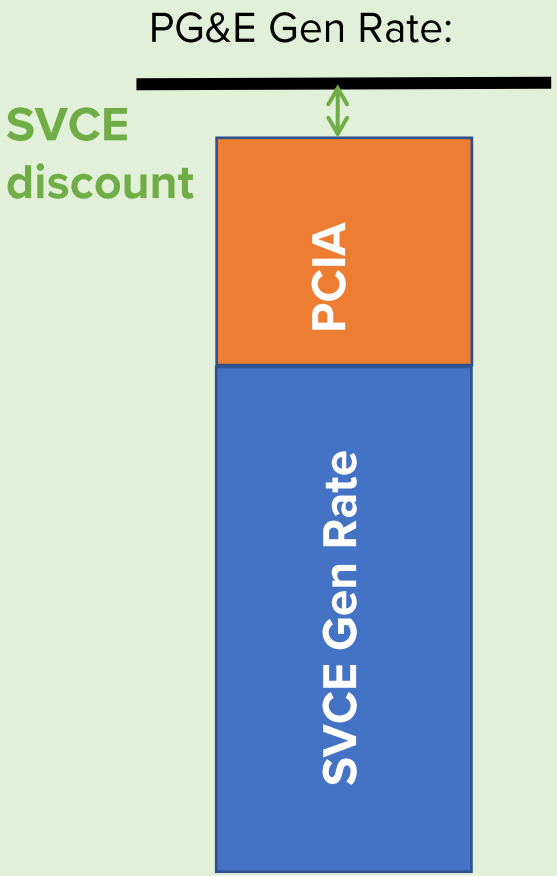
Stress Tests

- 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

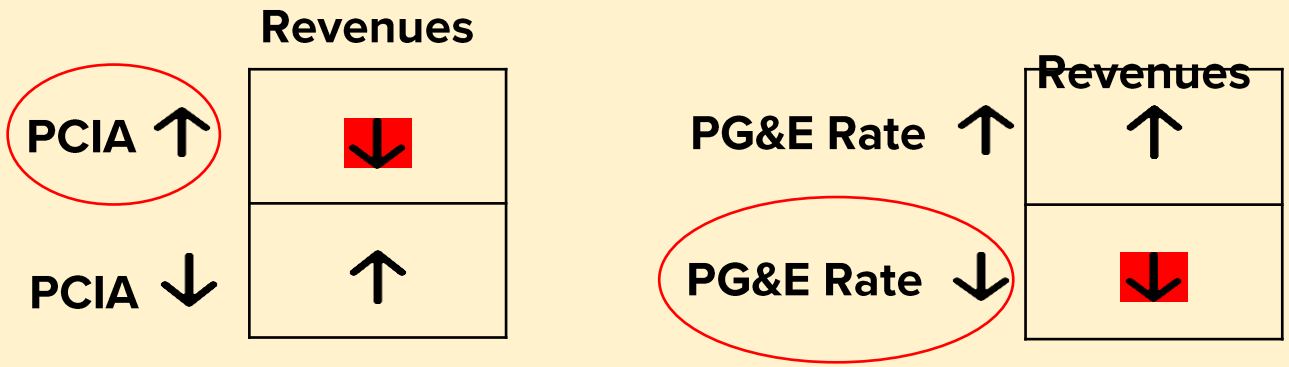


Review of Key Financial Risk Drivers

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



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



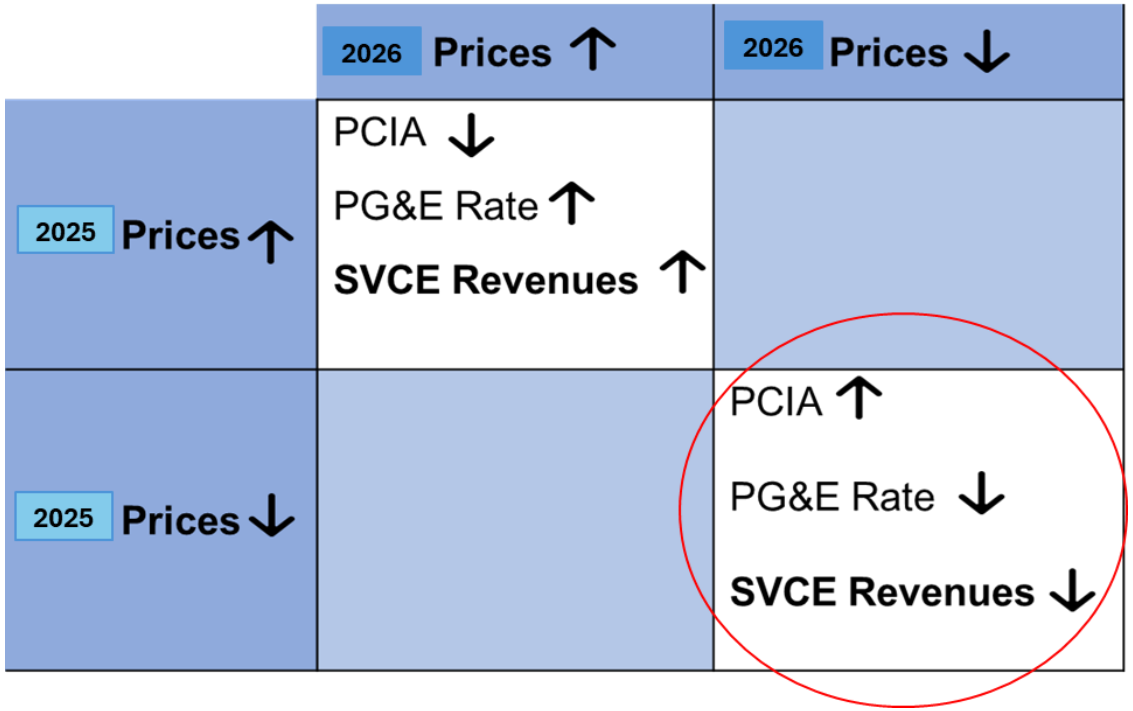
- Revenues decline when prices decline
- Loss of revenues far exceeds savings from power purchases
  - Power procurement savings dampened by existing hedges
  - SVCE has adjusted its energy portfolio to mitigate this impact to the extent possible, and as best estimated by SVCE

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

For the most part, this year's actual prices and the forecast of next year's Market prices will impact next year's rates.

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

- **Can not bank the current year's margin**
  - Current year's gain may be returned the following year through higher PCIA and lower PG&E generation rates
- Deviations between actual and forecast costs are tracked in balancing accounts and trued up the following year
- For financial/reserve planning, greater focus is placed on the next two years' projections



2. 5-yr Financial Base Case Forecast Update

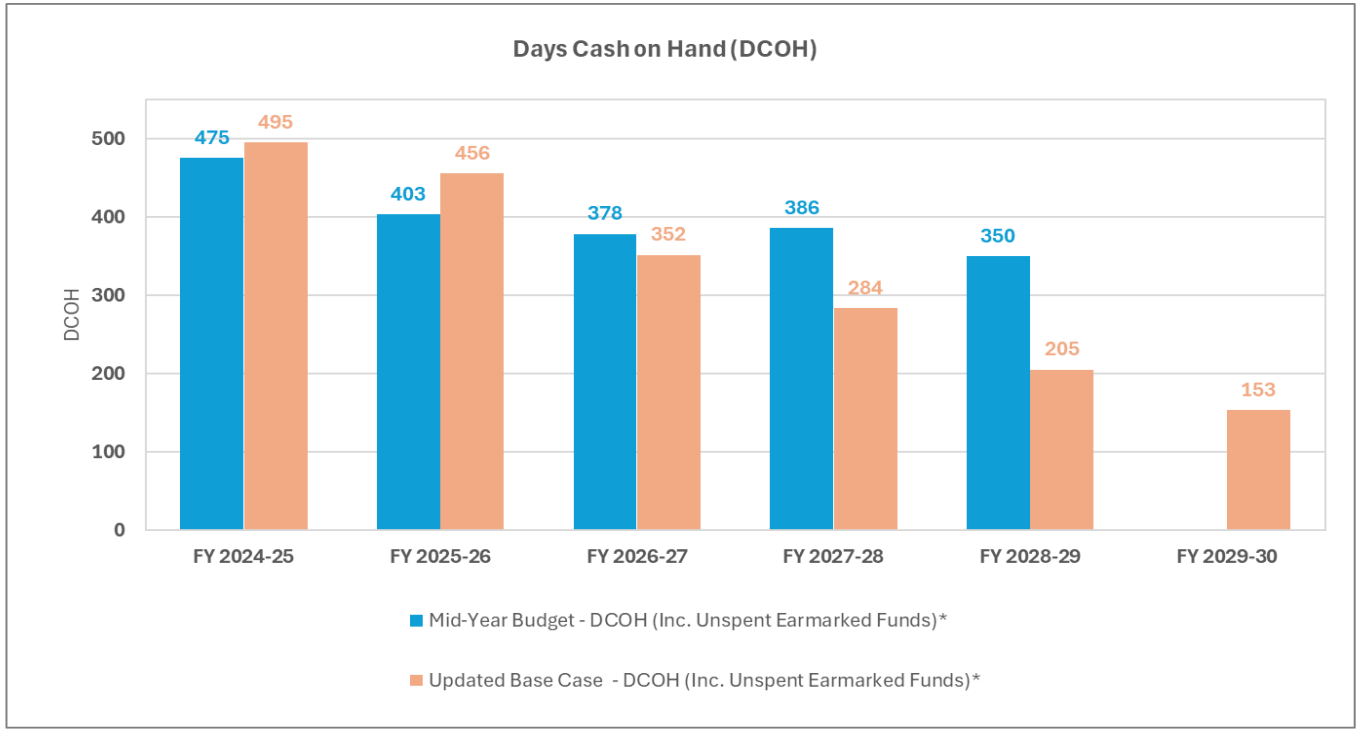
- Updated projections compared to Mid-Year
- Uncertainties surrounding the financial projections

Reserve Outlook Change from Mid-Year Budget

Comparing Base *Cases*

Forward market price changes contribute to major differences between the Mid-Year Budget and the Updated Base Case

- Forward Price: Reflects the current market price for future delivery of products (Energy, RPS, RA).
- Forward price data is from external sources



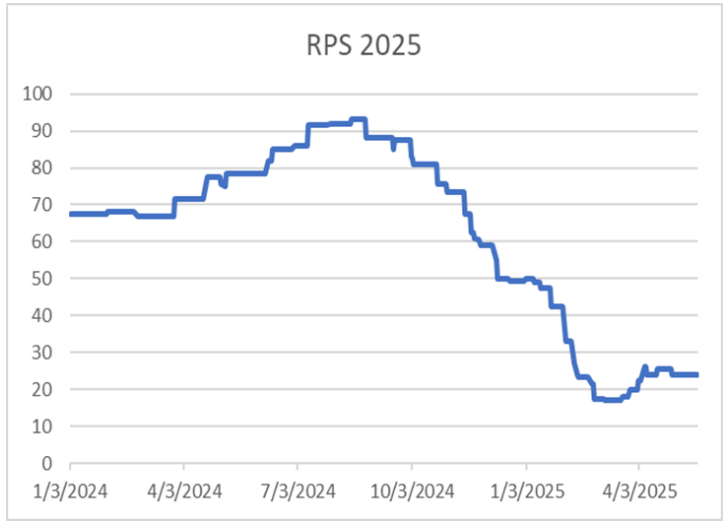
** Earmarked funds are unspent SVCE Program Funds and Remaining Building Funds. The earmarked funds are projected to be nearly zero by the end of FY 2028-2029.*

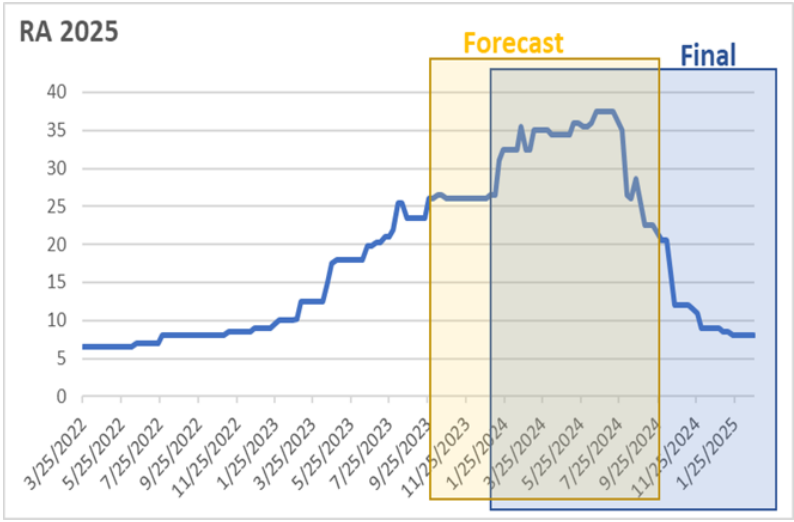
$ Millions	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Updated Base Case **Reserve Balance**	556	494	388	321	252	197
Mid-Year Budget **Reserve Balance**	534	471	446	465	453	
Change	22	23	-58	-144	-201	

Market Price Change

- Forward prices for products further out in time are less liquid
  - Less volume traded
  - Higher Bid/Ask Spread
- Energy prices are more liquid than RPS & RA
- Risk or distribution of prices grows over time
- Given the PCIA dynamic discussed earlier, in managing our risks, we are concerned with the left side of the distribution, or prices going lower

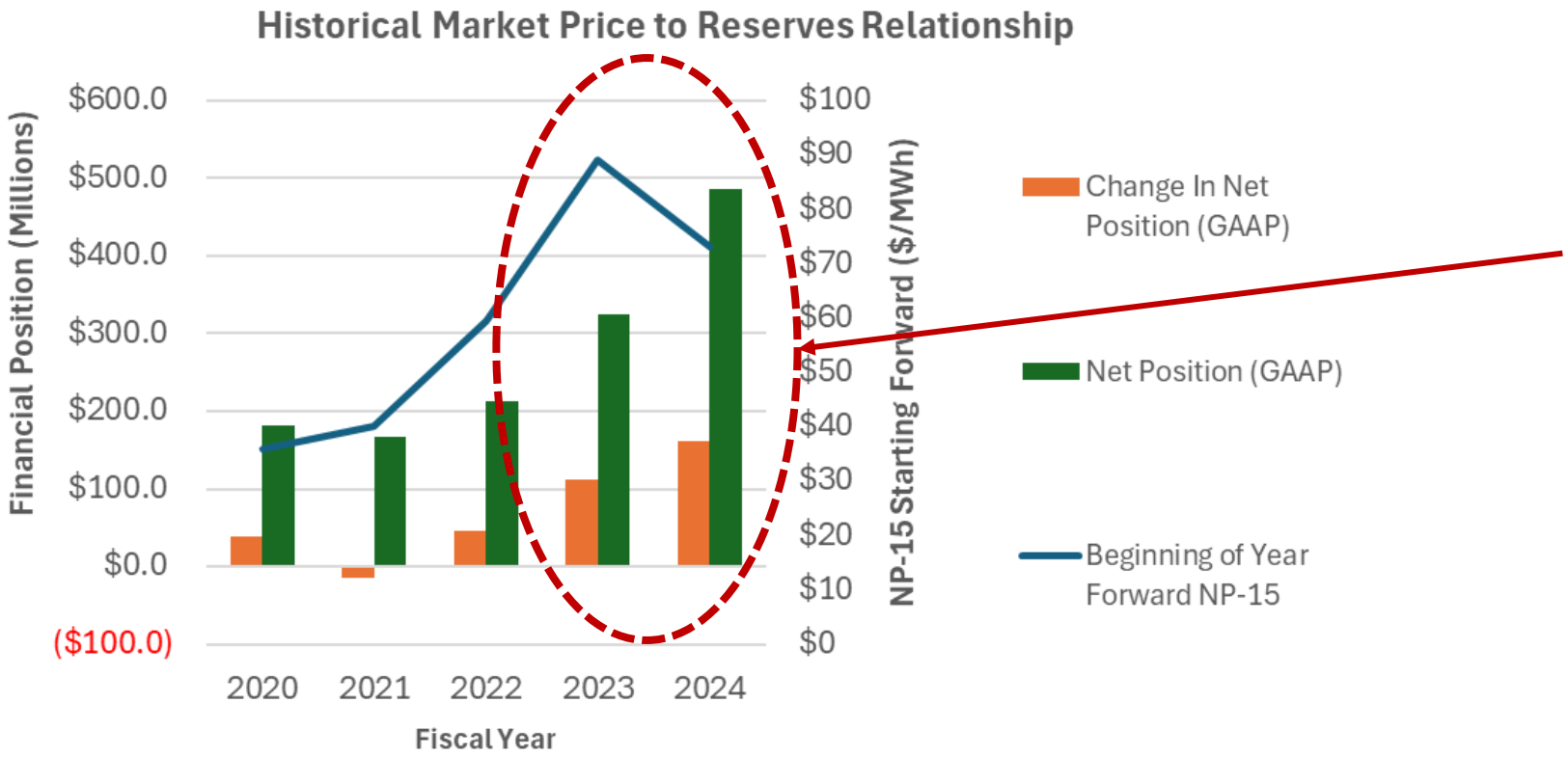
Market Price Change: Mid Year Budget (1/31) vs Updated Base Case (4/18)	2025	2026	2027	2028	2029	2030
Energy Price Change	-6%	0%	-5%	-7%	-5%	-2%
Renewable Portfolio Standard (RPS) Price Change	-44%	-47%	-46%	-44%	-19%	-10%
Resource Adequacy (RA) Price Change	0%	-40%	-4%	0%	0%	0%





- These uncertainties are present in our financial projections
- The uncertainty in RPS and RA prices in recent years worked in our favor by producing higher-than-expected financial results
  - Realized prices came in higher than expected

Growing Reserves in High Price Conditions



The uncertainty in RPS and RA prices in recent years worked in our favor.

Other Uncertainties: Modeling & Other Risks

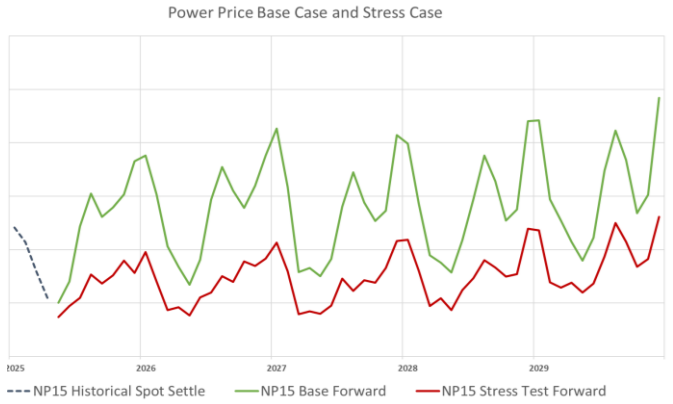
- Financial projections are made with the best available data and information
  - Market (Forward) Prices
  - NewGen Strategies & Solutions model to forecast PCIA and PG&E Generation Rates
    - PCIA is a “black box”
    - PG&E generation portfolio data needed to forecast PG&E generation rates are not available
  - SVCE power supply portfolio positions and other operating expenses can change
- PG&E, with PCIA and its generation portfolio data, cannot accurately predict next year’s rates when it issues its mid-May ERRA forecast
- Regulatory and Legislative changes have a significant impact
  - PCIA Order Instituting Rulemaking (OIR) Proceeding
    - Track One decision can have a significant impact on next year’s rates
    - Track Two decision could further introduce changes affecting future year’s rates

3. Stress Test Construction

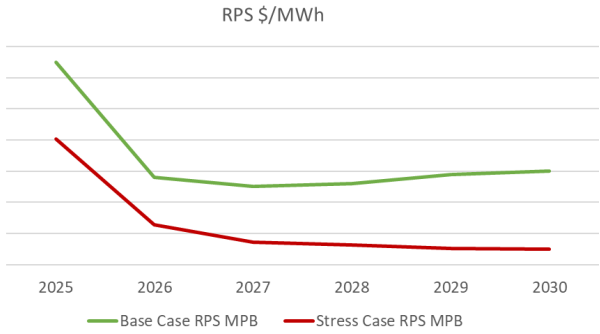
- By design, they are extreme, but plausible scenarios

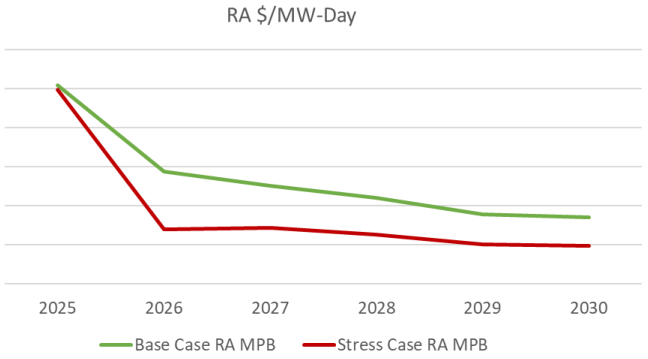
Financial Stress Test Description & Key Assumptions

- Forward Energy Prices Collapse
  - Around one percentile level or less
  - Reasonable in terms of relative comparison to observed commodity prices resulting from the 2008 financial crisis (explained further in latter slides)



- Renewable Portfolio Standard (RPS) and Resource Adequacy (RA) Prices Drop as well





Financial Stress Test Description- cont'd

- PCIA Uncertainty
  - A proceeding reopened this year, which further increases financial uncertainty
  - Both stress and base case are based on the current methodology
- Customer Discount for both the Base Case and Stress Case
  - Current 4% customer discount continues to the end of Dec. 2025 (this includes 3 months of the next fiscal year), along with monthly low-income customer bill credits
  - After Dec. 2025, the customer discount is modeled at 1%
  - One-time bill customer credit, approved for the current fiscal year, of $35 million is issued in August 2025
- Other Potential Business Operating and Regulatory Risks
  - As modeled in prior stress tests, staff continued to model the requirement of a one-time cash draw equivalent to two months of procurement under the very low-price scenario as a proxy for other potential business operating and regulatory risks -- $70 million
- Customer Un-collectables Increase
  - Bad debt is 0.75% in base case and 2% in stress case

Modeled Stress Energy Prices

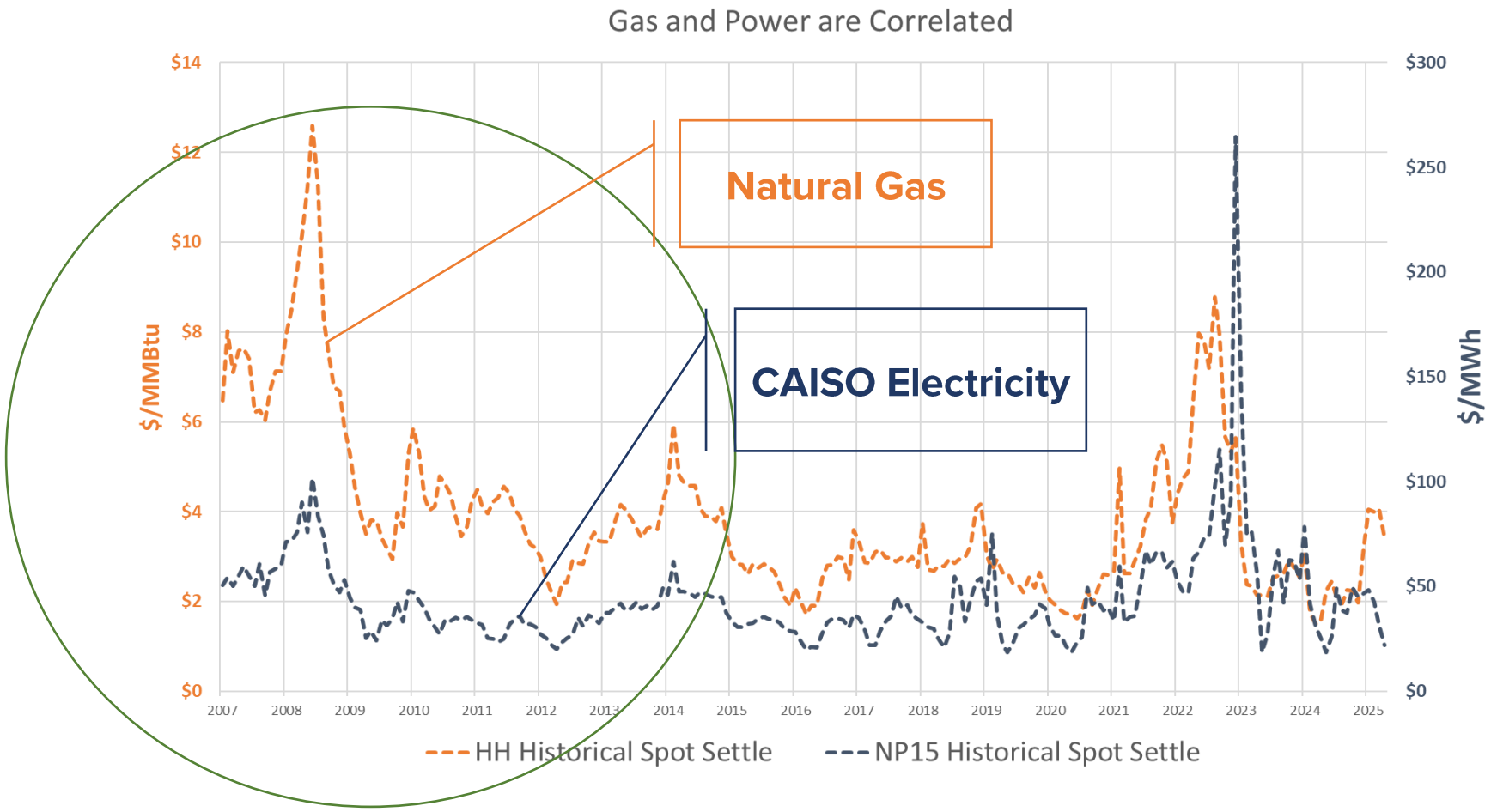
Demonstrating the reasonableness of modeled stress prices by comparing to the relative observed natural gas price collapse from the 2008 financial crisis

- During a relatively short period of time, commodity prices (oil, natural gas, and electricity prices) collapsed (both on the forward and spot markets)

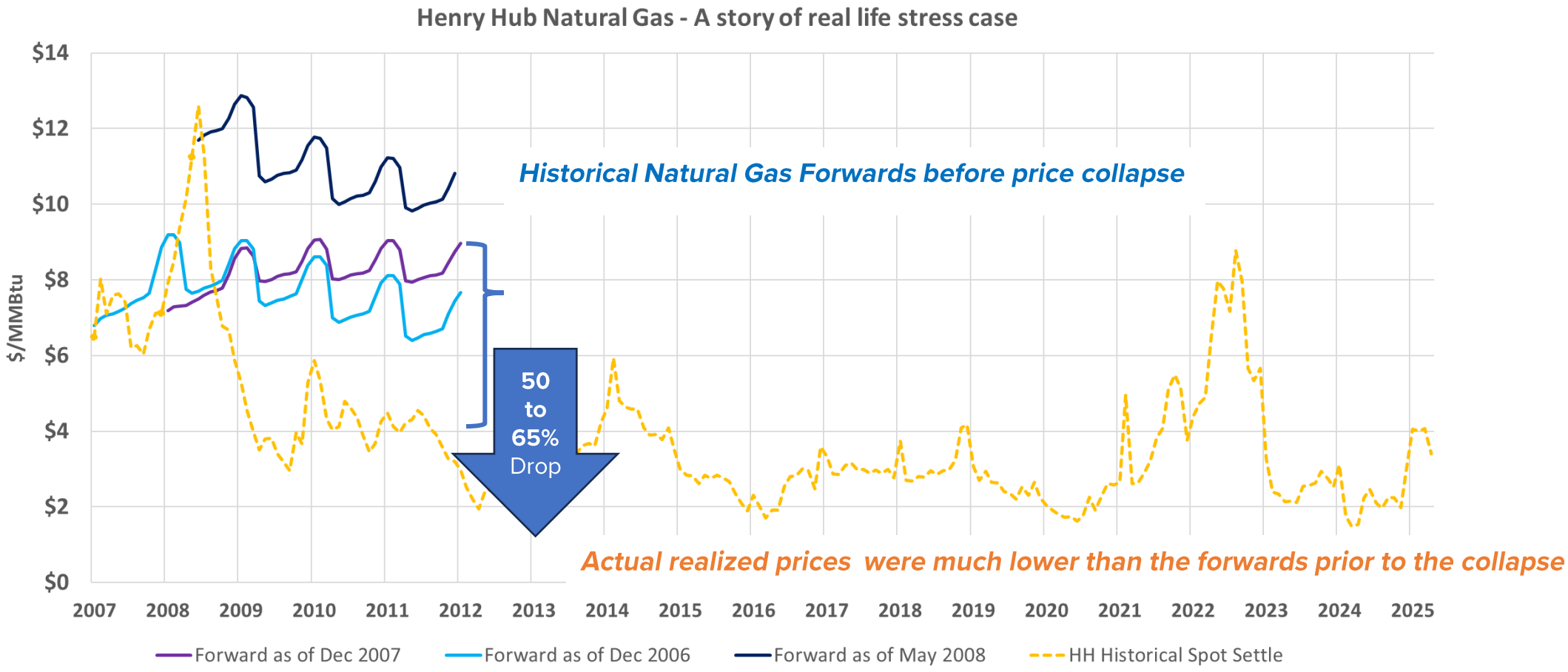
- A more relevant comparison for stress testing would appear to be comparing forward electricity prices prior to the collapse to the actual spot market prices
  - Forward electricity prices were not as liquid as natural gas
  - Staff could not obtain these prices for this comparison

- Natural gas prices, as shown in the next slide, are highly correlated with electricity prices

Natural Gas and Electricity Prices are Highly Correlated

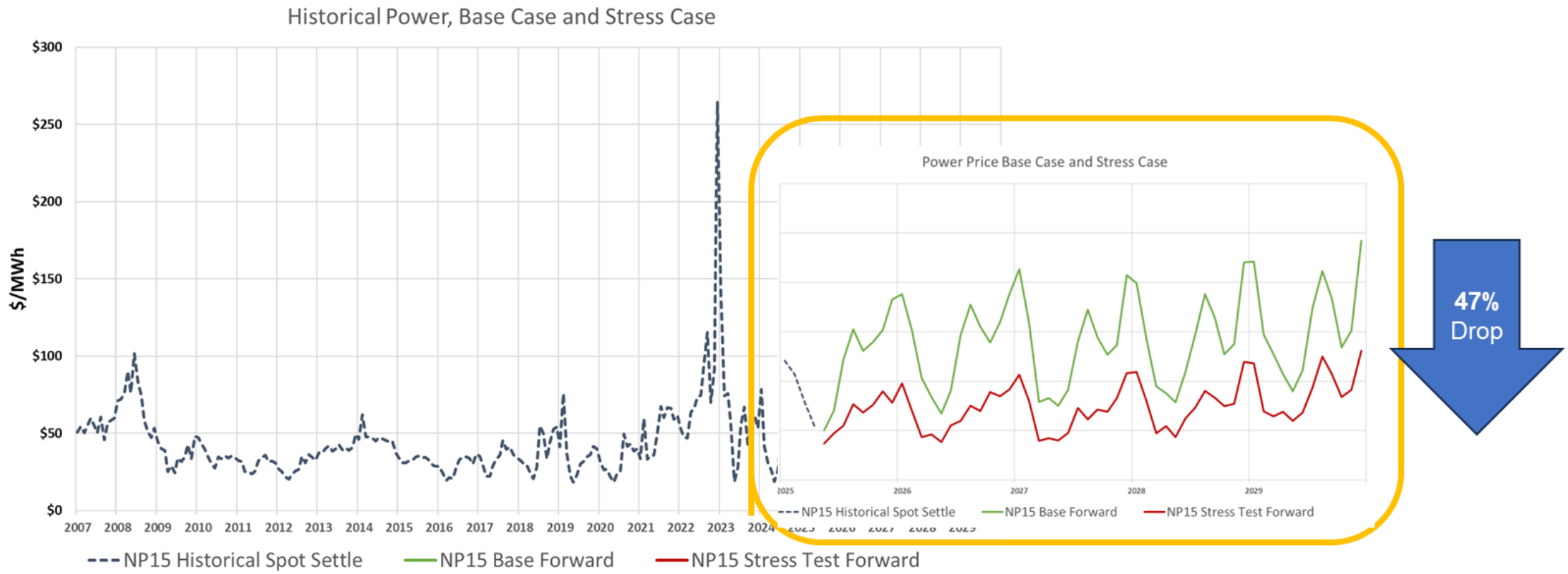


Financial Crisis Period Natural Gas Price Collapse



Modeled Energy Price Collapse

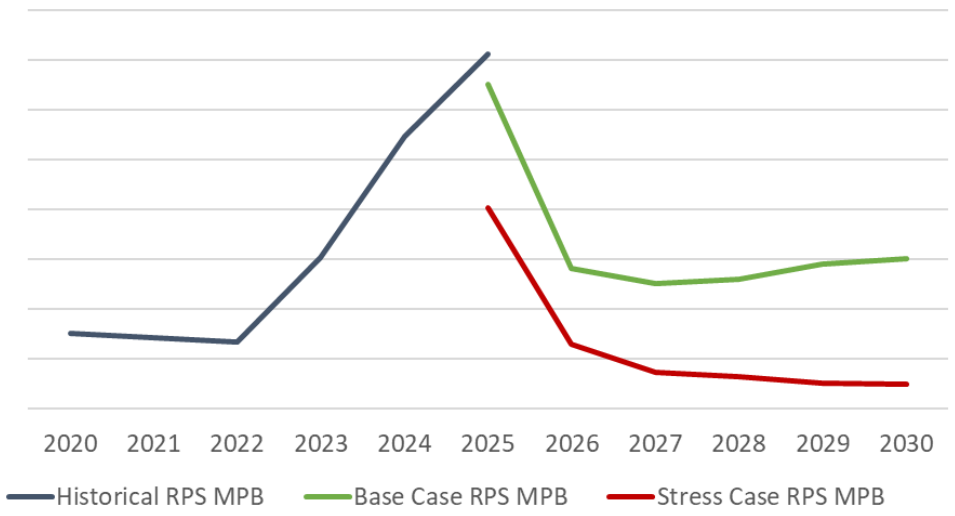
*The modeled **47%** energy price collapse is within the observed 50-65% decline in natural gas prices during the 2008 financial crisis period.*



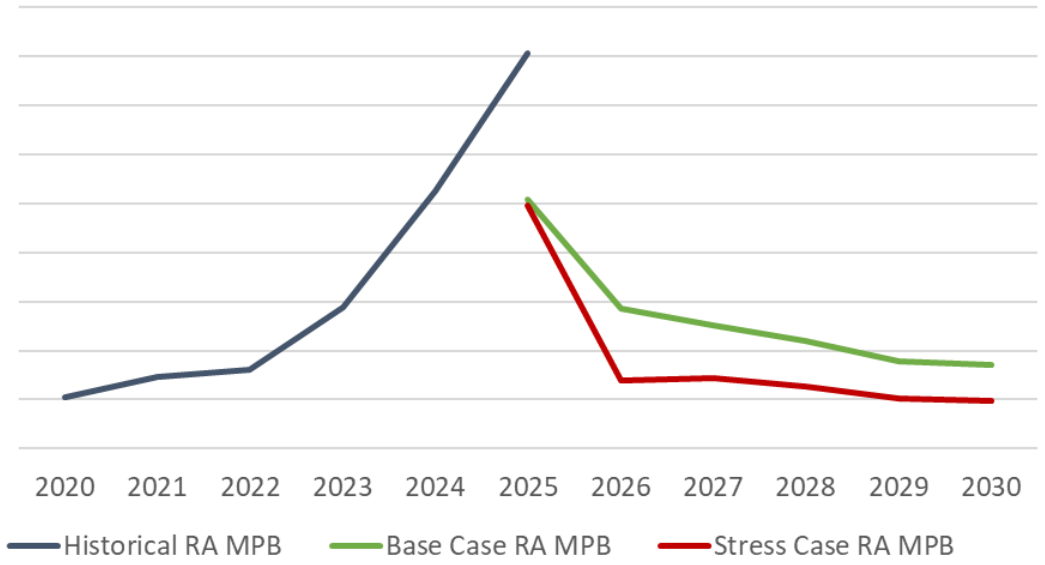
Past MPB, Current, and Stress Case Modeled RPS and System RA Prices

Modeled stress test price declines relative to the modeled current forward prices, on average, for RPS is 62%, and for RA is 31%

RPS Prices



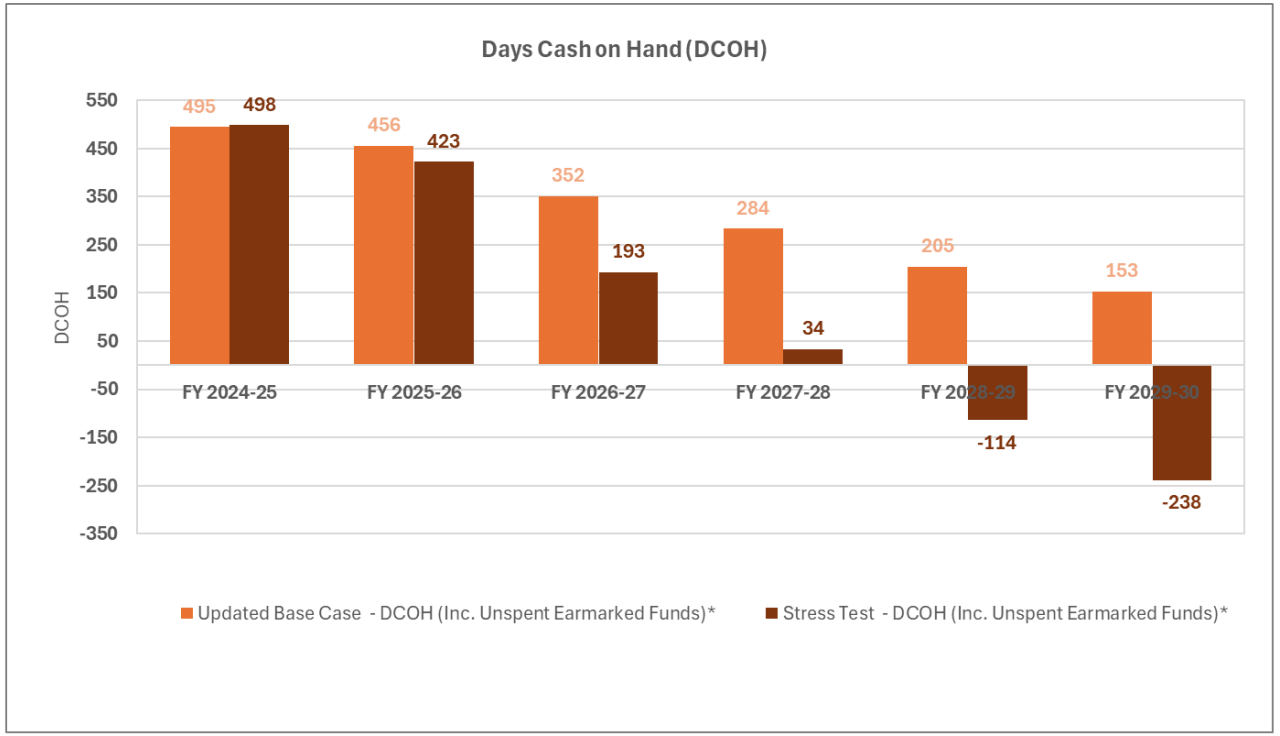
System RA MPBs



4. Comparing the Updated Base Case with the Stress Test Scenario

Reserve Outlook Under Base and Stress Scenario

- Updated Base Case (as of 4/18) - SVCE draws ~$70 million a year on average from reserves under the current operating framework
  - All customer rates are at a competitive advantage (1%) relative to PG&E Rates
  - Programs are funded at 2% of revenues
  - The current earmarked funds, mostly for programs, currently around ~$100 million, are spent by the end of fiscal year 2028-29
- Financially, SVCE is well-positioned
  - DCOH remains above the minimum threshold of 120
  - DCOH remains ~350 through the end of Sept. 2027
- Under the stress case scenario
  - DCOH remains above the minimum through the end of Sept. 2027, and starting late 2028 or around the start of 2029, funds start getting depleted



** Earmarked funds are unspent SVCE Program Funds and Remaining Building Funds. The earmarked funds are projected to be nearly zero by the end of FY 2028-2029.*

$ Millions	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Stress Test Scenario Reserve Balance	560	449	253	103	-48	-180
Updated Base Case Reserve Balance	556	494	388	321	252	197
Change	4	-45	-135	-217	-300	-377

5. Recap Key Messages and Discuss Staff Recommendations

Recap of Key Messages

- SVCE regularly assesses and prioritizes risks and opportunities (ERM, Strategic Focus Areas, Budget)
- PCIA and PG&E generation rates have a big impact on SVCE's financial health
  - Uncertain market prices significantly impact them
- Lots of uncertainty in financial planning, and uncertainty increases further out in time
  - Market prices, more illiquid RA and RPS markets, modeling with limited data, regulatory and legislative changes, including PCIA OIR
- Can not bank on the current year's margin
  - Because rates are based on forecasted market prices, gains in one year could be returned the following year via higher PCIA and lower PG&E generation rates when market prices are trued up
- Greater focus on the next two years' financials
- Stress tests by design are extreme but plausible
- Attempted to demonstrate the plausibility and reasonableness of the stress test construction through comparisons with data from the financial crisis period
- Next two fiscal years (Oct 2025 to Sept 2027)
  - Under the base case, reserves at or above the target of 350 DCOH
    - Through the end of the 5-year forecast period (Sept 2030), at 153 is above the minimum target of 120 DCOH
  - Even under the extreme but plausible stress test scenario, reserves are at 193, above the minimum threshold of 120 DCOH through the end of the next two fiscal years

Recommendations

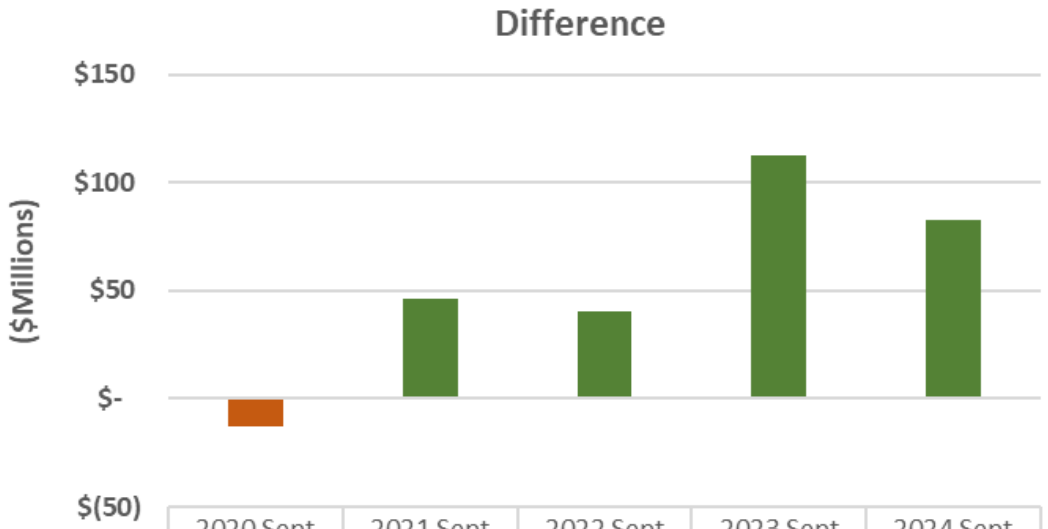
- With forecast reserves remaining at or above 350 DCOH over the next two fiscal years, no major changes are recommended for developing the budget for approval in September
- As in the past, adjust the budget in December when there's more certainty on next year's rates
- With a 5-year outlook that suggests a shift from contributing to drawing from reserves, staff will assess the financial levers

Potential financial levers and areas of focus:

- Further increase financial liquidity given greater uncertainty
  - Bank Line of Credit
- Reassess rate discounts and rate design along with customer product offerings

Comparison of Sept Adopted Budget Revenue with Mid-Year Budget Adjustment

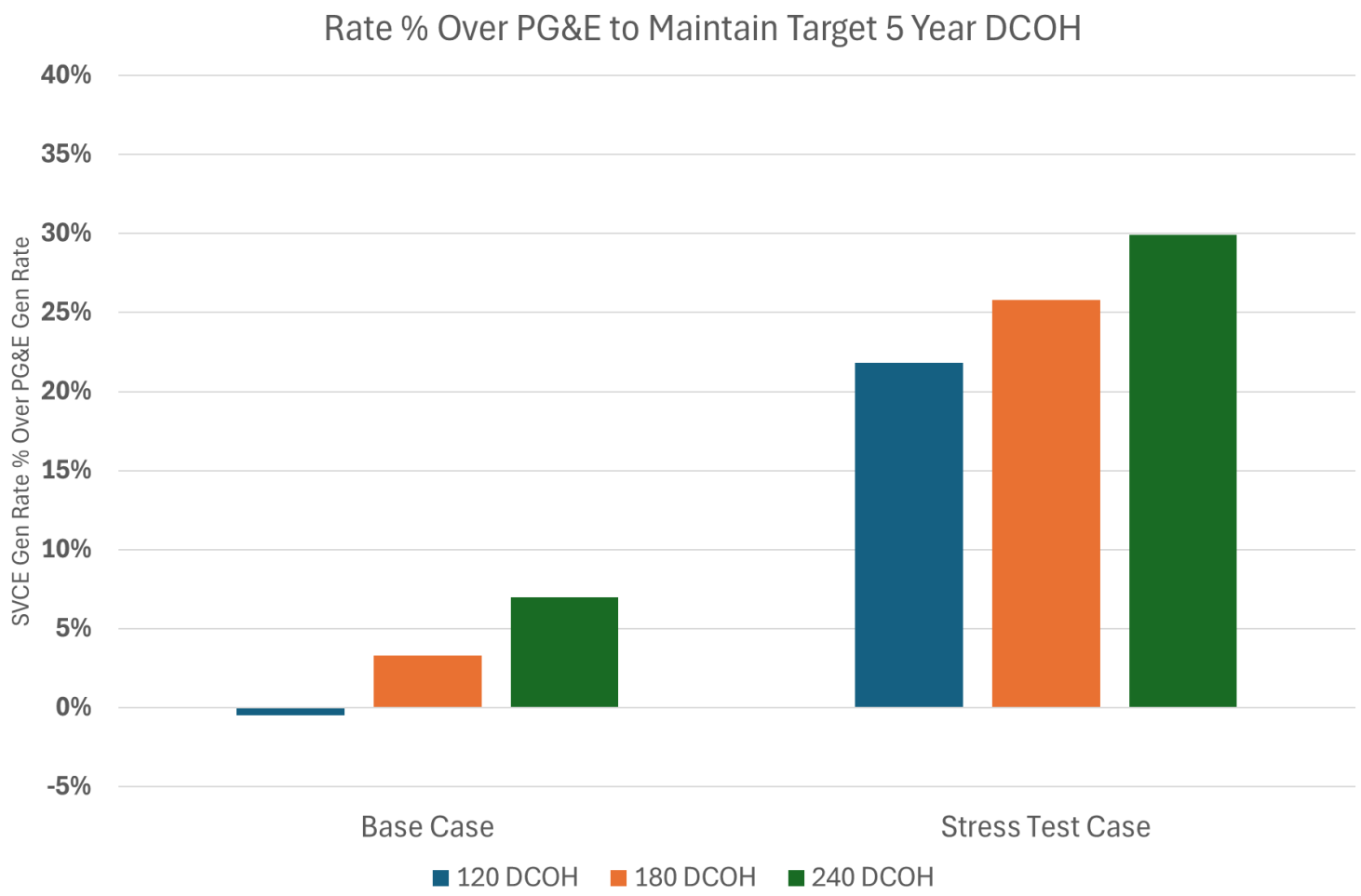
*For the most part, differences reflect revenue projections using forecast PCIA and PG&E generation rates and the actual rates adopted in January**



	2020 Sept	2021 Sept	2022 Sept	2023 Sept	2024 Sept
Difference	$(13)	$46	$40	$112	$82
Budget Adopted in September	$264	$339	$484	$440	$441
Mid Year (March) Adjusted Budget	$252	$386	$524	$553	$524

** While rate projections will contribute to the largest differences, other factors could also contribute, such as realized load or changes in load forecast, liquidated damages collected, and GreenPrime premium changes.*

DCOH Target Maintenance Rate Impact
(Illustrative)



Financial Stress Test Result Summary

Stress TEST

- No sale of any excess monthly RA
- 2025 $35MM customer bill credit in August 2025
- 1% discount to PG&E rates for 2026 forward
- Bad debt is 2%
- Business and regulatory uncertainty of $71MM (2 months of costs)
- Investment yields in the 3-4% range year-over-year
- 2% of Revenues represented in 'other cost' to fund programs
- No CARE/FERA monthly bill credit

Current Portfolio | P1 Prices | Operating Load

	BFY 2025	2026	2027	2028	2029	2030
Revenues	$ 186	$ 215	$ 148	$ 198	$ 229	$ 253
Power Supply Costs	$ 127	$ 269	$ 282	$ 294	$ 313	$ 333
Operating Margin	$ 59	$ (55)	$ (135)	$ (96)	$ (84)	$ (80)
Other Costs	$ 31	$ 56	$ 61	$ 54	$ 67	$ 53
Counterparty Collateral Outflow	$ -	$ -	$ -	$ -	$ -	$ -
Net Contribution to Reserves	$ 28	$ (111)	$ (196)	$ (150)	$ (151)	$ (133)
Reserve Balance	$ 560	$ 449	$ 253	$ 103	$ (48)	$ (180)
Reserve after Risk Adjustment		$ 377	$ 182	$ 32	$ (119)	$ (252)
Days Cash on Hand		423	193	34	(114)	(238)

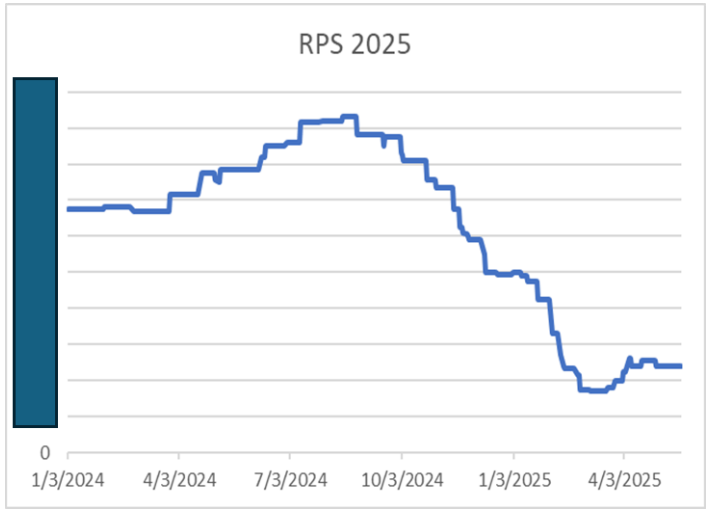
Financial Stress Test Case Days-Cash-On-Hand Reserve Levels

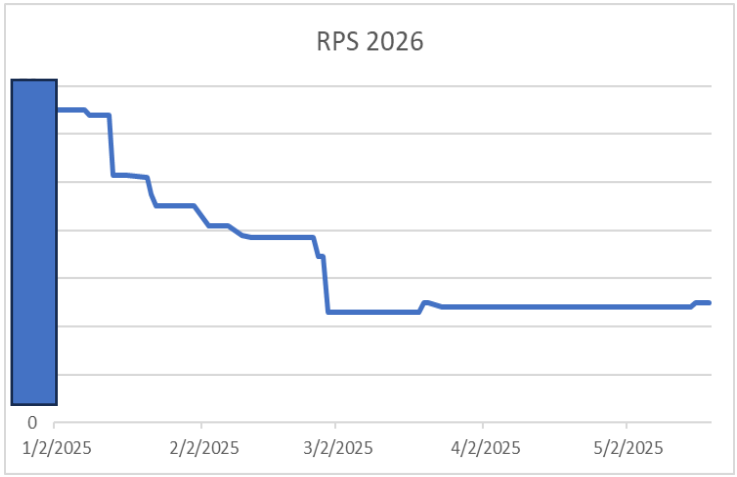
Forward Market Price Change

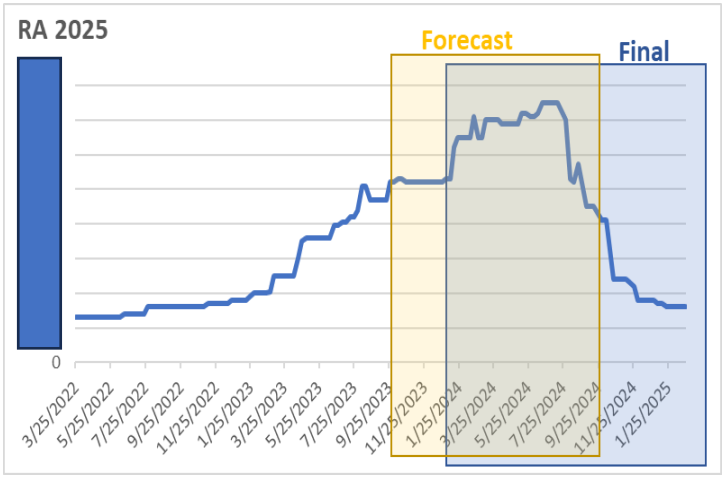
(Comparing Prices from Mid-Year Budget with those from the Updated Base Case)

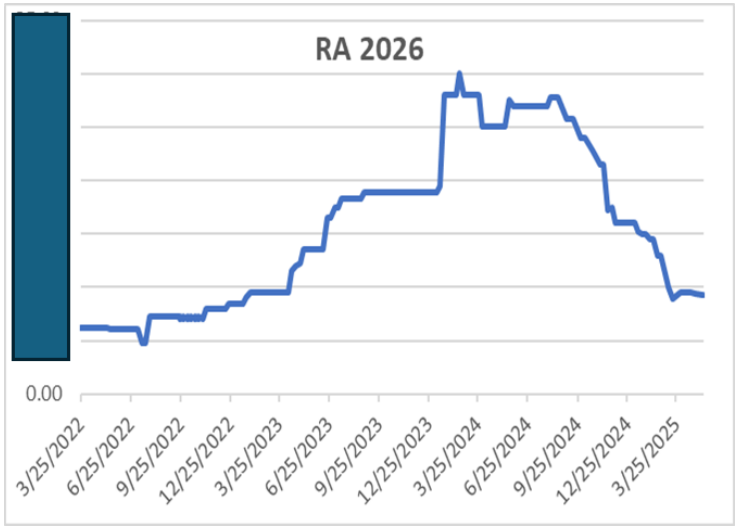
Market Price and Market Price Benchmark (MPB) Change: Mid Year Budget (1/31) vs Updated Base Case (4/18)	2025	2026	2027	2028	2029	2030
Energy Price Change	-6%	0%	-5%	-7%	-5%	-2%
Renewable Portfolio Standard (RPS) Price Change	-44%	-47%	-46%	-44%	-19%	-10%
Resource Adequacy (RA) Price Change	0%	-40%	-4%	0%	0%	0%
RPS Forecast MPB Change %	0%	-2%	-46%	-44%	-19%	-10%
RPS Final MPB Change %	-4%	-38%	-46%	-44%	-19%	-10%
System Forecast RA MPB Change %	0%	-5%	-4%	0%	0%	0%
System Final RA MPB Change %	0%	-35%	-4%	0%	0%	0%

Price Trends



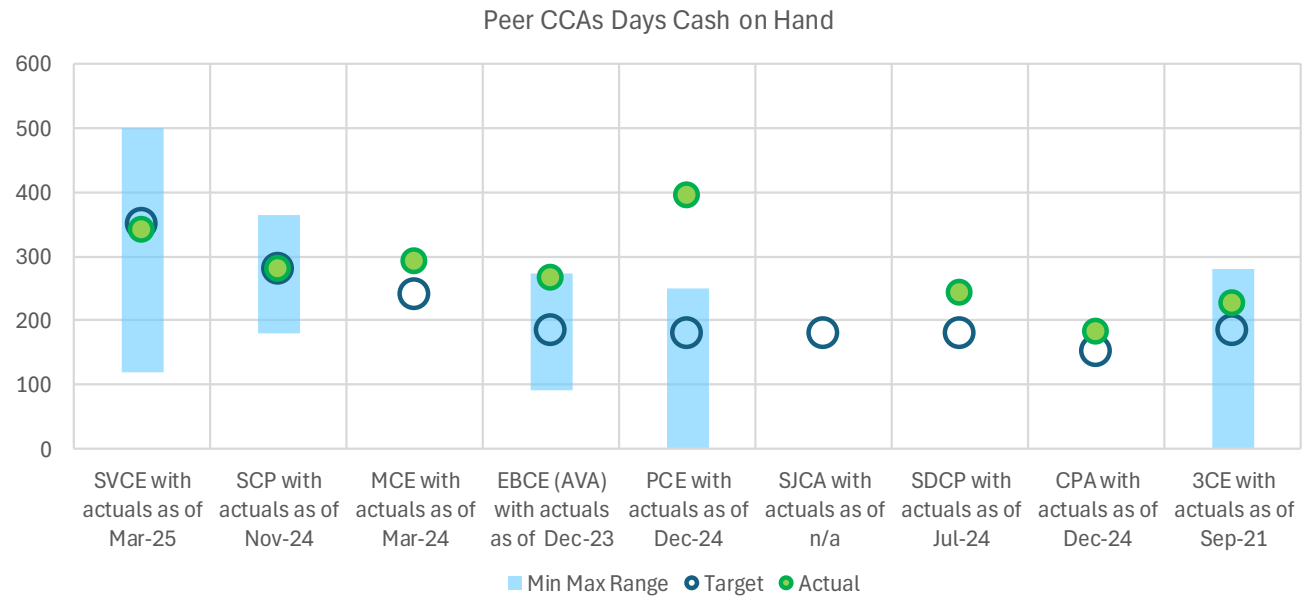






Days Cash on Hand Comparison

	2025 Update				
CCA	**Min**	**Target**	**Max**	**Actual**	**Actuals as of**
SVCE	120	350	500	339	Mar-25
SCP	180	280	365	280	Nov-24
MCE	n/a	240	n/a	291	Mar-24
EBCE (AVA)	91	183	274	265	Dec-23
PCE	n/a	180	250	393	Dec-24
SJCA	n/a	180	n/a	n/a	n/a
SDCP	n/a	180	n/a	242	Jul-24
CPA	109	150	n/a	181	Dec-24
3CE	n/a	183	281	226	Sep-21



- The actual DCOH shown for SVCE excludes unspent earmarked funds (~$100 million), mainly allocated but unspent program dollars. The DCOH including earmarked funds is 435.
- Some CCAs hold additional funds in rate stabilization funds that may not be accounted for in the table.
- The table may or may not include bank lines of credit for the other CCAs

FY 2025-26 Budget Framework

Amrit Singh
Finance and Administration Committee
June 2, 2025

SILICON VALLEY CLEAN ENERGY

Purpose

Discuss Budget Framework

- Seeking high-level feedback/validation on principles and assumptions
- Budget numbers to be computed in June/July based on feedback
- Methodology could be tweaked if results from actual numbers do not align with expectations

Main Areas of Discussion

1. Revenue Modeling
   - PCIA and PG&E Gen Rate Uncertainty
2. Reserve Targets
3. Customer Discount Rate, Additional Funding for Programs, and Set Aside for Reserves
4. Power Supply Costs
5. Other Cost Drivers

FY25-26 Budget Ready for Review in August

Budget Framework

May

Discuss the high-level budget framework with the **Finance and Admin Committee**

June

*Discuss the high-level budget framework with the **BOD***

Full-Year Update

August

Review the draft budget with the **Finance & Admin Committee**

August

Present the draft budget to the **BOD**

September

The **BOD** adopts the budget and agrees to revisit December when there would be more certainty on PG&E Gen and PCIA rates

Oct 1st

Fiscal Year Start

"Adjusted December Budget"

November

Review adjustments to the budget to reflect updates to PCIA and PG&E gen rate assumptions with the **Finance and Admin Committee**

December

Present the adjusted budget to the **BOD** for approval

"Mid-Year Budget"

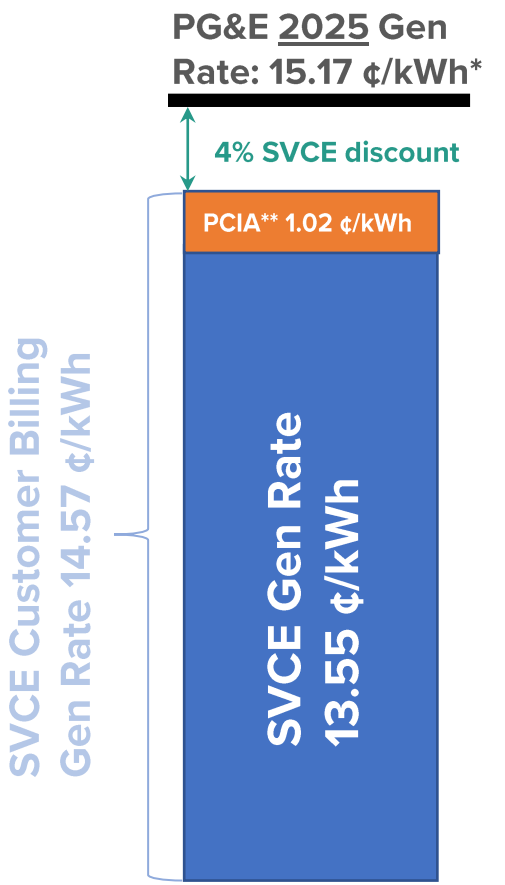
February

Review the mid-year budget with the **Finance and Admin Committee**

March

Present the mid-year budget to the **BOD** for approval

Revenue Forecast Depends on PG&E Generation and PCIA Rates



* All rates are weighted for SVCE load.

** Power Charge Indifference Adjustment (PCIA) is a charge our customers pay to PG&E so that PG&E can recover commitments made on their behalf when the customer was part of PG&E's portfolio.

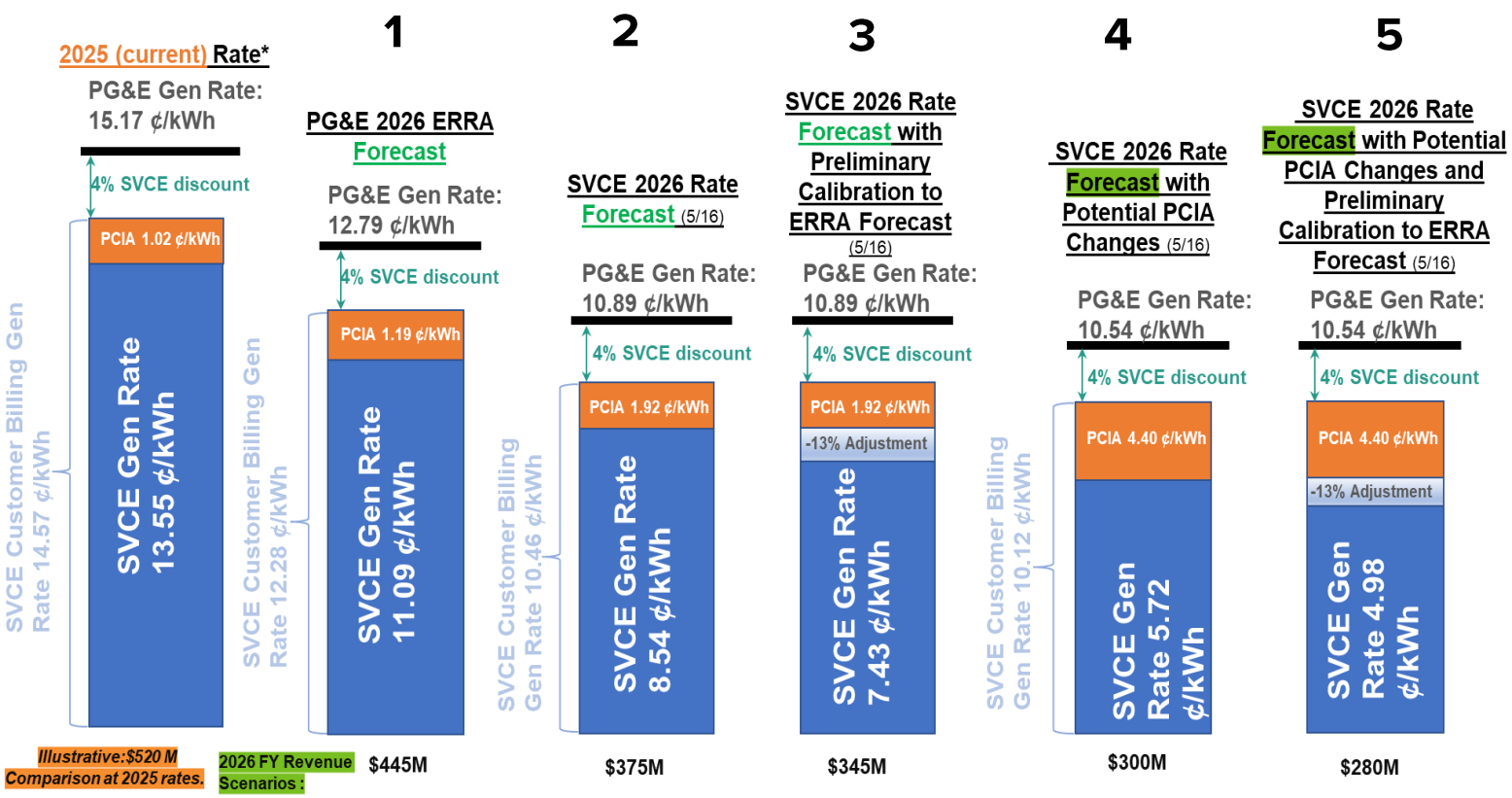
Issue: Rate Uncertainty	Staff Recommendation	Implications/Reasons

• PG&E filed its 2026 ERRA forecast on May 15 with preliminary 2026 PG&E generation and PCIA rate forecasts
• PG&E will update this forecast in the fall after CPUC issues market price benchmarks (MPBs). CPUC normally adopts the rate in December based on this update
• Lots of Uncertainty!
  • PCIA Changes
  • Energy Price Volatility
  • Market prices have dropped below those used by PG&E in the ERRA forecast
	• Use the latest market data in the Cal-CCA/NewGen Strategies model that will be updated to calibrate to the 2026 ERRA forecast (non-price data)
	  • PG&E's ERRA update seems to include regulatory rule interpretations favorable to them
	  • If these interpretations do not prevail, this impact could increase their generation rate from those shown in their forecast
	• Key Model Input: Forecast MPBs
	  • Power Prices – market traded forward prices
	  • Renewable Portfolio Standard (RPS) and Resource Adequacy (RA) Prices
	  • Illiquid markets
	  • CPUC established a methodology for MPBs
	  • SVCE attempts to forecast MPBs with limited data
		• Uses the latest data to adjust rates forecasted by PG&E
		• Better aligns revenues with power supply costs used in the budget
		• Primarily for budget-setting purposes
		• Revenues will be adjusted in December when there's more certainty about rates
		• Customer rates and other key decisions dependent on financial projections can be made by the Board in December when there's better PG&E and PCIA rates data

2026 Revenue Projections: Highly Uncertain

Probable Scenarios

- Staff's attempt to model probable scenarios results in a Fiscal Year 2025-26 revenue forecast ranging from **$280 million to $375 million**
  - Note the customer rates decline in all scenarios relative to current rates (~15% to 30%)
  - Under some scenario comparisons (2 compared to 3, and 4 compared to 5), customer rates stay the same, but SVCE revenues drop. In these scenarios, costs are shifted from PG&E bundled customers to SVCE.
- These estimates will change as more information becomes available from the PCIA regulatory proceeding, and from market price updates
- The best estimate will become available towards the end of the year when the CPUC issues MPBs, which are expected to incorporate PCIA changes from Track 1 of the regulatory proceeding, and PG&E files updated rates using those MPBs



The rates and illustration above exclude minor franchise fees (0.1 ¢/kWh), which are accounted for in the revenue projections.

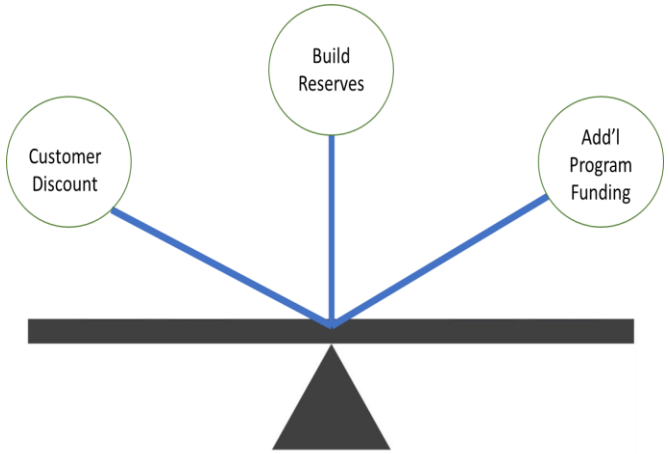
These scenarios and their impact on rates and revenues are based on the best available information, market data, and the CalCCA/NewGen Strategies & Solutions model, with staff 's approximations to estimate the impact of certain key variables. The PCIA Track 1 proposed decision came out on May 23, 2025, and staff did not have sufficient time to review the decision. Staff plans to discuss preliminary findings at the meeting. For developing the annual fiscal year budget, staff will use an updated NewGen Solutions model incorporating the latest information as of the budget preparation date.

Reserve Targets

Issue: Update Reserve Targets	Current Methodology	Proposal

• Ensure SVCE maintains sufficient reserves to manage risks such as those modeled under the stress test analyses
 	
• If adverse conditions materialize, allow for at least 120 days to reshape the strategy and secure additional liquidity
 	
• The upper reserve target enables the agency to take advantage of good margin years to manage risks over a 5-year period
	Target to keep reserves above 120 Days of Cash On Hand (DCOH) for FY 2025-2026 and FY 2026-2027 under the modeled stress scenario
	
	Set the upper reserve target such that over the next five fiscal years, reserves do not fall below 90 DCOH under the modeled stress scenario
		• Given the current financial outlook, which is driven by a combination of unusually uncertain dynamics (regulatory, high price volatility, modeling assumptions, and insufficient market price or illiquid products such as RPS and RA), staff recommends not updating the reserve targets.
		  • Stress test analyses would imply raising the upper target from 500 to ~800 DCOH; however, the new implied target level of 380 is close to the current target of 350 DCOH
		  • Changing the target has no practical implication, given that the financial outlook does not support contributing to reserves
		  • Stress test is an important factor, but other considerations, such as guidance from credit rating agencies, also matter.
		  • Current targets support such guidance

Additional Funding for Programs and Customer Discounts



- 1% customer discount over 12 months of 2025 is ~$5.5 million
- Monthly Average Bill Savings of 1% Discount:
  - Residential - ~$0.80
  - Small Commercial - ~$2.80
  - Medium Commercial -~$35

Issue: Balancing Priorities	Staff Recommendation	Implications/Reasons

• Continue to provide competitively-priced and high-valued services to SVCE customers
• Funds not needed to cover cost-of-service flow to customers via lower SVCE rates (discount to comparable PG&E rates)
• Cost-of-service includes funds needed to cover operations, meet reserve targets, and fund decarbonization programs
	• To be developed later after completing the budget analysis
	  • Likely to keep current discount through the end of this year
	  • Recommend preliminary rate recommendations for next year
	• The Board can change the budgeted customer rate at the December meeting when there's better data on the likely 2026 PG&E Generation and PCIA rates
	• Staff may also present additional customer rates and financial strategies depending on outcomes from the PCIA Proceeding and potentially others, and further energy market/price changes
		• Keeping reserves at or above target levels ensures SVCE can withstand adverse risk scenarios and helps maintain/improve credit ratings
		• Keeping the discount rate at a reasonable level
		  • Enables additional funding for valued customer programs such as decarbonization efforts
		  • Ensures there's more organizational resiliency to respond to risks over the 5-yr planning horizon

Power Supply Expenses
(~90% of Expenses)

Issue: Volatile Prices	Staff Recommendation	Implications/Reasons

• Power prices are very volatile and have declined significantly.
• In addition to power price volatility, recent volatility in RA and RPS prices makes budget projections highly uncertain
  ◦ Budget will be developed based on a snapshot of market prices in June/July 2025
• Contract delays/renegotiations further add uncertainty
	• Continue hedging to current ERM (Energy Risk Management) targets
	  ◦ In 2025, with Board approval of the Energy Risk Management Policy update, staff incorporated estimated contributions towards hedges from PCIA and PG&E Gen Rate
	  ◦ Staff will continue to further refine methodologies and update the estimated parameters
	• SVCE's clean policy
	  ◦ For 2025, given the strong hydro year, SVCE is expecting to be at **106%** clean portfolio position
	  ▪ At-risk contract delays can require the purchase of additional clean resource attributes
	  ◦ For 2026, contract delays can impact the need for additional clean resource attributes. Staff is actively tracking the need and will look to fill those positions as they arise, and will budget for this potential need.
		• Balance the customer value proposition of providing clean energy with greenhouse gas reduction benefits.

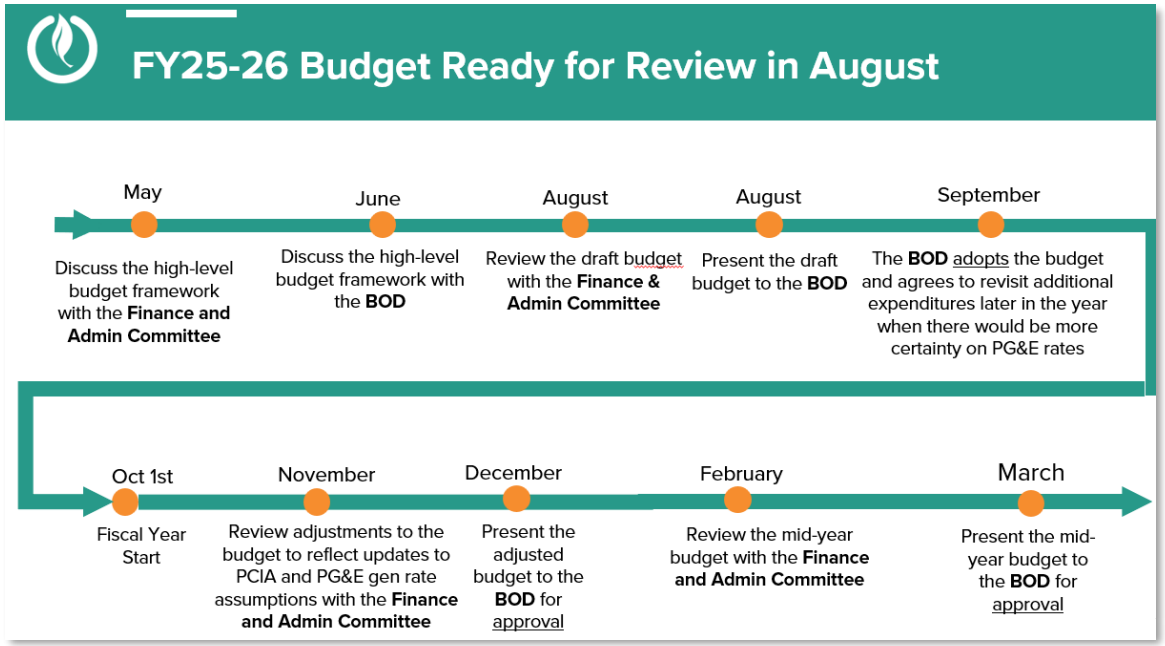
Other Costs
(Staffing, Cost of Living/Merit, Operations)

Status	Staff Recommendation	Look Ahead

• Hire identified roles from mid-year budget approvals, and continue to assess staffing needs semi-annually.
  • 3 hires since October 2024
  • 5 new positions added in Midyear
  • 6 vacancies (4 new and 2 backfills)
• Adjust employee salaries for cost-of-living and merit/promotions
	• Current budgeted headcount of 70 (67 FT/ 3 PT)
	• Adjustment for COLA
	  • Propose to continue using the 6-month (Jan – June 2025) rolling average of SF Bay Area CPI – current trailing 6-month average is 2.45%
	• Additional increases for merit and promotions based on the CEO's discretion
	  • CEO discretion applied depending on employee pay relative to market range, performance, and date of hire
		• Continuing to evaluate staffing levels to:
		  • Create effective work environment for new building
		  • Adequately resource for rate design and monitoring
		  • Reduce the high level of existing employee workload
		  • Advance strategic focus area goals
		  • Create organizational depth for business continuity
		  • Continue to invest in cybersecurity preparedness, aligned with mitigating risk with Data Team's cloud initiatives and data security.

Next Steps

- Further analyze PG&E's recently issued ERRA forecast of 2026 generation and PCIA rates, and CPUC's proposed decision on PCIA Track One proceeding
- Update changes to PCIA methodology from the Proposed Decision/Final Decision
- Present draft budget for Finance Committee review in early August and then to the Board
- The board adopts the budget in September



Thank you! / Questions?