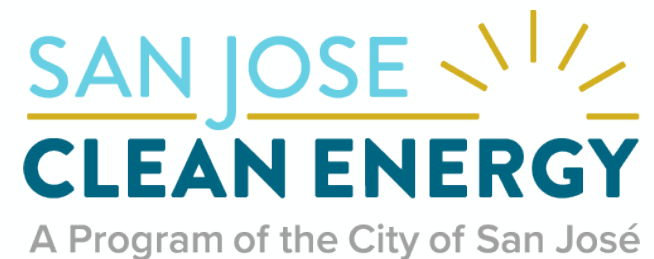


2023 POWER MIX AND RATES + FINANCIAL RESERVES POLICY

City Council

December 6, 2022

Lori Mitchell, Director
Zach Struyk, Assistant Director



RATE-SETTING IN THE PAST = FIX TO PG&E STANDARD RATES

Common for Community Choice Aggregators (CCA) to fix rates to Investor-Owned Utility (IOU) standard rates

Benefits

- CCA can start up operations quickly
- Easy for customers to understand rates under new service provider
- Establish customer confidence

Challenges

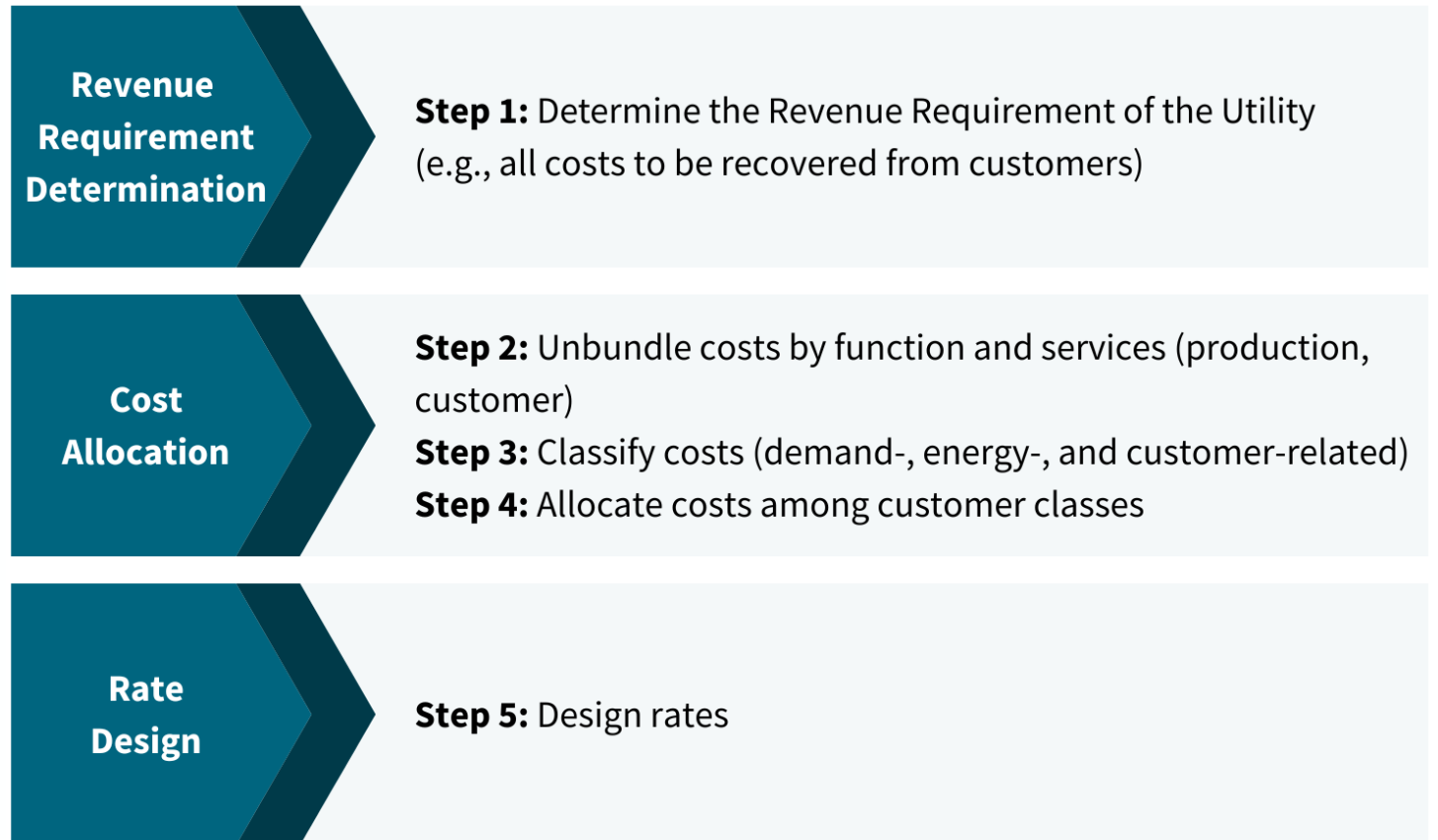
- IOU rates rise and fall, so do CCA rates
- Volatile IOU added fees
- Limits ability to set rates that fully recover costs
- Impacts ability to build reserves

RATE-SETTING GOALS

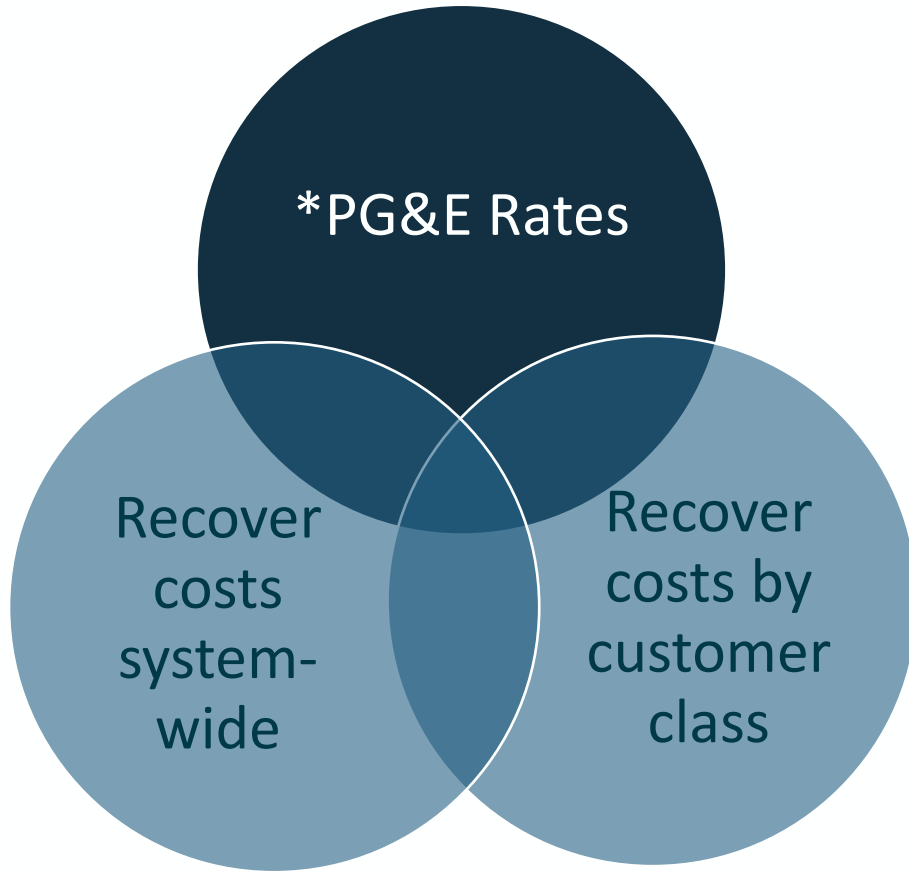
1. Offer competitive and stable rates for electricity generation
2. Use cost-of-service model for setting rates
3. Build reserves to at least 180 days of operating expenses to strengthen financial position

COST-OF-SERVICE PROCESS

- Industry-accepted framework for utility rate-setting
- Determines the total costs incurred by a utility in providing service to its customers and the allocation of those costs to customer classes



DESIGNING RATES IN COMPETITIVE MARKET



- Complete cost-of-service study to ensure all costs are recovered and financial goals can be met
- Review current rates to determine if they recover costs
- Consider all competitive service options (i.e., compare to PG&E)
- Design competitive rates

*PG&E rates are not necessarily representative of SJCE's cost to serve.



COST-OF-SERVICE RESULTS AND 2023 POWER MIX AND RATES

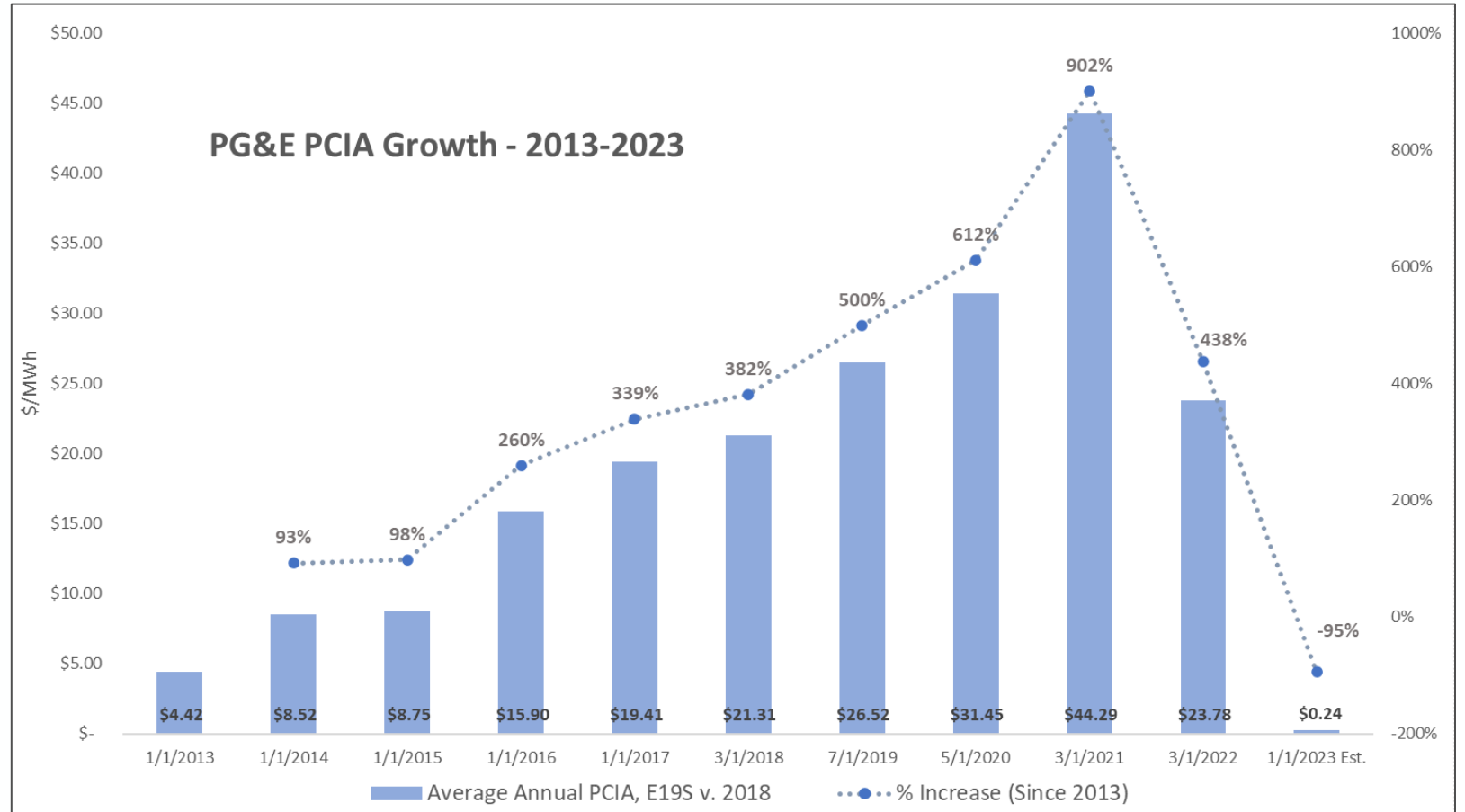
2023 SJCE REVENUE REQUIREMENT

Main cost driver is Power Supply

	Forecasted CY 2023 Total Revenue Requirement (Millions)		
	Better	<i>Expected</i>	Worse
Power Supply Payments	\$343	\$363	\$390
Operations, General, Administrative and Interest Payments	\$34	\$34	\$34
Contribution to Reserve	\$66	\$66	\$66
<i>Total Revenue Requirement</i>	\$443	\$463	\$490

PCIA VOLATILITY

- In 2023, the PCIA is expected to be \$0.24/MWh, sharply decreasing over past 2 years
- Every 0.5¢/kWh increase in the PCIA represents \$18 million in lower SJCE revenues



Note that the PCIA value is the average PCIA for the year. The date is when the PCIA changed to reflect the new rate for the rest of the calendar year

BUILD RESERVES, OFFER COMPETITIVE RATES

*Use forecasted margin between the cost-of-service and expected PG&E generation rates and added fees applicable in 2023 **to build operating reserves for stable rates in the future***

- **GreenSource** – Expected to be at small discount to PG&E (1-3%); 60% renewable energy
- **GreenValue** – Transition to GreenSource service
- **TotalGreen** – Maintain at \$0.005 or \$0.01 above GreenSource; 100% renewable energy
- **SJ Cares** – Increase the discount from 5% to 10% below GreenSource; 60% renewable energy (same as GreenSource)

SJCE customers are expected to save over \$35 million in 2023 compared to 2022

ENDING BALANCES

Forecasted CY 2023 Ending Balances (\$ in Millions)

	Better	<i>Expected</i>	Worse
CY2023 Unrestricted Cash net of Commercial Paper Loan repayment*	\$230	\$185	\$133
Operating Reserve in Days @\$1M per day, Dec 2023	230	185	133

**Excludes \$20 million Restricted Cash*

Forecasted FY22-23 Ending Balances (\$ in Millions)

	Better	<i>Expected</i>	Worse
FY22-23 Unrestricted Cash net of Commercial Paper Loan repayment*	\$127	\$97	\$67
Operating Reserve in Days @\$1M per day, June 2023	127	97	67

**Excludes \$20 million Restricted Cash*



SJCE FINANCIAL RESERVES POLICY

FINANCIAL RESERVES POLICY

Build and maintain at least 180 days of operating reserves

- CCA best practice
- Recommended by Deloitte: 2023-2025 Strategic Framework
- Benefits:
 - Improve financial stability
 - Provide stable rates
 - Secure favorable commercial terms
 - Important to receive an investment-grade credit rating

QUESTIONS?

- Recommendation:
 - Adopt a resolution amending SJCE's rate-setting methodology and service options:
 - Adopt cost-of-service rates for GreenSource, TotalGreen, and SJ Cares.
 - Suspend GreenValue service.
 - Maintain 60% renewable energy for GreenSource and SJ Cares.
 - Maintain \$0.005 or \$0.01/kWh adder for TotalGreen, 100% renewable service.
 - Increase the SJ Cares discount to 10% below GreenSource rates.
 - Adopt a resolution approving the SJCE Financial Reserves Policy that establishes a framework to build reserves to at least 180 days of operating expenses.

- Staff:
 - Lori Mitchell, Director
 - Zach Struyk, Assistant Director

