MID-YEAR ADJUSTED OPERATING BUDGET

FISCAL YEAR 2022-2023

SILICON VALLEY CLEAN ENERGY

Silicon Valley Clean Energy Authority
Fiscal Year Ending September 30, 2023

TABLE OF CONTENTS

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

DESCRIPTION	FY 2022-23 APPROVED BUDGET	MY 2022-23 ADJUSTED BUDGET	Adjustment / Change $	%
ENERGY REVENUES				
Energy Sales	482,930	522,853	39,923	8.3%
Green Prime	931	1,055	124	13.4%
Other Income	50	50	0	0.0%
TOTAL ENERGY REVENUES	**483,910**	**523,958**	**40,048**	**8.3%**
ENERGY EXPENSES				
Power Supply	325,296	392,436	67,140	20.6%
OPERATING MARGIN	**158,564**	**131,522**	**(27,042)**	**-17.1%**
OPERATING EXPENSES				
Data Management	3,413	3,413	0	0.0%
PG&E Fees	1,470	1,470	0	0.0%
Salaries and Retirement	12,024	11,285	(740)	-6.2%
Professional Services	8,016	8,016	0	0.0%
Marketing & Promotions	862	862	0	0.0%
Notifications	131	131	0	0.0%
Lease	525	525	0	0.0%
General & Administrative	1,857	1,857	0	0.0%
TOTAL OPERATING EXPENSES	**28,299**	**27,559**	**(740)**	**-2.6%**
OPERATING INCOME (LOSS)	**130,265**	**103,963**	**(26,302)**	**-20.2%**
NON-OPERATING REVENUES				
Interest Income	592	3,870	3,279	554.1%
Grant Income	0	0	0	-
TOTAL NON-OPERATING REVENUES	**592**	**3,870**	**3,278**	**553.8%**
NON-OPERATING EXPENSES				
Financing	3	3	0	0.0%
Interest	0	0	0	-
TOTAL NON-OPERATING EXPENSES	**3**	**3**	**0**	**0.0%**
TOTAL NON-OPERATING INCOME (EXPENSES)	**639**	**3,867**	**3,229**	**505.5%**
CHANGE IN NET POSITION	**130,904**	**107,830**	**(23,074)**	**-17.6%**
CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER				
Capital Outlay	200	200	0	0.0%
Transfer to CRCR Fund	0	0	0	-
Transfer to Program Fund	9,765	9,765	0	0.0%
Nuclear Allocation	1,900	1,900	0	0.0%
Multi Family Direct Install Program	0	9,500	9,500	-
Electrification Discount Program	0	9,500	9,500	-
Customer Bill Relief	3,600	3,600	0	0.0%
Other	0	0	0	-
TOTAL CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER	**$15,465**	**$34,465**	**$19 000**	**122.9%**
BALANCE AVAILABLE FOR RESERVES	**$115,439**	**$73,365**	**($42,074)**	**-36.4%**

SILICON VALLEY CLEAN ENERGY

Staff Report – Item 4

Item 4:	**Adopt Resolution Approving the Mid-Year 2022-23 Adjusted Operating Budget**
From:	Girish Balachandran, CEO
Prepared by:	Amrit Singh, CFO and Director of Administrative Services Kevin Armstrong, Deputy Director of Administrative Services
Date:	3/8/2023

RECOMMENDATION

Staff recommends that the Board of Directors adopt resolution 2023-04, approving the Mid-year 2022 -23 (MY 2023)[1] Adjusted Operating Budget that projects depositing $73.4 million into the reserves.

Finance and Administration Committee Review

Staff presented the proposed MY 2023 Adjusted Operating Budget to the Finance and Administration Committee at its February 27th meeting. The Committee reviewed the budget and asked clarifying questions, including the drivers of the recent power market price volatility, the adequacy of SVCE's financial reserves, and tradeoffs in rate design considerations such as setting customer discount levels, funding reserves, and additional expenditures on decarbonization programs. After the discussion with staff, the Committee unanimously recommended that the Board of Directors approve the MY 2023 Adjusted Operating Budget.

BACKGROUND

The Board of Directors adopted the Annual Budget for the Fiscal Year 2022-23 (FY 2023) at the September 14th, 2022, meeting. At Mid-Year, Staff is adjusting the budget to update the energy supply expenses using the latest market price data and portfolio positions, update the revenues to reflect the rate changes that went into effect starting January 2023, account for the December Board of Directors' decision to increase funding for decarbonization programs, and update other minor changes in operating expenses and projected investment income.

In adopting the FY 2023 budget at the September 2022 Board meeting, the Board of Directors voted to maintain the 1% customer discount rate until the CPUC sets the new Power Charge Indifference Adjustment (PCIA) and PG&E Generation rates, expected to take effect in January 2023. To set the budget, the Board adopted an effective discount of 3% starting January 2023. The 3 percent effective discount rate comprised a 2 percent overall discount relative to comparable PG&E Generation rates for all customers and an additional 1 percent converted to dollar bill credits to the CARE and FERA customers, which amounted to $3.6 million or about $100 bill credit (~$12.50 a month for eight months). The Board of Directors also agreed to revisit the customer discount level in December 2022 when there would be more certainty on final PCIA and PG&E Generation rates.

Based on better-than-expected SVCE margin projections in December 2022, the Board agreed to increase the overall customer discount rate from the budgeted amount of 2 percent to 4 percent and to further fund the Decarbonization Programs by directing $9.5 million to fund a new electrification discount rate and another $9.5 million to expand the low-income multifamily direct-install program.

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

ANALYSIS & DISCUSSION

The MY 23 Adjusted Operating Budget is balanced and presents Silicon Valley Clean Energy (SVCE) in stable financial condition.

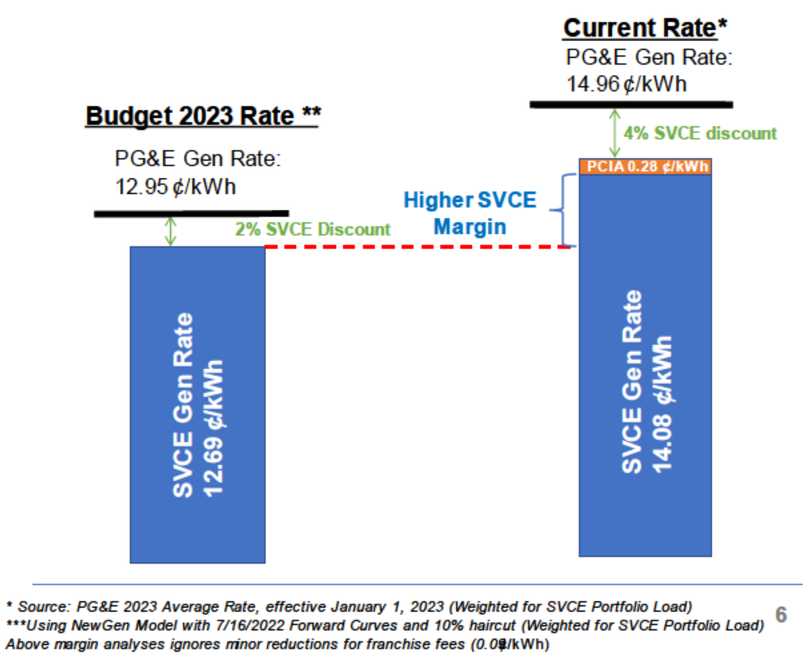
The projected balance available for reserves of $73.4 million is a decrease of $42.1 million from the $115.5 million presented in the FY 23 Budget. The Board of Directors' approval to increase the customer discount rate from 2% to 4% accounts for about $10 Million of the $42.1 million variance. The Board's approval to fund an additional $19.0 million in Decarbonization Programs spending contributes to another source of the variance. The rally in commodity prices (energy, renewable energy credits, and resource adequacy) since adopting the annual budget accounts for a significant portion of the remaining variance. Increased revenues from higher SVCE rates, increased projected investment income, and a slight reduction in other operating expenses partially offset the declines.

The table below illustrates the $42 million reduction:

December Board Approvals		
	Additional 2% Customer Discount	$10
	Increased Program Spending	$19
Increased Energy Expenses		$67
Increase Revenues		-$50
Increase Investment Income		-$3
Reduction in Other Operating Expenses		-$1
		$42

Energy Revenues

The proposed budget shows an increase in revenues of $40 million compared to the FY 23 budget after the adjustment for additional customer discounts. SVCE's margins improved relative to the FY 23 budget assumptions primarily because the CPUC adopted higher PG&E generation rates. PG&E generation rates are 15.5% higher than those assumed at budget. While PCIA came in higher than forecasted, the overall margins improved by about 11 percent, as shown in the illustration below.



Power Supply Expenses

Due to increasingly volatile market prices, power supply expenses are expected to increase to $392.4 million. The October to December 2022 actuals came in about $14 million higher than the Annual Budget due to increased market prices and higher CAISO charges. The actuals for January 2023 are also expected to be higher than budgeted due to extremely high natural gas prices. In addition, the costs for non-RPS, carbon-free attributes, and RPS products are expected to remain high due to the low supplies. Changing resource adequacy (RA) requirements and insufficient available supply in the RA market have resulted in high RA prices and compliance costs. While long-term PPAs continuing to come online place downward pressure on SVCE's power supply costs, potential delays in their operational starts and negotiations subject SVCE to additional energy, RPS, and RA volumes at high market prices.

Operating Expenses

Due to ongoing personnel vacancies, budgeted operating expenses are slightly lower than the adopted budget by about $740,000. While staff has been engaged in a concerted hiring effort since late 2022, fourteen full-time positions remain vacant, reducing personnel expenses relative to the FY22-23 budget.

Beyond personnel, other operating expenses are unchanged in the adjusted MY22-23 budget. Spending on professional services, marketing, and general & administrative categories remain well within the levels set in the FY 23 budget, and no changes are requested.

Programs Budget

SVCE will continue incorporating projected Decarbonization Programs spending over the 5-year forecast into the reserve balance projections. This includes remaining CRCR funds (expected to be drawn down by the end of FY23-24) and the double-down program allocation from FY21-22 (expected to be drawn down by FY24-25). For this coming fiscal year, program spending is projected to be $11.5 million, with an additional $2.8 million in CRCR spending. In addition to previously allocated funds, the MY 2023 budget includes the $19 million from the Board's December electrification rate decision, which provided funds for electrification discounts and a low-income multi-family direct-install program.

Non-Operating Revenues

The Board adopted a new investment policy in October 2022, and staff began implementing investment changes shortly after. SVCE established an account with the California Asset Management Program (CAMP) and set up an Insured Cash Sweep (ICS) account, each earning well above the ~0.2% interest previously earned in a Money Market Account. As a result, non-operating revenues for the first four months of FY22-23 were $835,000 higher and are projected to total $3.9 million for the fiscal year. This increase reflects a conservative estimate of investment earnings; earnings will likely be higher given the sustained high-interest rate environment.

STRATEGIC PLAN

The recommendation supports all goals of the Board adopted Strategic Plan. Specifically, the recommendations strongly support Goal 15 - "Commit to maintaining a strong financial position" and the accompanying Measure, "Present balanced budget that achieves cash reserve targets, weighs tradeoffs between customer value proposition and contribution to reserves and maintains competitive rates."

ALTERNATIVE

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

Staff does not recommend any specific reductions given a sufficient projected reserve balance that maintains SVCE's stable financial condition.

FISCAL IMPACT

The MY 2023 Adjusted Operating Budget includes $523.95 million in revenues and $450.6 million in expenses, non-operating revenues, and transfers, resulting in a contribution to reserves of $73.4 million.

ATTACHMENTS

1. MY 2022-23 Adjusted Operating Budget
2. Resolution 2023-04, Adopting the Mid-Year 2022-23 Adjusted Operating Budget

Item 4
PRESENTATION

MY 22-23 Adjusted Operating Budget

Amrit Singh
Board of Directors Meeting
March 8, 2023

SILICON VALLEY CLEAN ENERGY

Purpose

Action: Adopt Resolution Approving Mid-Year 2022-2023 (MY 23) Adjusted Operating Budget

Main Areas of Discussion

- Review the Budget Timeline
- Highlight Changes Since the Adoption of the Annual Budget
- Compare Mid-year and Annual Adopted Budget Key Line Items
- Review Updated SVCE Margin From December Rate Change
- Review of Updates to Energy Expenses
- Review Reserve Projections
- Provide Staffing Update
- Adopt Resolution

Mid Year FY22-23 Budget Approval Timeline

Aug. 10, 2022
Staff Presented Draft Budget to BOD

Sept. 14, 2022
BOD Approved FY22-23 Budget

Dec 14, 2022
BOD Approved January 2023 Rate Change & Program Funding

Feb. 27, 2023
Finance and Administration Committee Unanimously Recommended BOD Approve MY 2023 Budget

March 2023
Staff Presents MY Budget for BOD Approval

Highlights

Good Financial Year

- Healthy contribution to reserves of **$73.4 million**
- Reduction of ~ $42 Million from $115.5 Million at budget
- Key Drivers of Reduction:
  - December 2022 Board Approvals:
    - Additional 2% Customer Discounts
    - Increased Program Spending
  - Increased Energy Expenses
- Reductions Partially Offset by:
  - Increase in Revenues from Improved Margins
  - Increase in Investment Income
  - Slight Reduction in Other Operating Expenses

Reduction of ~$42 Million:

December Board Approvals		
	Additional 2% Customer Discount	$10
	Increased Program Spending	$19
Increased Energy Expenses		$67
Increase Revenues		-$50
Increase Investment Income		-$3
Reduction in Other Operating Expenses		-$1
		$42

Annual Budget vs. Mid-Year Adjusted Budget

- Supports Overall Customer Discount of 4%
- Additional Monthly Bill Credits to Low-Income Customers of ~$12.50 per month for ~8 months.
- Total Transfer of $30.7 Million to Decarbonization Programs

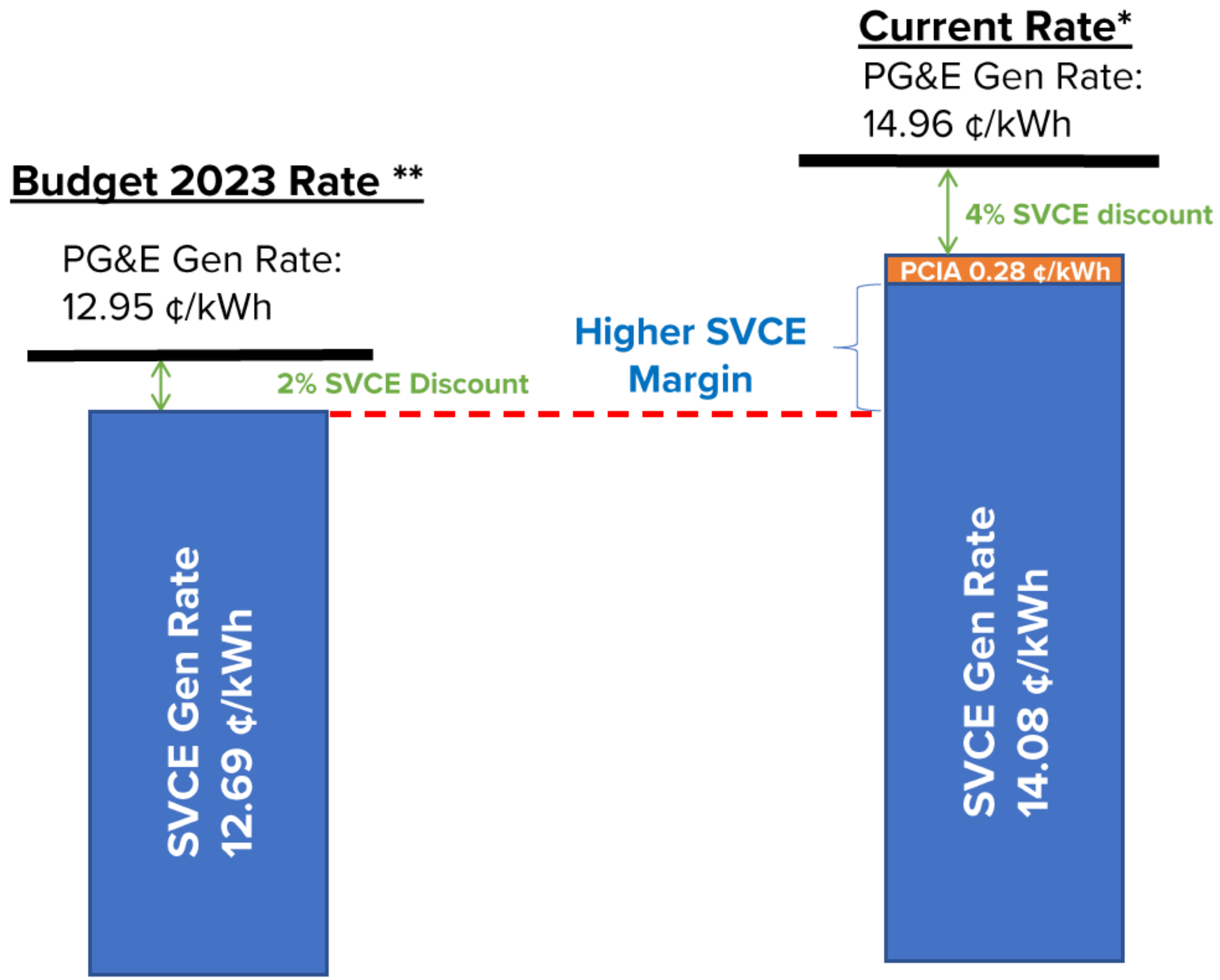
SILICON VALLEY CLEAN ENERGY
MY 2022-23 OPERATING BUDGET
($ in thousands)

DESCRIPTION	FY 2022-23 APPROVED BUDGET	MY 2022-23 ADJUSTED BUDGET	Adjustment / Change $	%
Energy Revenues	483,910	523,958	40,048	8.3%
Energy Expenses	325,296	392,436	67,140	20.6%
Operating Margin	158,564	131,522	(27,042)	-17.1%
Operating Expenses	28,299	27,559	(740)	-2.6%
Non-Operating Revenue (Expense)	589	3,867	3,278	553.8%
Balance Available for Reserves (before Transfers)	130,904	107,830	(23,074)	-17.6%
Annual Transfers and Other Expenses	9,965	9,965	0	0.0%
Nuclear Allocation	1,900	1,900	0	0.0%
Multi Family Direct Install Program	0	9,500	9,500	-
Electrification Discount Program	0	9,500	9,500	-
Customer Bill Relief	3,600	3,600	0	0.0%
Final Reserve Contribution Balance	**115,439**	**73,365**	**(42,074)**	**-36.4%**

($ in thousands)

Actual PG&E Gen and PCIA Rates Result in Higher Margin than FY 23 Budget Assumptions

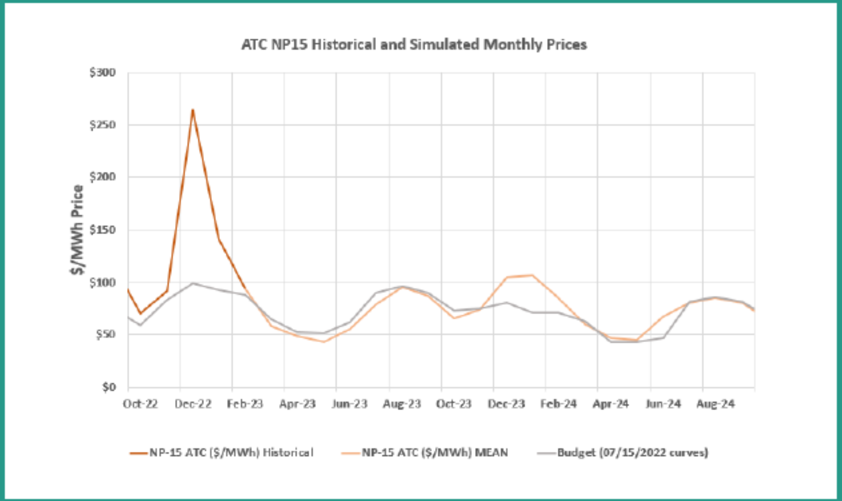
- Relative to Assumptions in the Annual FY 23 Budget:
  - PG&E's 2023 generation rate increased by about 15.5%
  - PCIA increased from 0¢/kWh to 0.28¢/kWh
- Relative to Budget, SVCE's margin improve by about 11%
- The rate changes were effective Jan 1, 2023.



* Source: PG&E 2023 Average Rate, effective January 1, 2023 (Weighted for SVCE Portfolio Load)
***Using NewGen Model with 7/16/2022 Forward Curves and 10% haircut (Weighted for SVCE Portfolio Load)
Above margin analyses ignores minor reductions for franchise fees (0.09 ¢/kWh)

Power Supply Variance

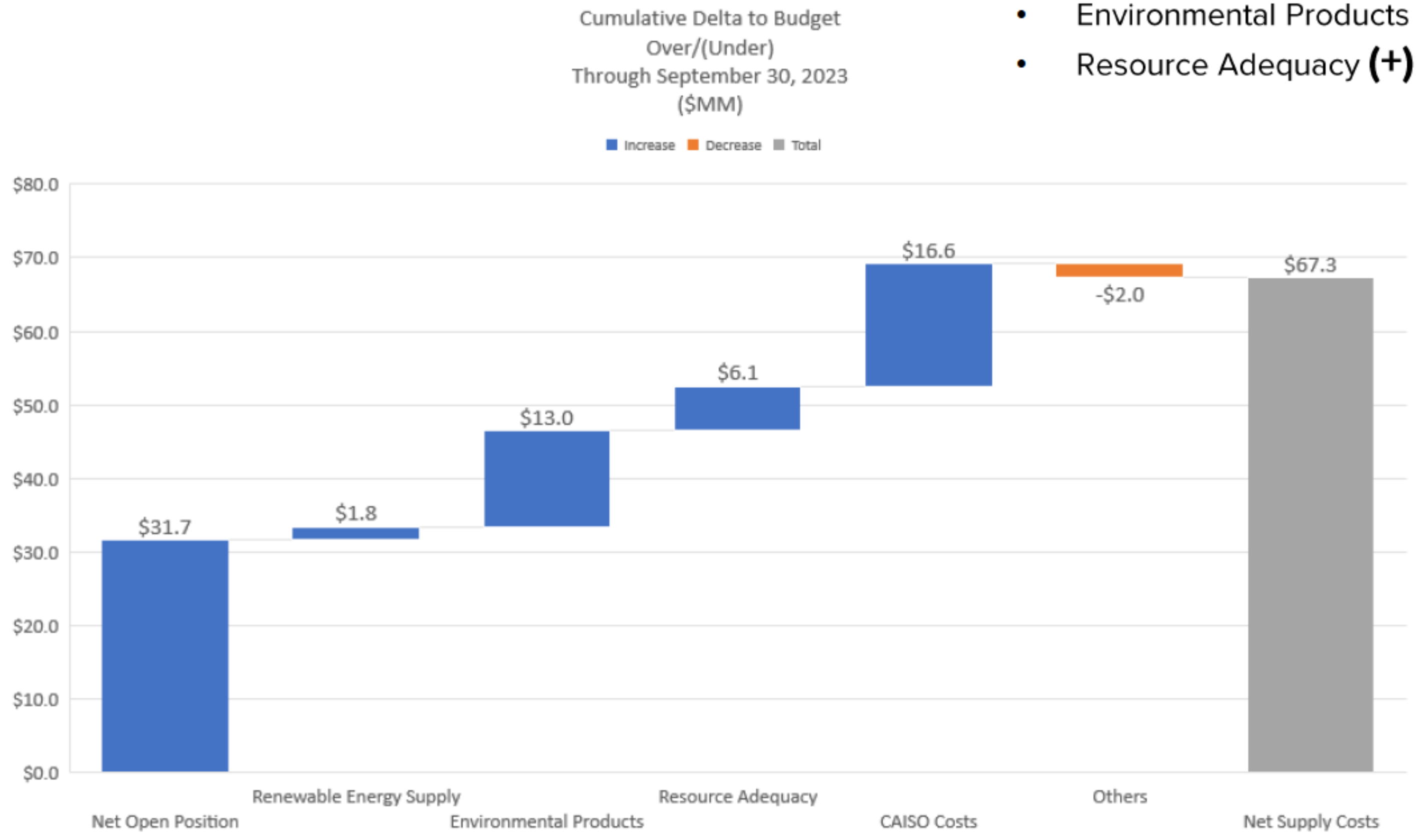
- Energy Prices are Extremely Volatile
(expanded slide in appendix)



- Currently ~86% Hedged for FY 2023
- Sharp Increase in Prices for Renewable and Carbon Free Environmental Products
- Sharp Increase in Resource Adequacy (RA) Market and Compliance Costs

Increase of $67.3 M since budget

- Net Open Position **(+)**
- CAISO non-energy costs **(+)**
- Environmental Products **(+)**
- Resource Adequacy **(+)**



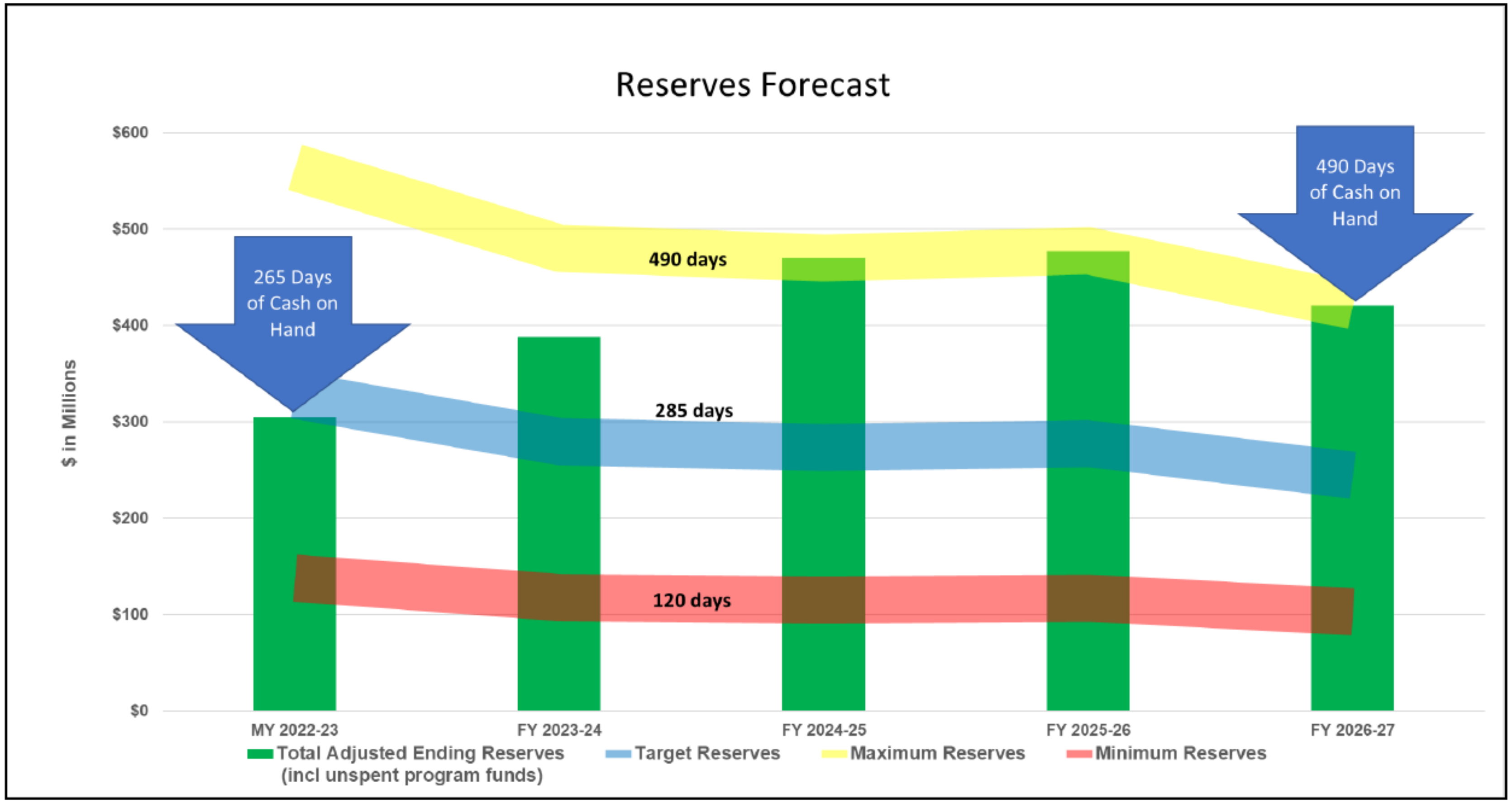
Reserve Projection

Projected End of FY Reserves:

- $305 Million
- 265 Days of Cash on Hand
- Includes Unspent Program Fund allocations

If all Approved Programs Dollars were Spent :

- $252 Million in Reserves
- 219 days cash on hand



Personnel Update

Budgeted Staff

- 49 FTEs
- 7 PTEs

Current Staff

- 35 FTEs
- 5 PTEs

No New FTE Headcount Additions in MY Budget

Recruiting Progress:

- Staff engaged multiple outside recruitment firms
  - 2 staff hired in late 2022
  - 5 new staff hired – starting in March / April
  - 9 FTE vacancies remain

DPP anticipates additional hiring later in 2023, once new hires are fully integrated, and gaps identified

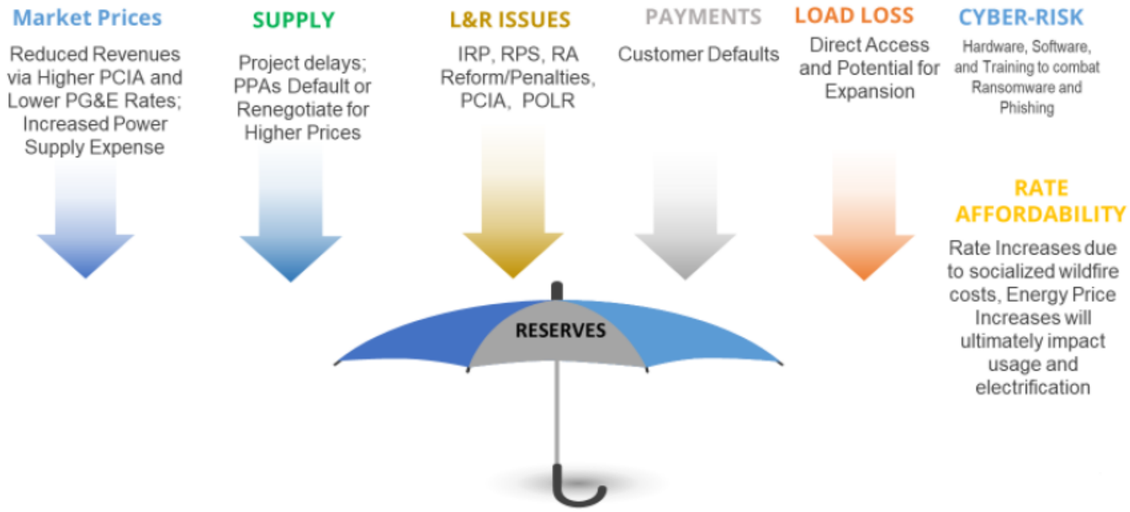
Summary - Despite ongoing uncertainty, the overall financial picture looks good for FY22-23

- Despite uncertainties, good operating margin and contribution to reserves

- Taking favorable conditions to:
    1. Build reserves to withstand future adverse events
    2. Further serve our mission with an additional $19 million in funding for decarbonization programs
    3. Encourage all-electric rate adoption by residential customers with additional discounts
    4. Provide additional bill relief for lower-income customers
    5. Increase overall customer discount to 4%

- Staff will conduct additional stress tests as part of next year's budget to prepare for adverse events and assess the adequacy of reserves.

Many Risks can Deplete Reserves



Recommendation

Adopt Resolution 2023-04, Approving the Mid-year (MY) 2022-23 Adjusted Operating Budget that projects contributing $73.4 million to the reserves.

Thank you! / Questions?

2022-2023 Mid-Year Adjusted Operating Budget

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

DESCRIPTION	FY 2022-23 ADJUSTED BUDGET
ENERGY REVENUES	
Energy Sales	522,853
Green Prime	1,055
Other Income	50
TOTAL ENERGY REVENUES	523,958
ENERGY EXPENSES	
Power Supply	392,436
OPERATING MARGIN	131,522
OPERATING EXPENSES	
Data Management	3,413
PG&E Fees	1,470
Salaries and Retirement	11,285
Professional Services	8,016
Marke ing & Promotions	862
Notifications	131
Lease	525
General & Administra ive	1,857
TOTAL OPERATING EXPENSES	27,559
OPERATING INCOME (LOSS)	103,963
NON-OPERATING REVENUES	
Interest Income	3,870
Grant Income	0
TOTAL NON-OPERATING REVENUES	3,870
NON-OPERATING EXPENSES	
Financing	3
Interest	0
TOTAL NON-OPERATING EXPENSES	3
TOTAL NON-OPERATING INCOME (EXPENSES)	3,867
CHANGE IN NET POSITION	107,830
CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER	
Capital Ou lay	200
Transfer to CRCR Fund	0
Transfer to Program Fund	9,765
Nuclear Alloca ion	1,900
Multi Family Direct Install Program	9,500
Electrification Discount Program	9,500
Customer Bill Relief	3,600
Other	0
TOTAL CAPITAL EXPENDITURES, INTERFUND TRANSFERS & OTHER	$34,465
BALANCE AVAILABLE FOR RESERVES	$73,365

Operating Expenses

	FY Budget	MY Budget Changes	Notes
Updated Costs	• Data Management (Calpine) • $3.25MM	• Unchanged	• Actual expenditures (Oct – Dec) tracking within Budgets across most operating expense categories
	• Billing (PG&E) • $1.4MM	• Unchanged	• No major shifts in program / project priorities
	• G&A / Lease • $2.4MM	• Unchanged	
	• Staffing • $12.02MM	• Reduced by ~$740k due to vacancies	• No new FTE headcount at MY • Staffing costs reduced due to lengthy recruitment processes
	• Professional Services • $8MM	• Unchanged	• Anticipate additional DPP staffing later in 2023
	• Communications / Noticing • $1MM	• Unchanged	

5-year forecast

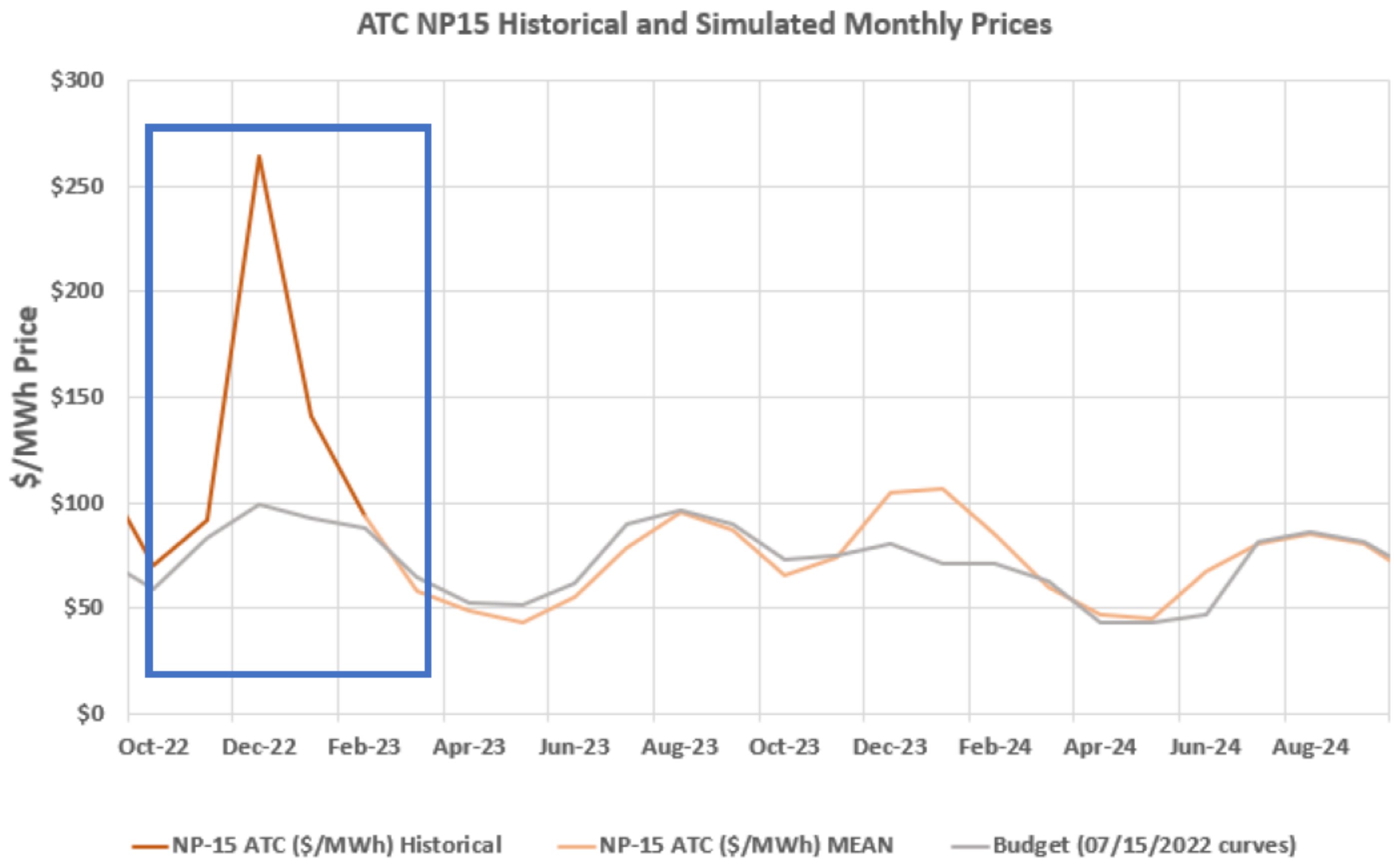
($ in Thousands)					
	2023	2024	2025	2026	2027
Operating Revenue	(Budget)	(Forecast)	(Forecast)	(Forecast)	(Forecast)
GWh Sales	3,784	3,749	3,769	3,917	3,792
Electricity Sales, Net	$ 522,853	$ 458,368	$ 482,080	$ 493,546	$ 478,176
Available for PCIA/Gen Rate/Power Supply Cost Changes	-	-	(40,000)	(129,000)	(221,000)
Other Income	50	51	51	52	52
GreenPrime Electricity Premium	1,055	862	853	858	863
Total Operating Revenues	**523,958**	**459,280**	**442,984**	**365,455**	**258,092**
Operating Expense					
Power Supply	$ 392,436	$ 328,263	$ 319,711	$ 323,460	$ 279,812
Operating Margin	**131,522**	**131,017**	**123,274**	**41,996**	**(21,720)**
Data Management	3,413	3,413	3,583	3,762	3,950
PG&E Service Fees	1,470	1,544	1,621	1,702	1,787
Staff Compensation	11,285	12,447	12,852	13,269	13,701
Consultants and other Professional Fees	8,016	8,417	8,838	9,280	9,744
Communications and Noticing	993	1,043	1,095	1,150	1,207
General and Administration	2,382	2,501	2,626	2,758	2,895
Programs	34,265	9,185	9,659	9,888	9,581
Total Operating Expenses	**454,260**	**366,812**	**359,984**	**365,269**	**322,677**
Operating Income	**69,698**	**92,468**	**83,000**	**187**	**(64,586)**
Nonoperating Revenue (Expense)					
Investment Income	3,870	5,609	8,306	10,059	10,214
Capital Outlay & Financing Costs	(203)	(53)	(53)	(53)	(53)
Grant Income	-	-	-	-	-
Total Non-Operating Revenue (Expense)	**3,667**	**5,556**	**8,253**	**10,006**	**10,161**
Change in Net Position/Available for Reserves	**73,365**	**98,024**	**91,253**	**10,192**	**(54,424)**
Begin, Net Position	**212,684**	**286,049**	**384,073**	**475,326**	**485,518**
End, Net Position	**$ 286,049**	**$ 384,073**	**$ 475,326**	**$ 485,518**	**$ 431,094**

For forecast years FY23-24 onward:

- **Revenues are based on GWh Sales from the CEC IEPR load forecast and CalCCA NewGen Model for SVCE margin analysis using latest market data**
- **Power Supply Costs are based on updated portfolio positions and latest market data**
- **Operating Expenses are assumed to grow 5% / year**
- **Staffing Headcount is unchanged from proposed FY22-23 level**

Power Market Price Volatility

Prices in recent months have settled much higher than normal

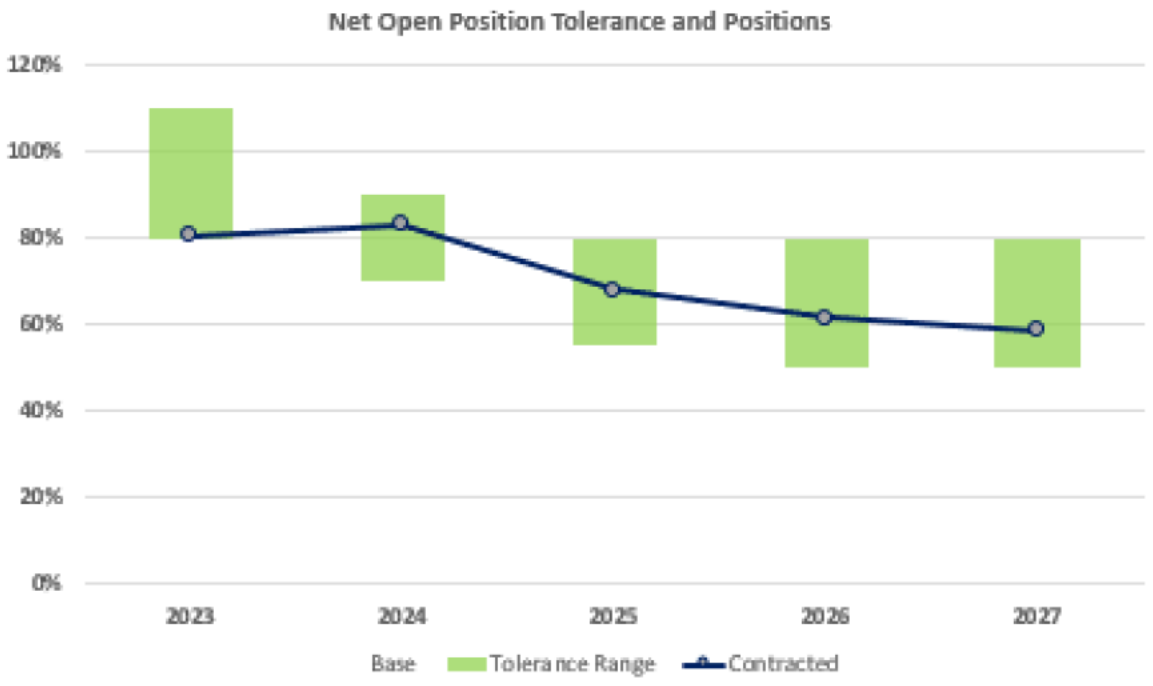


NP15 ATC $/Mwhr	FY2023	FY2024
Budget	$ 79.4	$ 68.1
MY Budget	$ 94.0	$ 75.0

Energy Risk Management Min/Max Bands

We hedge to manage market price risk. 86% of Fiscal Year 23 load is hedged; 80% of Calendar Year 23 is hedged.

Period	Year	ERM Min Tolerance – LRB %	ERM Max Tolerance LRB %	SVCE Total Hedge %
Balance of Year	2023	80%	110%	80%
Year 2 - 2023	2024	70%	90%	83%
Year 3 - 2024	2025	55%	80%	69%
Year 4 - 2025	2026	50%	80%	63%
Year 5 - 2026	2027	50%	80%	60%



Decarb Programs and Policy Staffing

Current Staff

- Director
- Programs-focused team (3 staff)
- Policy and government support team (3 staff)
- Data team (2 staff)

Starting Spring 2023

- Portfolio Management Analyst
- Senior Programs Specialist (Community Programs)
- Programs Lead (Policy)

Ongoing Program Expansion:

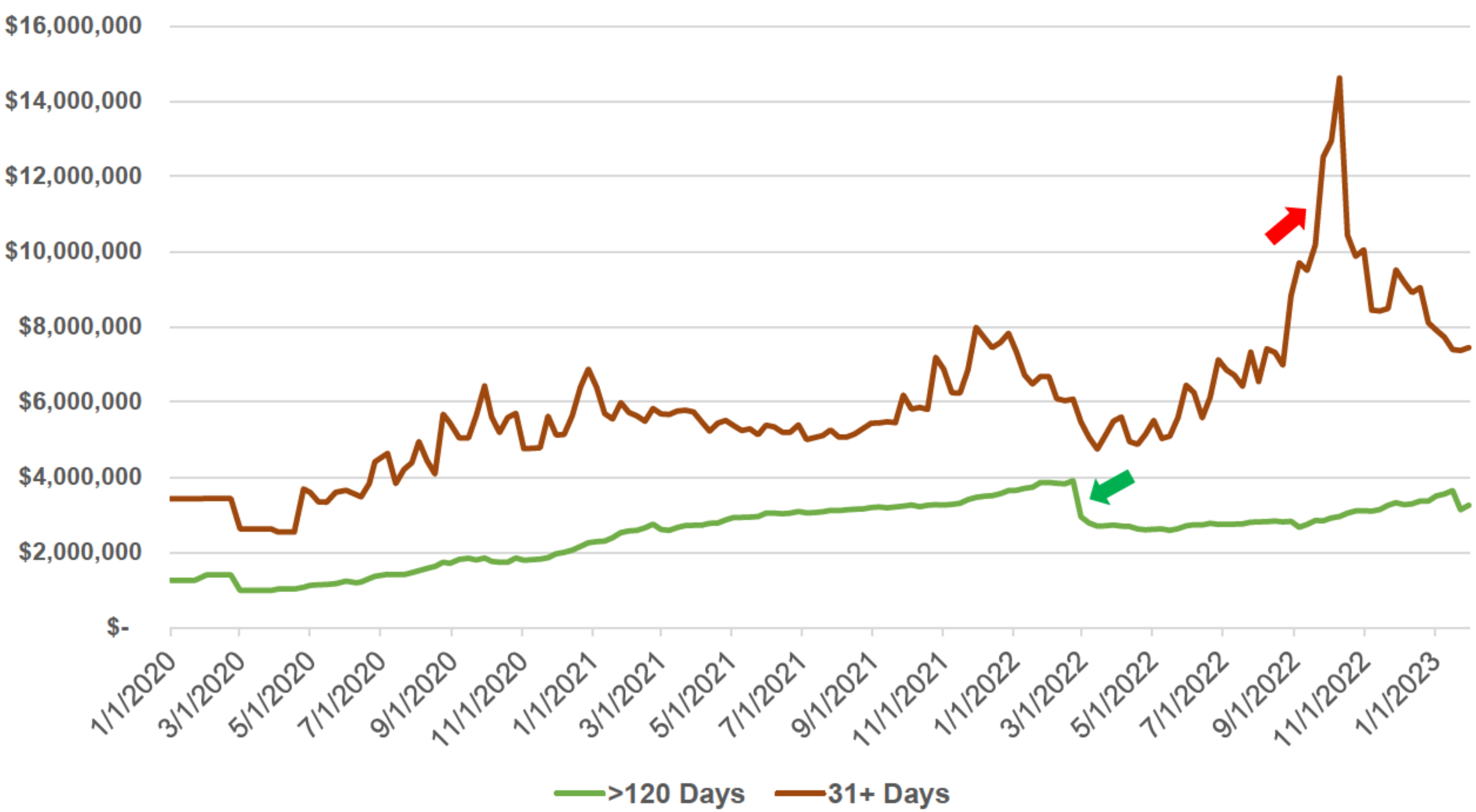
- Need to go from ~$2M/year to ~20M/year for next three years
- Need to go from hundreds of rebates to thousands
- Need to meet more with local agencies to explore options and provide support

More Staff Required; New Tools Required

- DPP anticipates additional hiring later in 2023, once new hires are fully integrated
- New positions likely focused on financing, program expansion
- Search for / evaluate new tool to manage program portfolio

Since March 2020, the overall arrearage amounts have grown roughly 3x.

SVCEs Arrearage Total for customers 31+ days late, 120+ days late

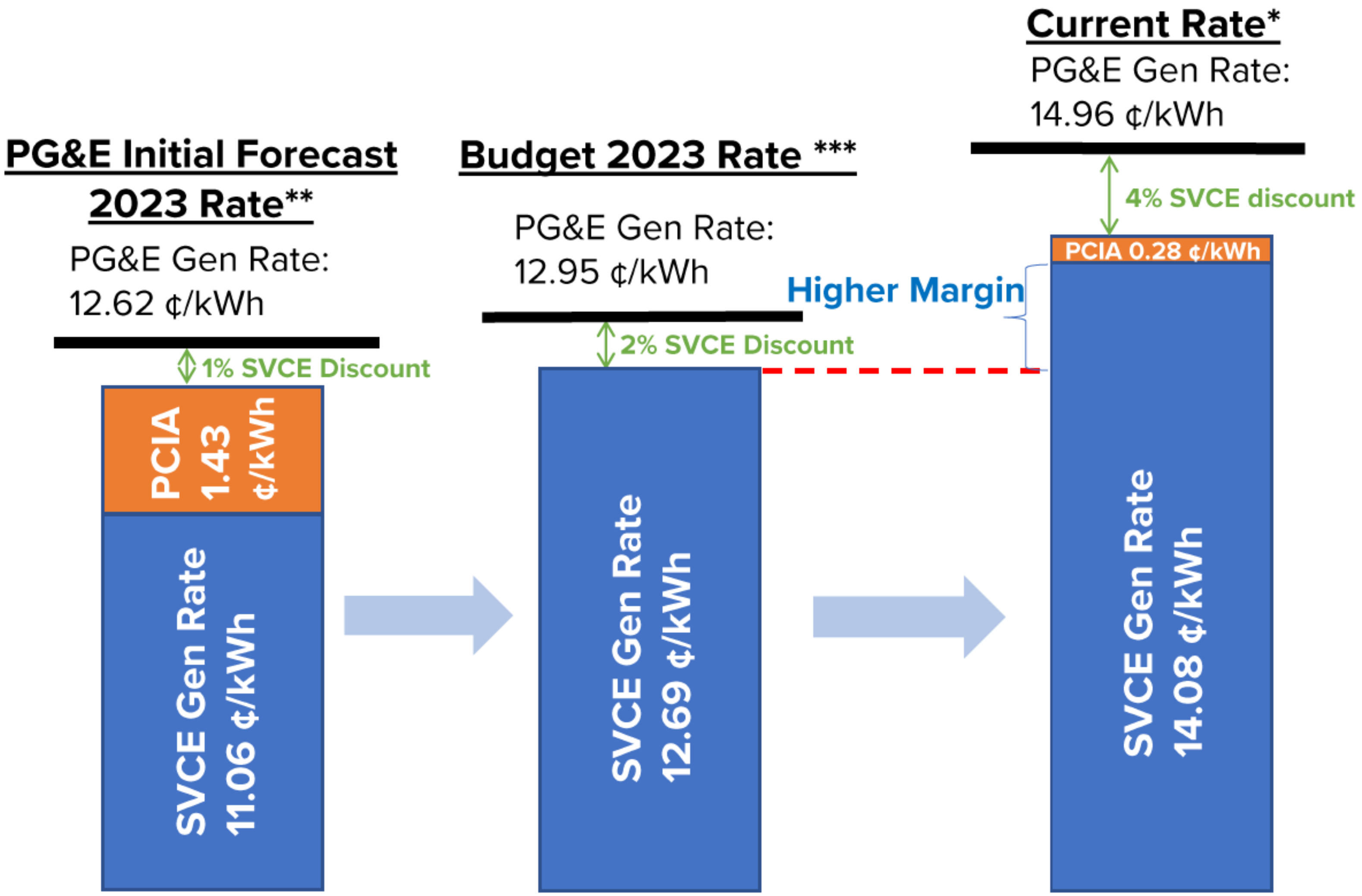


	Date	Amount
High	11/29/2021	$7.99M
Low	4/17/2020	$2.54M
Current	**1/30/2023**	**$7.45M**

- Green arrow indicates receipt of $1.3M in Federal CAPP funds
- An additional $750k in CAPP funding provided winter ’23
- Growth at red arrow indicates short-term PG&E billing-hold issue in fall ’22 that was quickly resolved.

Progression of the SVCE Margin

- PG&E Published the Initial 2023 ERRA forecast in May 2022 projecting 2023 Gen Rates at 12.62 ¢/kWh *(Weighted for SVCE Portfolio Load)*
- SVCE set annual budget in July 2022, projecting 2023 Gen Rates at 12.95 ¢/kWh *(Weighted for SVCE Portfolio Load)*
- PG&E Released the official rates in December 2022, effective January 1st, 2023



* Source: PG&E 2023 Average Rate, effective January 1, 2023 (Weighted for SVCE Portfolio Load)
** Source: PG&E Initial ERRA Forecast (Weighted for SVCE Portfolio Load)
*** Using NewGen Model with 7/16/2022 Forward Curves and 10% haircut (Weighted for SVCE Portfolio Load)
Above margin analyses ignores minor reductions for franchise fees (0.09 ¢/kWh)