

Protecting Customers From Volatile Energy Costs

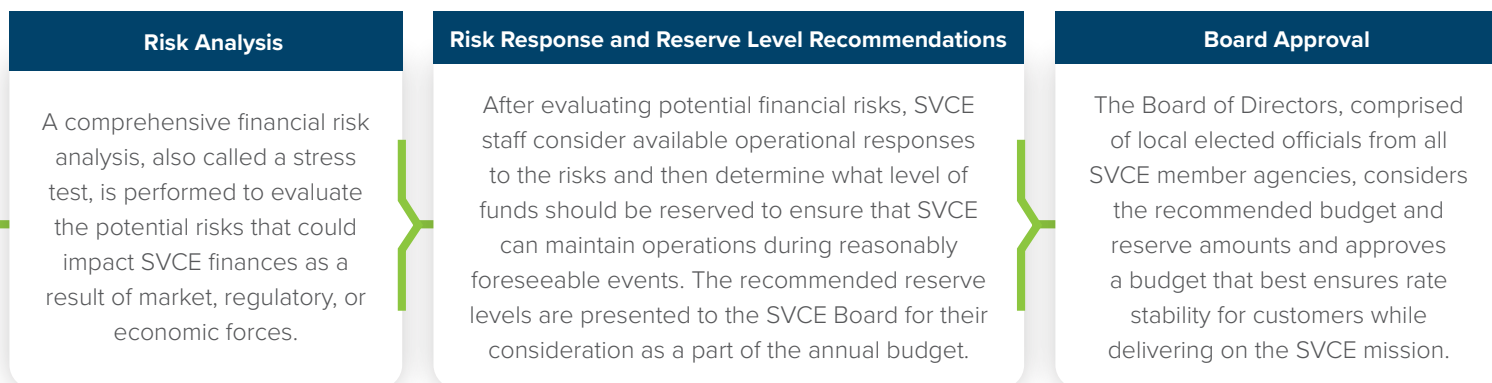


A Look into the SV Clean Energy Financial Reserves & Budget

Silicon Valley Clean Energy (SVCE) sets aside funds, known as financial reserves, to ensure that it can continue to serve its mission of providing carbon-free, reliable, and cost-competitive electricity to customers while offering innovative customer programs - even during times of financial stress.

These financial reserves help SVCE respond to uncertainties such as regulatory changes and power price volatility and provide for rate stability. In recent years, SVCE has dipped into reserve funds to maintain both customer discounts and robust program offerings. Like all SVCE funds, reserve funds are fully funded by ratepayers and SVCE does not receive any tax revenue from residents.

How does SVCE Set Reserve Levels?



What are the major financial risks that SVCE has identified?

Power Price Volatility

By far, the most significant financial risk facing SVCE would be a sudden drop in the market price of electricity. Like most power providers, SVCE enters into mid- and long-term power purchasing commitments to shield customers from huge spikes in market prices. While these advance purchasing commitments are very effective, they can result in SVCE paying more for power than the market price if the market price were to fall because of a significant recession, natural disaster, or other events. Power Charge Indifference Adjustment (PCIA) charges customers pay to PG&E can increase significantly if prices drop. SVCE's financial reserves help offset large increases in PCIA charges.

Regulatory Risk

SVCE must comply with many laws and regulations adopted by the California Public Utilities Commission, the California Legislature, and other regulators. New regulations, compliance obligations, and laws can result in increased costs, or other economic impacts, including altering SVCE's credit rating.

Power Project Delays

SVCE has entered into agreements to purchase electricity from new renewable power and energy storage facilities needed to meet environmental goals and maintain grid operations. If facility construction falls behind, SVCE may be subject to financial penalties from regulators and could be required to buy alternate resources to meet compliance, likely at a higher cost.

Financial Reserves Shield Customers from Potential Risks



Market Prices

Power price volatility, changes in power charges and fees and PG&E rate updates



Supply & Load Changes

Project delays, increases in power supply expenses, and changes in SVCE load



Regulatory Changes

Changes to regulatory processes and payments that affect SVCE's overall budget



FAQs

Why does SVCE maintain financial reserves?

Financial reserves help SVCE plan for potential events such as power price volatility and regulatory uncertainties. They also enable SVCE to lower power costs by maintaining a good credit standing. Reserves can help ensure that SVCE does not hold debt, provide the availability of funds for power price spikes or drops, and cushion the impact of anticipated future, statewide rate increases.

How does SVCE determine appropriate reserve target levels?

As an electricity provider, SVCE has an obligation to always provide energy, even in times when costs are high, or the economy takes a downturn. When faced with similar challenges, private companies, or cities, could take actions like cutting down their workforce. For SVCE, energy must continue to be purchased to serve customers, even if energy costs exceed customer revenues. Energy costs account for over 90% of SVCE's expenses.

The SVCE target reserve levels are set to enable the agency to withstand plausible risks. Based on staff analyses, the board approves the target reserve levels such that if plausible risk scenarios occur, the agency has sufficient reserves to fund daily operations and survive the risks to continue with its mission of providing local communities with clean power.

What affects power price volatility and how does SVCE manage this risk?

Power price volatility is among the most significant risks confronting SVCE and many other energy providers. Power prices mostly follow natural gas prices because natural gas power plants set the price of power. Prices can change unpredictably, as they have in the past and may likely do so again in the future (dropped approximately 70% during the 2008 financial crisis within a short period of time). Adequate reserves are required to manage these price variations and shield customers from price volatility.

What is a stress test analysis and how does it help determine financial reserves?

Stress test analysis refers to evaluating how extreme but plausible scenarios could deplete reserves. These tests provide valuable insight for shaping fiscal year budgets and reserve targets to help mitigate the impact of potential risks. They can also ensure that SVCE remains resilient in different scenarios and help guide the development of the agency's strategic plan.

What are some risks SVCE manages?

Risks include market risk, revenue risk, counterparty credit and performance risk, load and generation fluctuations, operational risk, liquidity risk, and regulatory and legislative risk. Adequate reserves can help financially prepare SVCE to address these possibilities.

Where can I see how much money is held in reserves and the SVCE budget?

The SVCE budget and financial documents are publicly available at: <https://svcleanenergy.org/plans-policies-reports/>