



**ABAG POWER
ANNUAL BOARD MEETING**

October 26, 2017 • 11:00 a.m. to 2:00 p.m.

**Association of Bay Area Governments
Bay Area Metro Center
375 Beale Street, San Francisco, CA 94105
(Conference Room: CR-109 Yerba Buena)**

Acting Chair: Tonya Gilmore

- | | | |
|--|---------|------------------------|
| 1. Welcome ATTACHMENT 1A - ABAG POWER JPA MEMBER LIST | Gilmore | |
| 2. Public Comments | Gilmore | |
| 3. Approval of Minutes from October 19, 2016 Annual Board Meeting ATTACHMENT 3A - MINUTES OF OCTOBER 19, 2016 | Gilmore | Action |
| 4. ABAG-MTC Staff Consolidation / Local Government Services Staff will provide an update on the ABAG-MTC staff consolidation, its impacts to ABAG POWER, and the new MTC Local Government Services section. ATTACHMENT 4A – MOU BETWEEN ABAG AND ABAG POWER (REVISED) | Ruby | Info |
| 5. Financial Review Staff will review preliminary financial statements for FY 2016-17 ATTACHMENT 5A – FINANCIAL REPORTS MEMO ATTACHMENT 5B1 – PRELIMINARY INCOME STATEMENT ATTACHMENT 5B2 – PRELIMINARY BALANCE SHEET | Ruby | Info. |
| 6. Staff Report and Review of Natural Gas Program Staff will report the results of the Natural Gas Program for the 2016 – 2017 fiscal year. ATTACHMENT 6A - STAFF REPORT ON NATURAL GAS PROGRAM ATTACHMENT 6B - SUMMARY OF NATURAL GAS PROGRAM FY2016-17 | Lahr | Info. |
| 7. Natural Gas Program Recommendations and Strategy Staff will discuss long term program results and recommend future strategies. ATTACHMENT 7A – NATURAL GAS PROGRAM RECOMMENDATIONS MEMO | Lahr | Info/ Action |
| 8. Election of ABAG POWER Executive Committee Elect Executive Committee members, including Chair and Vice Chair for 2018. ATTACHMENT 8A - PROPOSED EXECUTIVE COMMITTEE FOR FY 17-18 | Gilmore | Action |

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area



9. Appointment of ABAG POWER Officers and Legal Counsel

Gilmore **Action**

Appoint MTC personnel to the following officer positions: President, Chief Financial Officer, Secretary; appoint MTC General Counsel as Acting Legal Counsel.

ATTACHMENT 9A – PROPOSED APPOINTMENT OF ABAG POWER OFFICERS
AND LEGAL COUNSEL

10. San Francisco Bay Area Regional Energy Network (BayREN)

Berg **Info.**

Staff will summarize the programs and accomplishments to date.

Adjourn approximately 2:00 p.m.

THE BOARD MAY TAKE ANY ACTION, INCLUDING NO ACTION, ON ANY ITEM ON THIS AGENDA.



ASSOCIATION OF BAY AREA GOVERNMENTS

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| Agency | Designated Representative(s) | Membership Status | Number of Active Gas Accounts |
|------------------------|------------------------------|--------------------|-------------------------------|
| Alameda, City of | Liam Garland (P) | Current Gas Member | 22 |
| | Erin Smith (A) | | |
| Albany, City of | Penelope Leach (P) | Current Gas Member | 4 |
| | | | |
| Benicia, City of | Karin Schnaider (P) | Current Gas Member | 18 |
| | | | |
| Cupertino, City of | Misty Mersich (P) | Current Gas Member | 10 |
| | Katy Nomura (A) | | |
| Fremont, City of | Mike Sung (P) | Current Gas Member | 43 |
| | Dan Schoenholz (A) | | |
| Gonzales, City of | Rene Mendez (P) | Current Gas Member | 7 |
| | | | |
| Half Moon Bay, City of | Debbie Ruddock (P) | Current Gas Member | 4 |
| | Harvey Rarback (A) | | |
| Hercules, City of | David Biggs (P) | Current Gas Member | 5 |
| | | | |
| Los Altos, City of | Dave Brees (P) | Current Gas Member | 11 |
| | Chris Jordan (A) | | |
| Mill Valley, City of | Eric Erickson (P) | Current Gas Member | 10 |
| | | | |
| Millbrae, City of | Ray Chan (P) | Current Gas Member | 7 |
| | | | |
| Milpitas, City of | Chris Schroeder (P) | Current Gas Member | 11 |
| | Will Fuentes (A) | | |
| Monte Sereno, City of | Debra Figone (P) | Current Gas Member | 2 |
| | | | |
| Oakland, City of | Daniel Hamilton (P) | Current Gas Member | 116 |
| | | | |
| Orinda, City of | Tonya Gilmore (P) | Current Gas Member | 2 |
| | Steve Salomon (A) | | |
| Pacifica, City of | Lorenzo Hines (P) | Current Gas Member | 17 |
| | | | |
| Petaluma, City of | Bill Mushallo (P) | Current Gas Member | 7 |
| Pleasanton, City of | Kathleen Yurchak (P) | Current Gas Member | 25 |
| | Leonard Olive (A) | | |



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| Agency | Designated Representative(s) | Membership Status | Number of Active Gas Accounts |
|------------------------------------|------------------------------|--------------------|-------------------------------|
| Richmond, City of | Angela Walton (P) | Current Gas Member | 38 |
| | | | |
| Salinas, City of | Michael Ricker (P) | Current Gas Member | 25 |
| | Miguel Gutierrez (A) | | |
| San Carlos, City of | Jay Walter (P) | Current Gas Member | 7 |
| | | | |
| San Rafael, City of | Kevin McGowan (P) | Current Gas Member | 16 |
| | | | |
| Santa Rosa, City of | Doug Williams (P) | Current Gas Member | 38 |
| | | | |
| Saratoga, City of | Thomas Scott (P) | Current Gas Member | 4 |
| | Mary Furey (A) | | |
| Union City, City of | Thomas Ruark (P) | Current Gas Member | 5 |
| | | | |
| Vallejo, City of | Roland Rojas (A) | Current Gas Member | 16 |
| | | | |
| Watsonville, City of | Gabriel Gordo (P) | Current Gas Member | 18 |
| | | | |
| Winters, City of | John Donlevy (P) | Current Gas Member | 3 |
| | Shelly Gunby (A) | | |
| Atherton, Town of | George Rodericks (P) | Current Gas Member | 7 |
| | | | |
| Moraga, Town of | Robert Priebe (P) | Current Gas Member | 3 |
| | | | |
| Contra Costa, County of | Brian Balbas (P) | Current Gas Member | 134 |
| | Diana Oylar (A) | | |
| Napa, County of | Steve Lederer (P) | Current Gas Member | 11 |
| | Liz Habkirk (A) | | |
| San Mateo, County of | Doug Koenig (P) | Current Gas Member | 43 |
| | Gary Behrens (A) | | |
| Santa Clara, County of | Lin Ortega (P) | Current Gas Member | 46 |
| | Brad Vance (A) | | |
| Golden Gate Bridge District | Jennifer Mennucci (P) | Current Gas Member | 5 |
| | Alice Ng (A) | | |
| Housing Authority, City of Alameda | Danielle Thoe (P) | Current Gas Member | 14 |
| | | | |

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| Agency | Designated Representative(s) | Membership Status | Number of Active Gas Accounts |
|--|------------------------------|--------------------|-------------------------------|
| Regional Administrative Facility Corporation | Sean Brooks (P) | Current Gas Member | 1 |
| | | | |
| Vallejo Sanitation & Flood Control District | Melissa Morton (P) | Current Gas Member | 3 |
| | | | |
| Antioch, City of | Dawn Merchant (P) | Non-Active | - |
| | Jim Jakel (A) | | |
| Arcata, City of | Randy Mendosa (P) | Non-Active | - |
| | | | |
| Belmont, City of | Greg Scoles (P) | Non-Active | - |
| | | | |
| Berkeley, City of | Dee Williams-Ridley (P) | Non-Active | - |
| | | | |
| Cloverdale, City of | Nina D. Regor (P) | Non-Active | - |
| | | | |
| Cotati, City of | Dianne Thompson (P) | Non-Active | - |
| | | | |
| Daly City, City of | Pactricia Martel (P) | Non-Active | - |
| | | | |
| Davis, City of | Dirk Brazil (P) | Non-Active | - |
| | | | |
| El Cerrito, City of | Maria Sanders (P) | Non-Active | - |
| | Garth Schultz (A) | | |
| Foster City, City of | Ray Towne (P) | Non-Active | - |
| | | | |
| Menlo Park, City of | Alex McIntyre (P) | Non-Active | - |
| | | | |
| Newark, City of | Peggy Claassen (P) | Non-Active | - |
| | | | |
| Patterson, City of | Ken Irwin (P) | Non-Active | - |
| Pinole, City of | Michelle Fitzer (P) | Non-Active | - |
| San Leandro, City of | Lianne Marshall (P) | Non-Active | - |
| | | | |
| San Mateo, City of | David Culter (P) | Non-Active | - |
| | | | |

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|--------------------------------------|------------------------------|-------------------|-------------------------------|
| San Pablo, City of | Bradley J. Ward (P) | Non-Active | - |
| | Brock Arner (A) | | |
| Sebastopol, City of | Ron Puccineli (P) | Non-Active | - |
| | | | |
| Hillsborough, Town of | Maria Edna Masbad (P) | Non-Active | - |
| | | | |
| Los Altos Hills, Town of | Carl Cahill (P) | Non-Active | - |
| | | | |
| Butte, County of | Grant Hunsicker (A) | Non-Active | - |
| | | | |
| Monterey, County of | Mario Salazar (P) | Non-Active | - |
| | | | |
| Sonoma, County of | John Haig (P) | Non-Active | - |
| | | | |
| Windsor, Town of | James McAdler (P) | Non-Active | - |
| | | | |
| Hayward Area Rec. District | Karl Zabel (P) | Non-Active | - |
| | | | |
| Housing Authority, County of Alameda | Christine Gouig (P) | Non-Active | - |
| | | | |
| Los Trancos County Water District | Keri Tate (P) | Non-Active | - |
| | | | |
| South County Fire Authority | Leon Churchill Jr. (P) | Non-Active | - |
| | | | |
| West County Wastewater District | Ken Cook (P) | Non-Active | - |
| | | | |



SUMMARY MINUTES

ABAG POWER Board of Directors Meeting

October 19, 2016

Yerba Buena Conference Room

375 Beale Street, San Francisco, CA 94105

WELCOME AND INTRODUCTIONS

Chair Julie Bueren opened the meeting with introductions at 11:05 AM.

The agencies having a representative at this meeting were as follows:

Board Representatives

Angela Walton
Brad Vance
Chris Schroeder
Dan Schoenholz
Dave Brees
Harold Wolgamott
Jennifer Mennucci
Julie Bueren
Katy Nomura
Liz Habkirk
Lorenzo Hines
Melissa Morton
Mintze Cheng
Robert Hoffman
Scott Wentworth
Tonya Gilmore
ZeeLaura Page

Jurisdiction/Agency

City of Richmond
County of Santa Clara
City of Milpitas
City of Fremont
City of Los Altos
City of Gonzales
Golden Gate Bridge Highway & Transportation District
County of Contra Costa
City of Cupertino
County of Napa
City of Pacifica
Vallejo Sanitation and Flood Control District
City of Union City
Regional Administrative Facility Corporation
City of Oakland
City of Orinda
Housing Authority of the City of Alameda

Staff and Guests Present

Jerry Lahr
Ryan Jacoby
Brad Paul
Courtney Ruby
Ken Moy
Jennifer Berg
Teri Green

Organization

ABAG POWER
ABAG POWER
ABAG
ABAG
ABAG
ABAG
MTC

ASSOCIATION OF BAY AREA GOVERNMENTS

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CHAIR'S OPENING REMARKS

Chair Julie Bueren welcomed board members and provided a brief history and a general overview of the ABAG POWER program. She introduced and extended a special acknowledgement to the 2015-16 Executive Committee and ABAG POWER principal staff.

PUBLIC COMMENTS

There were no public comments.

APPROVAL OF SUMMARY MINUTES OF OCTOBER 29, 2015 ANNUAL BOARD MEETING

Motion was made by Schroeder/S/Wolgamott/C/16:0:0 to approve the Summary Minutes of the October 29, 2015 Board of Directors meeting.

The aye votes were: Brees, Bueren, Cheng, Gilmore, Habkirk, Hines, Hoffman, Mennucci, Nomura, Page, Schoenholz, Schroeder, Vance, Walton, Wentworth, Wolgamott.

The nay votes were: None.

Abstentions were: None.

Absentees were: Morton.

ELECTION OF ABAG POWER OFFICERS FOR PROGRAM YEAR 2016-17

Motion was made by Wolgamott/S/Mennucci/16:0:0/C/ to approve as proposed the ABAG POWER Executive Committee for program year 2016-17, including the election of chair and vice chair as follows:

Angela Walton, City of Richmond
Chris Schroeder, City of Milpitas
Dave Brees, City of Los Altos
Julie Bueren, County of Contra Costa (Chair)
Mintze Cheng, City of Union City
Tonya Gilmore, City of Orinda (Vice Chair)

The aye votes were: Brees, Bueren, Cheng, Gilmore, Habkirk, Hines, Hoffman, Mennucci, Nomura, Page, Schoenholz, Schroeder, Vance, Walton, Wentworth, Wolgamott.

The nay votes were: None.

Abstentions were: None.

Absentees were: Morton.



ABAG/MTC STAFF CONSOLIDATION

Potential Impacts of ABAG-MTC Option 7 Implementation Action Plan

Moy and Paul informed members of the vote in late May 2016 by the ABAG and Metropolitan Transportation Commission (MTC) governance boards to support a full functional consolidation of staff and the pursuit of new governance options. Moy reported on the status of the ABAG/MTC staff consolidation, including apparent impacts to ABAG POWER related to the Contract for Services, uncertainty regarding the handling of ABAG's treasury functions, and the eventual transition of legal services.

Following discussion, the Executive Committee requested the ABAG POWER Board of Directors give the Executive Committee the authority to approve key provisions of the contract for services and the handling of the treasury function.

Motion was made by Wolgamott/S/Gilmore/16:0:0/C/ to specifically delegate to the Executive Committee the authority to approve ABAG's use of the Contract for Services.

The aye votes were: Brees, Bueren, Cheng, Gilmore, Habkirk, Hines, Hoffman, Mennucci, Nomura, Page, Schoenholz, Schroeder, Vance, Walton, Wentworth, Wolgamott.

The nay votes were: None.

Abstentions were: None.

Absentees were: Morton.

ABAG POWER Bylaws & Resolution No. 01-16

Moy provided representatives with Resolution No. 01-16 which proposed amending Section 8.1 of the ABAG POWER Bylaws so that:

1. The Board of Directors, or the Executive Committee between meetings of the Board of Directors, will appoint the program's officers
2. Appoints the following officers:

| | |
|---|-------------------------|
| Brad Paul, Deputy Director of ABAG | President |
| Courtney Ruby, Administrative Services and Finance Director | Chief Financial Officer |
| Gerald Lahr, Energy Programs Manager | Secretary |

Motion was made by Wolgamott/S/Schoreder/16:0:0/C/ to adopt Resolution No. 01-16 as proposed.

The aye votes were: Brees, Bueren, Cheng, Gilmore, Habkirk, Hines, Hoffman, Mennucci, Nomura, Page, Schoenholz, Schroeder, Vance, Walton, Wentworth, Wolgamott.

The nay votes were: None.

Abstentions were: None.

Absentees were: Morton.

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STAFF REPORT AND REVIEW OF NATURAL GAS PROGRAM

Lahr provided an in-depth report on the operations of the natural gas program for fiscal year 2015-16. He provided a review of the program and discussed program goals, long-term program achievements, and gas purchasing strategies.

ABAG POWER's blend of long-term and short-term gas purchases resulted in a weighted average cost of gas for the year of \$2.50/Dth, representing a year-on-year decrease of approximately 35%. ABAG POWER's annual weighted average price was approximately 7.5% higher than PG&E's similar total rate (G-NR1). Due to the program's levelized billing structure and layered purchasing strategy, ABAG POWER's monthly rates were more stable than PG&E's rates throughout the year.

FINANCIAL REVIEW

Courtney Ruby, ABAG's Interim Finance Director, presented the preliminary financial reports for the fiscal year ending June 30, 2016. Auditors were in the process of auditing year-end financial statements, which are expected to be available in December, 2016.

SAN FRANCISCO BAY AREA REGIONAL ENERGY NETWORK (BAYREN)

Jennifer Berg, BayREN's Senior Program Manager, provided a portfolio overview of the ratepayer-funded energy efficiency programs, including accomplishments to date as well as ongoing collaborations with the City of Berkeley, the Bay Area Regional Collaborative, and the California Energy Commission.

BAY AREA METROCENTER BUILDING TOUR

Guests were invited to attend a building tour hosted by Teri Green, which explored the new headquarters of ABAG, MTC, and the Bay Area Air Quality Management District, as well as the building's history.

ADJOURNMENT

Chair Julie Bueren adjourned the meeting at 2:00 PM.

*Example of a motion – *[Member No. 1/S/Member No. 2/roll call vote/C/8:0:0]* means Member No.1 motions, seconded by Member No.2, after roll call vote, motion carries, 8 = "yes" votes, 0 = "no" votes and 0 = abstention.

[REVISED]

MEMORANDUM OF UNDERSTANDING
between
ASSOCIATION OF BAY AREA GOVERNMENTS
and
ABAG PUBLICLY OWned ENERGY RESOURCES

This Memorandum of Understanding is entered into by and between the Association of Bay Area Governments (ABAG), a joint powers authority and ABAG Publicly OWned Energy Resources (POWER), a joint powers authority.

RECITALS

- A. Background. By resolution 97-19, the Executive Board of ABAG caused the formation of POWER in 1997 to provide energy services to public entities in the service territory of the Pacific Gas & Electric Company. Section 7(a) of the joint powers agreement (JPA) creating POWER appoints ABAG to implement the programs authorized by POWER. Generally, ABAG has done so through the use of ABAG staff and ABAG'S operating procedures and protocols. The POWER Bylaws provides that the POWER Board of Directors or Executive Committee appoint President, Chief Financial Officer and Secretary and those positions are currently filled by designated ABAG staff.
- B. ABAG – MTC Staff Consolidation. ABAG and the Metropolitan Transportation Commission (MTC), a regional planning agency created by state statute and the designated metropolitan planning organization/regional transportation planning agency for the San Francisco Bay area, decided to consolidate their respective staffs (Consolidated Staff) under the terms of a Contract for Services dated May 30, 2017 (CS), between ABAG and MTC which is attached hereto as Appendix A. The CS recognizes that ABAG remains as an independent legal entity with its own assets, liabilities, revenues and expenses.
- C. Contract for Services and POWER. The CS identifies and describes Local Collaboration Programs (LCPs) carried out by ABAG, including ABAG POWER. ~~Current~~ ABAG employees who ~~perform~~performed work to implement and support POWER programs ~~will be offered positions on~~are now members of the ~~consolidated staff~~Consolidated Staff. Further, the CS includes provisions that, on their face, appear to commit the LCPs to specific courses of action or to affect how ABAG provides services to the LCPs. None of the LCPs, including POWER, is a signatory to, or a third party beneficiary of, the CS.

STATEMENT OF UNDERSTANDING

1. ~~ABAG and POWER acknowledge~~acknowledges that none of the terms of the CS are binding on POWER but that the inclusion of POWER in ABAG's budget and work plan (B&WP) for FY 2017-18, attached hereto as Appendix B, obligates MTC to provide services to POWER and obligates ABAG to pay for such services in FY 2017 -18 and a B&WP that includes POWER will be prepared for subsequent fiscal years. The parties will use the processes described in this MOU to ensure the satisfactory performance of services for POWER and timely payment for the same in FY 2017-18 and in subsequent fiscal years.
2. ABAG proposes to meet its obligations described in section A through services and functions provided to ABAG, and through ABAG to POWER, under the CS. POWER acknowledges this arrangement, accepts it as meeting the terms of the JPA and agrees to fund the portion of the POWER budget in the applicable approved B&WP.
3. Through the Consolidated Staff, ABAG will work with all the LCPs, including POWER to develop a schedule for the preparation of the B&WP for each fiscal year that coordinates with the schedules for each of the LCPs to develop their complete budget for that fiscal year.
4. ABAG and POWER acknowledge that ABAG serves as POWER's fiscal agent, including holding and managing POWER's assets of which the primary component is POWER's operating capital in the approximate amount of ~~_____~~ Two Million Seven Hundred Eighty Five Dollars (\$_____) (\$2,000,785) as of June 30, 2017.
 - (a) Under section 3.3 of the CS, ABAG ~~will assign~~ assigned this function to the Consolidated Staff effective July 1, 2017.
 - (b) This ~~will~~ did not change the fact that POWER's assets and liabilities remain POWER's.
 - (c) POWER has worked, and will continue to work with the Consolidated Staff to ~~take~~ stake steps necessary to implement section 3.3, including authority to open accounts on behalf of POWER, as needed and to invest funds in accordance with an adopted investment policy.
 - (d) Provisions in the CS that allow the LCPs, including POWER, to use LCP assets to provide financial support to ABAG and/or its programs, do not affect in any way POWER's authority over its assets and revenues. Any such support requires the consent of POWER and authorization by its Board of Directors or Executive Committee.
 - (e) Through the Consolidated Staff, ABAG will consult with POWER to determine the type, detail and timing of financial reports to POWER in carrying out the fiscal agent functions. These reports will be provided to POWER through ABAG's Finance and Personnel Committee.
5. Section 3.3 of the CS also provides that the Consolidated Staff will use MTC's rules for business operations in implementing the services to the extent they are compatible with ABAG policies. ABAG anticipates that some of MTC's standard business practices may

differ from ABAG's. Where such differences have the potential to impact POWER, they will be identified in due course and POWER will be consulted to determine the best solution to accommodating POWER's programmatic needs. A preliminary list of such business practices is set forth in Appendix C. Based on such consultation, ABAG will consult with MTC to identify a procedure that meets POWER's programmatic and policy needs and is compatible with MTC's business practices.

6. The CS provides for creation of the position of Deputy Executive Director for Local Government Services and that the person occupying that position will be the primary liaison between POWER and MTC and the consolidated staff. ABAG and MTC have agreed that ~~ABAG's Acting Executive Director, Brad Paul~~ will be has been appointed to that position.
7. The former ABAG staff members who currently implement and support POWER's programs (Jerry Lahr and Ryan Jacoby) ~~will be offered positions in the consolidated staff~~ are members of the Consolidated Staff.
 - (a) ~~If they accept the offers,~~ ABAG expects that they will continue to perform those functions and will take steps to ensure that this occurs.
 - ~~(b) If any decline the offer, ABAG will take the steps described in section 8.~~
 - ~~(b) In either event,~~
 - (c) POWER will exercise its power of appointment of its officers to ensure efficiency and effectiveness in its use of the Consolidated Staff. ABAG's preference in this regard are:
 - (i) Brad Paul, Deputy Executive Director of MTC for Local Government Services as President;
 - (ii) Brain Mayhew, Chief Financial Officer of MTC, or his designee, as Chief Financial Officer and
 - (iii) Jerry Lahr ~~(title to be determined and pending his acceptance of a position as a member of the Consolidated Staff)~~, Assistant Director of MTC for Energy Programs as Secretary.
8. Upon receipt of notice from MTC that any of the persons described in sections 6 and 7, or any of their successors, is leaving the position ascribed to him/her, ABAG will consult with POWER regarding the process, timing and criteria for filling the position and will work with MTC to ensure that ABAG's and POWER's concerns and expectations are met.
9. Section 3.4 of the CS states that the MTC Legal Department will provide general legal support services to the Consolidated Staff in their implementation of the B&WP for ABAG and the LCPs, including POWER. The Consolidated Staff will work with POWER to retain specialized legal services for POWER to be provided at POWER's expense.
10. ABAG and POWER acknowledge that section 9 of the CS provides for MTC to conduct a governance study of all LCPs, including POWER. This study will be conducted at no cost to POWER. Further, POWER will not be bound by the recommendations or results of the study and will retain all authority regarding its governance structure.

11. ABAG and POWER acknowledge that section 9 of the CS provides for the ABAG, MTC and the LCPs, including POWER, to mutually indemnify and hold each other harmless and to release claims arising out of the CS. ~~ABAG and POWER acknowledge that section 9 does not bind POWER.~~ The Consolidated Staff will carry out the requirements of section 11 of the CS regarding insurance and risk allocation and present the results of that process that includes a strategy for insurance and risk allocation that covers POWER. ABAG expects that this strategy will induce POWER to forego any of POWER's claims against ABAG or MTC described in section 9 of the CS.
12. Pursuant to section 3.5 of the CS, ABAG will receive quarterly progress reports from MTC regarding the services provided by the Consolidated Staff under the CS, including services to POWER. ABAG will forward such reports to POWER.
13. Pursuant to section 2.4 of the CS, ABAG will provide written reports to the ~~Commission governing board~~ of MTC regarding the quality and manner in which services, programs and work products are delivered, observations on the potential reasons for any deficiencies and suggestions for improvements. The ~~Commission governing board of MTC~~ is required to respond within 60 days. ABAG will consult with each LCP, including POWER, regarding service delivery to each LCP and include their opinions of same in its report to the ~~Commission governing board of MTC~~. ABAG will share with each LCP, including POWER, the ~~Commission's governing board of MTC's~~ response.
14. Section 14 of the CS provides a process for the resolution of disputes arising out of the CS. ABAG and POWER acknowledge that the processes described in sections 12 and 13 of this MOU and the referenced section of the CS are designed to identify and remedy any shortcomings in services provided to ABAG or the LCPs. If POWER has noted such a shortcoming and ABAG has transmitted the concerns to the governing board of MTC and the ~~Commission's governing board of MTC's~~ response described in section 13 of this MOU is not satisfactory to POWER, ABAG will submit POWER's concerns through the dispute resolution process in section 14 of the CS.
15. Section 15 of the CS provides a process for termination of the CS. ABAG will consult with all the LCPs, including POWER, prior to terminating the CS or immediately upon receiving notice of an actual or potential termination of the CS. ABAG and POWER will use their best efforts to reach agreement on a mutually acceptable course of action. ABAG acknowledges that under the section 7(a) of the JPA POWER has the right to remove ABAG as the administering Member for POWER and that POWER may exercise that right due to termination of the CS or concerns regarding services provided under the CS, or for POWER's convenience.
16. All notices or other communications to the parties shall be made in writing which may include electronic communications such as email or digital documents attached to such email. The physical and email addresses for parties are set forth in Appendix D which may be revised from time to time without amending this MOU.

17. This MOU may be modified in writing executed by both parties.

18. This MOU may be terminated effective July 1 of any year upon written notice by either party submitted on or before January 1 of the year the termination is effective.

~~17.~~19. This MOU may be executed in counterparts, each of which is an original and all of which constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Memorandum of Understanding to be effective with the approval of their legally authorized representatives on the dates indicated below.

Association of Bay Area Governments

Date: _____

Title

~~Brad Paul, Acting Executive Director~~Name,

ABAG Publicly OWned Energy Resources

Date: _____

~~Julia R. Bueren, Board Chair~~Name, Title

APPENDIX C

POWER Business Practices
For
Discussion with Consolidated Staff/MTC

1. POWER program manager has authority to enter into natural gas purchase contracts in amounts that are not bounded and for durations up to three (3) years. Any limitations or controls on such authority must allow for decisions to occur in a timely manner that includes, but are not limited to, immediate purchases to meet load requirements, response to changing market conditions and time limited offers. To the extent that any limitations or controls are based on potential financial risks, they will be evaluated in light of (a) the risk being limited to POWER and its assets and (b) the risk being exercised by the Consolidated Staff on behalf of POWER.
2. POWER performs an annual 'true up' of amount paid by POWER members in a given fiscal year and the actual costs of the natural gas and services provided. Any changes to the process for performing this function will first be presented to POWER for its approval.

APPENDIX D

1. Notices or other communications to ABAG for any matter other than those covered by section 12 – 14 of the MOU shall be sent to:

Brad Paul, Deputy Executive Director for Local Government Services
Metropolitan Transportation Commission
375 Beale Street, Suite 800
San Francisco, CA94105
Email: BradP@abag.ca.gov

2. Notices or other communications to ABAG for matters covered by section 12 – 14 of the MOU shall be sent to:

Julie Pierce, President
Association of Bay Area Governments
375 Beale Street, Suite 700
San Francisco, CA94105
Email: JPierce@ci.clayton.ca.us

3. Notices or other communications to POWER shall be sent to:

New Chair

(To be elected Oct 26, 2017)

~~Julie R. Bueren, Public Works Director~~

~~County of Contra Costa~~

~~255 Glacier Drive~~

~~Martinez, CA 94553~~

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ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area

DATE: October 18, 2017

TO: ABAG POWER Board of Directors

FROM: Courtney Ruby, ABAG POWER Chief Financial Officer 2016-17

RE: **Preliminary Financial Reports – June 2017**

We are happy to present the preliminary financial reports of the ABAG POWER JPA, for the fiscal year ending June 30, 2017. Highlights of these reports are summarized as follows:

As of June 30, 2017, the Natural Gas Pool had \$3.177 million in total assets, including the \$2.53 million investment in LAIF. Total assets decreased nearly \$0.7 million compared to the June 30, 2016 balance of \$3.861 million. This decrease in assets is the result of two primary factors: a decrease in Natural Gas Inventory and a decrease in an accrued Natural Gas Imbalance. Working Capital in the form of Client Deposits remains unchanged from the prior year at \$2 million.

In FY 2016-17, natural gas billings amounted to \$7.97 million, with \$0.86 million being classified as unearned energy revenues to be refunded to the members in FY 2017-18 (True-Up). Thus, the Income Statement reflects the net revenue from sale of energy of \$7.11 million. Interest income of \$21,102 will be included as part of the true-up adjustment to be applied in fiscal year 2017-18.

Revenues from sale of energy were 10 percent below budget, due primarily to a lower than expected unit cost of natural gas. Energy costs were 12% less than budgeted, for a favorable budget variance of \$0.35 million. Of the \$6.80 million spent on energy, 62 percent (\$4.18 million) was attributed to PG&E pass-through, up from 57% in fiscal year 2015-16.

Operating expenses were 23% below budget and \$23,121 (7%) below expenses for fiscal year 2015-16. Billing agent fees of negative \$959 are the net of fees of \$8,469 paid to Xebec Data Corp and Utility Management Services, and billing credits of \$9,428 received from PG&E.

The report of our independent auditors is expected in December. We do not anticipate any material adjustments to the preliminary financial statements presented in this report.

Attachments: Balance Sheet as of June 30, 2017
Income Statement for fiscal year ended June 30, 2017

INCOME STATEMENT

**ABAG Power Pool - Gas Pool
JUN-17 USD
Final**

| | FY Budget | Actual Year-to-date | % of Budget | Budget Balance |
|--------------------------------------|--------------|------------------------|----------------|-------------------|
| REVENUES | | | | |
| SALE OF ENERGY | 7,908,190.00 | 7,113,416.04 | 89.95% | 794,773.96 |
| INTEREST INCOME | 12,000.00 | 21,101.66 | 175.85% | (9,101.66) |
| | ----- | ----- | ----- | ----- |
| TOTAL REVENUES | 7,920,190.00 | 7,134,517.70 | 90.08% | 785,672.30 |
| | ----- | ----- | ----- | ----- |
| EXPENSES | | | | |
| COST OF ENERGY | | | | |
| COST OF ENERGY USED | 2,963,332.00 | 2,615,824.00 | 88.27% | 347,508.00 |
| PG&E PASSTHROUGH | 4,520,927.00 | 4,183,065.76 | 92.53% | 337,861.24 |
| | ----- | ----- | ----- | ----- |
| TOTAL COST OF ENERGY | 7,484,259.00 | 6,798,889.76 | 90.84% | 685,369.24 |
| | ----- | ----- | ----- | ----- |
| CONSULTANT SERVICES | | | | |
| LEGAL CONSULTANTS | 10,000.00 | 0.00 | 0.00% | 10,000.00 |
| BILLING AGENT FEES | 900.00 | (958.55) | (106.51)% | 1,858.55 |
| SCHEDULING AGENT FEES | 16,800.00 | 16,800.00 | 100.00% | 0.00 |
| ABAG FEES | 398,731.00 | 310,670.47 | 77.91% | 88,060.53 |
| | ----- | ----- | ----- | ----- |
| TOTAL CONSULTANT SERVICES | 426,431.00 | 326,511.92 | 76.57% | 99,919.08 |
| | ----- | ----- | ----- | ----- |
| OTHER DIRECT CHARGES | | | | |
| INTEREST EXPENSE/BANK CHARGES | 9,500.00 | 9,116.02 | 95.96% | 383.98 |
| | ----- | ----- | ----- | ----- |
| TOTAL OTHER DIRECT CHARGES | 9,500.00 | 9,116.02 | 95.96% | 383.98 |
| | ----- | ----- | ----- | ----- |
| TOTAL EXPENSES | 7,920,190.00 | 7,134,517.70 | 90.08% | 785,672.30 |
| | ----- | ----- | ----- | ----- |
| SURPLUS/(DEFICIT) | 0.00 | 0.00 | n/m | 0.00 |
| | ----- | ----- | ----- | ----- |

BALANCE SHEET

**ABAG POWER POOL - GAS POOL
JUN-17 USD
FINAL**

| | Total ----- | Natural Gas ----- | Electricity ----- |
|--|----------------|----------------------|----------------------|
| ASSETS | | | |
| CASH IN BANK | 320,906.15 | 320,906.15 | 0.00 |
| LOCAL AGENCY INVEST. FUND | 2,529,642.87 | 2,529,642.87 | 0.00 |
| ACCT. REC. POWER POOL SALES | 259,664.11 | 259,664.11 | 0.00 |
| NATURAL GAS IMBALANCE | (8,160.49) | (8,160.49) | 0.00 |
| ACCR. INT. REC. LAIF | 5,825.17 | 5,825.17 | 0.00 |
| NATURAL GAS INVENTORY | 69,384.13 | 69,384.13 | 0.00 |
| | ----- | ----- | ----- |
| TOTAL ASSETS | 3,177,261.94 | 3,177,261.94 | 0.00 |
| | ===== | ===== | ===== |
| LIABILITIES | | | |
| ACCOUNTS PAYABLE | 294,451.90 | 294,451.90 | 0.00 |
| PAYABLE TO AFFILIATED ENTITIES | 23,300.93 | 23,300.93 | 0.00 |
| UNEARNED ENERGY REVENUES | 858,724.00 | 858,724.00 | 0.00 |
| WORKING CAPITAL CLIENT DEPOSITS | 2,000,785.11 | 2,000,785.11 | 0.00 |
| | ----- | ----- | ----- |
| TOTAL LIABILITIES | 3,177,261.94 | 3,177,261.94 | 0.00 |
| | ----- | ----- | ----- |
| FUND EQUITY | | | |
| GENERAL EQUITY | | | |
| CURRENT YEAR SURPLUS/(DEFICIT) | 0.00 | 0.00 | 0.00 |
| | ----- | ----- | ----- |
| TOTAL GENERAL EQUITY | 0.00 | 0.00 | 0.00 |
| | ----- | ----- | ----- |
| TOTAL FUND EQUITY | 0.00 | 0.00 | 0.00 |
| | ----- | ----- | ----- |
| TOTAL LIABILITIES AND FUND EQUITY | 3,177,261.94 | 3,177,261.94 | 0.00 |
| | ===== | ===== | ===== |

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area



DATE: October 26, 2017

TO: ABAG POWER Board of Directors

FROM: Gerald L. Lahr, Manager, ABAG POWER

RE: **Staff Report on 2016-2017 Natural Gas Program**

Summary

Natural gas prices remained relatively stable during most of 2016-17, although daily prices during the winter months saw some volatility with prices ranging from \$2.23/Dth to just above \$4.00/Dth.¹ Prices rebounded modestly during the spring to approximately \$3.50, and they have since returned to the \$3.30 range and remain low by historic standards.

During the year ABAG POWER purchased approximately 24% of its gas with forward, fixed-price gas supply contracts, while additional amounts were purchased on the short-term market. The Program's gas costs ranged from a low of \$2.23/Dth in November 2016 to a high of \$4.06/Dth for gas purchased on the spot market in January of 2017. ABAG POWER's blend of long-term and short-term gas purchases resulted in a weighted average cost of gas for the year of \$3.02/Dth, representing an increase of approximately 21% from the prior year. Ultimately, ABAG POWER's total annual weighted average price was approximately 3.3% higher than PG&E's similar total rate (GNR-1). Due to the Program's levelized billing structure and long-term purchasing strategy, ABAG POWER's monthly rates were more stable than PG&E's rates for the year.

Program Goals

Since 2002 the ABAG POWER Natural Gas Program has operated with the dual, and often competing, goals of *Cost Savings* and *Price Stability*.

- **Price Stability.** It is desirable that the Program's purchasing strategy and costs allocation methods be such that will provide members a reasonable degree of certainty of the costs to be shared within any given program year.
- **Cost Savings.** Given the desire for price stability, the Program shall attempt to provide gas procurement services for less than the equivalent services provided by the default provider (i.e. PG&E).

To meet these goals the program has typically implemented a gas purchasing strategy that emphasizes multiple layers of long-term, fixed-price contracts for a majority of its gas load, while the remaining portion of gas was purchased with short-term, indexed-based contracts. The Executive Committee has continued to evaluate and modify the gas purchasing strategy in an effort to meet the program goals.

¹ Prices based on gas delivered to PG&E's distribution system ('PG&E Citygate').

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During the past year ABAG POWER continued to purchase a majority of its gas in the shorter term market in order to take advantage of spot prices that may result in savings, while also locking in a couple of moderate term, fixed-price contracts to gain stability. The Committee will continue to evaluate this revised strategy during the upcoming year.

Fiscal Year 2016 – 17.

During the recently completed fiscal year, ABAG POWER purchased 24% of its gas with forward gas supply contracts.² The remaining gas requirements were purchased in monthly or daily blocks with the price tied to a market index.³ The Program's gas costs ranged from a high of \$4.06/Dth for daily gas in January 2017, to a low of \$2.23/Dth for daily gas in November 2016. The Weighted Average Cost of Gas (WACOG) for the year was \$3.02/Dth. The Natural Gas Program's net savings for the year ending June 30, 2017 was -3.3%.

The program's monthly levelized rate remained static throughout the year, as compared to PG&E's core procurement rate (commodity only) which ranged from \$2.58 – 4.42/Dth.

Long Term Program Metrics.

ABAG POWER's average annual savings for the period July 2003 to June 2017 was -0.5%⁴ (does not include proceeds from 2009 gas litigation settlement: \$557,000). Throughout this period the Program's prices continued to be more stable than PG&E's. This is due to a strategy that relies more heavily on longer-term, fixed-price purchases, as well as the levelized billing system.

While ABAG POWER's fixed price contracts produce greater stability, and have avoided the significant price spikes seen over the past several years, at times these contract prices have been above the monthly and daily indices that are primarily followed by PG&E.

Operations and Billing.

Scheduling. ABAG POWER's gas scheduling agent remains DMJ Gas Marketing, which began providing services in July 2013.

The program continues to schedule deliveries to take advantage of the transportation capacity that PG&E allocates to the program, when possible. As discussed in prior years, due to regulatory changes implemented in April 2012, the rules regarding the allocation of PG&E's pipeline capacity holdings have changed, and this has resulted in additional costs to the program. Several Core Transportation Agents (CTAs) joined forces to petition the California Public Utilities Commission (CPUC) to revise these regulations so that programs such as ABAG POWER's are not burdened with stranded costs as a result of PG&E's pipeline capacity contracts. To date, the regulatory efforts related to pipeline

² Contracts greater than one month in length. Purchases staged throughout the year.

³ National Gas Intelligence's (NGI's) monthly Bidweek index, or the Gas Daily's daily index for the appropriate delivery point.

⁴ Compared to PG&E's GNR-1 rate.

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capacity have been unsuccessful; however, CTAs have succeeded in raising other issues at the CPUC which have resulted in positive changes. (See discussion below regarding PG&E storage allocation.)

Storage. Core aggregation programs such as ABAG POWER are required to maintain certain gas storage requirements throughout the year. For example, ABAG POWER is currently required to have approximately 630,000 therms of gas in storage at the start of the winter period (Nov. 1st). And, while ABAG POWER may meet this requirement by utilizing either PG&E storage or an independent storage provider, regulatory requirements currently stipulate that CTAs must pay for a portion of PG&E's storage capacity regardless of whether or not it is actually used. Because of this requirement to pay, ABAG POWER has used PG&E storage to meet its storage requirement in order to reduce stranded costs, even though alternate storage providers may be less expensive. However, due to recent regulatory efforts by CTAs, beginning in 2018, the minimum percentage of PG&E storage required to be held by CTAs will decline annually over a seven year period, ultimately transitioning to an option in 2025 for 100% self-management of storage through independent storage providers with no stranded costs.

Gas Purchase Agreements. ABAG POWER continues to seek out gas suppliers that may provide benefits to its portfolio. The program currently maintains master gas purchase contracts with the following suppliers:

- BP Energy
- Devlar Energy Marketing
- Macquarie Energy Group
- Occidental Energy Marketing, Inc. (subsidiary of Occidental Petroleum)
- Pacific Summit Energy (subsidiary of Sumitomo Corp.)
- Shell Energy North America
- United Energy Trading (UET)
- Utility Resource Solutions (Spark Energy)

Noncore. The ABAG POWER natural gas pool includes three large-usage (noncore) accounts. Natural gas for these accounts is scheduled separately, although it is allocated from the same pooled purchases. Storage costs are not assigned to noncore accounts, so these accounts receive a slightly lower rate.

Billing. ABAG POWER continues to provide "ESP Consolidated Billing" services for all core accounts utilizing Electronic Data Interchange (EDI) processing. Under this option members receive only one bill with both ABAG POWER and PG&E charges. EDI processing is not available for noncore accounts, so these are billed using the "Dual Billing" option. Under Dual Billing PG&E sends a separate bill with just transportation and miscellaneous charges (i.e. no commodity charge).

ABAG POWER maintains its own internal accounting system that provides for "levelized" billing. Every member is invoiced each month for an amount that represents 1/12th of the annual cost estimate for that member. Along with the monthly levelized invoice, the program sends each member a detailed report showing the actual usage for each account. After the end of the fiscal year the actual

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costs for each member are compared to the levelized billings, and a credit or charge is then applied to true-up any difference.

Financial

The total cost of the natural gas program for 2016-2017 increased from the previous fiscal year by 26%: from \$5.7 million to \$7.1 million. This was primarily the result of slightly increased gas commodity costs and a significant increase in PG&E pass-through costs. The total gas consumption also increased slightly from 6,858,226 therms to 7,007,361 (2.2%). A review of each major program cost element is summarized below:

Natural Gas Commodity Cost. The natural gas commodity cost increased from \$2.2 million in 2015-16 to \$2.6 million for the 2016-2017 program year, although this total was roughly 12% below the originally budgeted amount of \$3.0 million.

The commodity portion of program costs is composed of: (1) natural gas purchases from gas suppliers for monthly consumption, (2) shrinkage, (3) required storage, and (4) additional costs to transport the gas to PG&E's distribution system. The natural gas commodity costs represented 37% of the total program costs for the year.

PG&E Pass-through Costs.⁵ A major cost of the natural gas program is the amount charged by PG&E for the distribution of natural gas to customers as well as other public benefit charges. These costs are charged by PG&E to all customers and are subject to regulation by the CPUC. During the past fiscal year these costs totaled approximately \$4.2 million (\$0.68/therm) representing an increase from the prior year of approximately 37%. The relative impact of the PG&E pass-through costs was 59% of total program costs.

Program Expenses. The remaining costs of the program are the expenses for program management, billing services, gas scheduling and administrative support, including financial and legal services. The cost of these services was \$326,512 or 4.6% of the total program cost, representing a decrease of \$23,121 or 6.6% when compared to 2015-16.

Working Capital Deposits. The ABAG POWER natural gas program agreement requires that each new member of the program provide a deposit equal to two times their estimated monthly charges (Working Capital Deposit). These funds are kept on deposit, and are refunded to members if they leave the program. The total deposit amount is generally reviewed on an annual basis to ensure the program has adequate cash reserves to meet all its payment obligations.

As of June 30, 2017 the gas program had total Working Capital Deposits of: \$2,000,785 which represents 3.2 months' worth of currently budgeted expenditures. This is deemed sufficient, and as a result, additional working capital deposits are not anticipated during the current year.

⁵ PG&E costs for noncore accounts are paid by the agency directly to PG&E, and are therefore not included in ABAG POWER's financial reports.

ASSOCIATION OF BAY AREA GOVERNMENTS

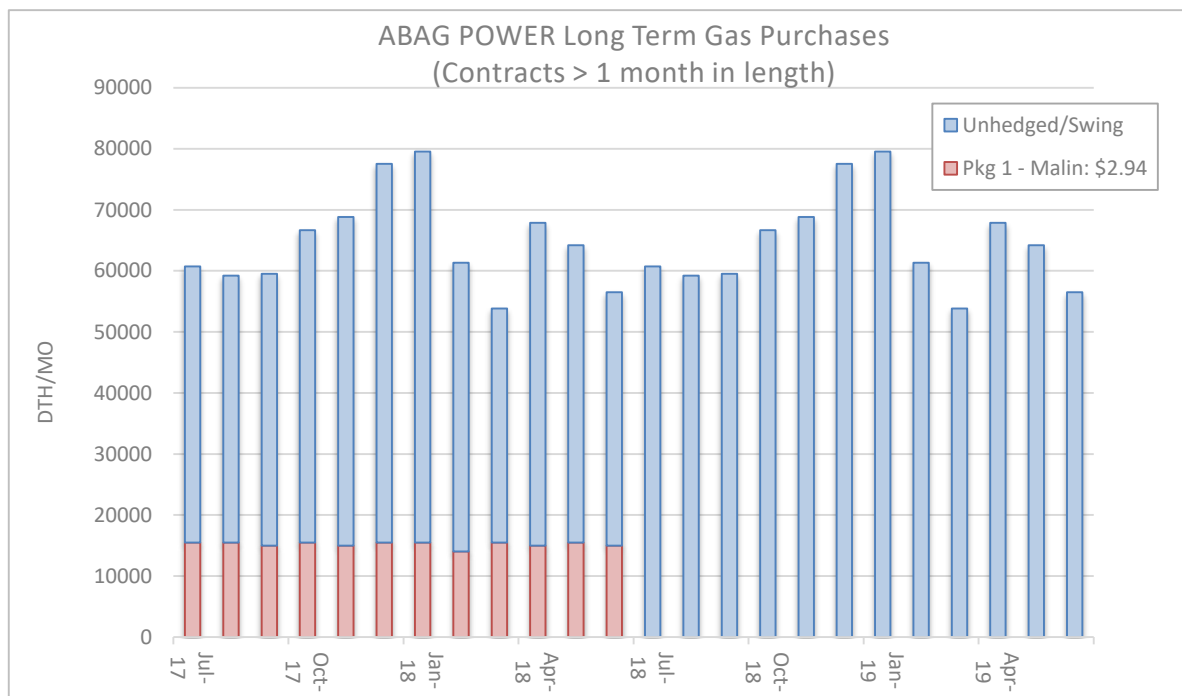
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Conclusion

Recently gas prices have fluctuated within the \$3.00 - \$3.50 range, and futures markets predict that these prices will be maintained for the next couple of years. Market volatility has remained modest in recent months, although by its nature, volatility is always difficult to predict, and while not anticipated, the program should be prepared to deal with more lasting price increases as seen during the hurricane year of 2005 and the oil market climb in 2008.

The goals of ABAG POWER’s Natural Gas Program are to provide natural gas at a rate competitive with, or less than, the default provider (i.e. PG&E), while at the same time providing a rate that is stable and predictable. These goals require a balance between the need to have a substantial percentage of gas in long-term, fixed price contracts or other hedge instrument, and the desire not to lock the program into higher than market rates. ABAG POWER currently maintains a hedged position of approximately 26% for FY 2017-18 (see chart below).



During the coming year we will continue to evaluate the Program’s gas purchasing strategy to best maximize the goals of the Program: *Cost Savings* and *Price Stability*. ABAG POWER will also be looking for opportunities to aid members and their constituents in all areas of energy management, as can be seen in the energy efficiency efforts of the *San Francisco Bay Area Regional Energy Network* (BayREN).

We look forward to working with you during the coming year to make this program responsive to the needs of its member agencies.

ABAG POWER Natural Gas Program

FY 2016-17 Monthly Summary of Operations

| | days/mo. | Jul 31 | Aug 31 | Sep 30 | Oct 31 | Nov 30 | Dec 31 | Jan 31 | Feb 28 | Mar 31 | Apr 30 | May 31 | Jun 30 | Total |
|--|----------|------------|------------|------------|------------|------------|------------|--------------|------------|------------|------------|------------|------------|--------------|
| Gas Purchases⁽¹⁾ | | | | | | | | | | | | | | |
| Purchase 1 | Qty | 15,446 | 15,339 | 14,930 | 15,500 | 15,000 | 15,500 | 15,500 | 14,000 | 15,500 | 15,000 | 15,500 | 14,977 | 182,192 |
| | Price | \$2.29 | \$2.29 | \$2.29 | \$2.71 | \$2.71 | \$2.71 | \$3.06 | \$3.06 | \$3.06 | \$3.06 | \$3.06 | \$3.06 | \$3.06 |
| Purchase 2 | Qty | 20,275 | 19,840 | 19,593 | 20,336 | 25,440 | 33,700 | 26,288 | 23,744 | 15,500 | 15,000 | 15,500 | 14,973 | 250,189 |
| | Price | \$2.63 | \$2.62 | \$2.72 | \$2.77 | \$2.28 | \$3.79 | \$3.31 | \$2.66 | \$2.37 | \$2.75 | \$2.73 | \$2.90 | \$2.90 |
| Purchase 3 | Qty | 31,000 | 31,000 | 13,250 | 15,650 | 10,300 | 26,288 | 40,200 | 25,300 | 33,400 | 38,000 | 31,350 | 23,200 | 318,938 |
| | Price | \$3.00 | \$3.22 | \$3.37 | \$3.25 | \$2.88 | \$3.51 | \$3.64 | \$3.26 | \$3.15 | \$3.33 | \$3.40 | \$3.14 | \$3.14 |
| Purchase 4 | Qty | | | | | | | | | | | | | 0 |
| | Price | | | | | | | | | | | | | 0 |
| Purchase 5 | Qty | | | | | | | | | | | | | 0 |
| | Price | | | | | | | | | | | | | 0 |
| Total Quantity Purchased | | 66,721 | 66,179 | 47,773 | 51,486 | 50,740 | 75,488 | 81,988 | 63,044 | 64,400 | 68,000 | 62,350 | 53,150 | 751,319 |
| Total Purchase Cost | | \$181,805 | \$186,797 | \$132,141 | \$149,250 | \$128,369 | \$262,101 | \$280,928 | \$188,536 | \$189,272 | \$213,859 | \$196,304 | \$162,146 | \$2,271,509 |
| Backbone Shrinkage (Dths) | | (484) | (499) | (433) | (437) | (510) | (527) | (527) | (476) | (372) | (360) | (372) | (364) | |
| WACOG ⁽²⁾ | | \$2.74 | \$2.84 | \$2.79 | \$2.92 | \$2.56 | \$3.50 | \$3.45 | \$3.01 | \$2.96 | \$3.16 | \$3.17 | \$3.07 | \$3.02 |
| Storage/Inventory | | | | | | | | | | | | | | |
| Total Injections/ (Withdrawals) | | 12,615 | 14,530 | 4,000 | 3,494 | (8,450) | (15,800) | (15,500) | (14,000) | (6,105) | 6,667 | 6,989 | 8,267 | (3,293) |
| Total Inventory Quantity (Dths) | | 37,831 | 52,361 | 56,361 | 59,855 | 51,405 | 35,605 | 20,105 | 6,105 | 0 | 6,667 | 13,656 | 21,923 | |
| Total Inventory (\$) | | \$130,594 | \$171,471 | \$182,847 | \$192,599 | \$165,407 | \$114,562 | \$64,683 | \$19,631 | \$0 | \$21,081 | \$43,203 | \$69,384 | |
| Avg. Inventory Rate (\$/Dth) | | \$3.45 | \$3.27 | \$3.24 | \$3.22 | \$3.22 | \$3.22 | \$3.22 | \$3.22 | \$0.00 | \$3.16 | \$3.16 | \$3.16 | |
| Gas Program Monthly Expenses (from Financial Reports) | | | | | | | | | | | | | | |
| Cost of Energy Used ⁽³⁾ | | \$ 167,169 | \$ 172,683 | \$ 148,381 | \$ 166,766 | \$ 190,189 | \$ 343,325 | \$ 365,214 | \$ 269,288 | \$ 234,243 | \$ 219,261 | \$ 198,370 | \$ 140,935 | \$ 2,615,824 |
| Program Operating Expenses ⁽⁴⁾ | | 20,848 | 34,208 | 29,210 | 32,472 | 22,478 | 21,671 | 23,203 | 24,069 | 25,991 | 28,970 | 28,189 | 23,216 | 314,526 |
| Subtotal | | \$ 188,017 | \$ 206,891 | \$ 177,591 | \$ 199,239 | \$ 212,667 | \$ 364,996 | \$ 388,417 | \$ 293,357 | \$ 260,235 | \$ 248,231 | \$ 226,559 | \$ 164,151 | \$ 2,930,350 |
| Rate (\$/Dth) | | \$4.50 | \$4.88 | \$3.97 | \$3.87 | \$3.58 | \$4.16 | \$4.21 | \$4.13 | \$3.95 | \$4.79 | \$4.58 | \$3.84 | \$4.18 |
| PG&E Pass-through costs ⁽⁵⁾ | | 249,039 | 184,806 | 169,540 | 297,817 | 235,930 | 537,322 | 651,325 | 429,681 | 477,099 | 343,408 | 348,995 | 258,103 | 4,183,066 |
| Total ABAG POWER Cost | | \$ 437,056 | \$ 391,696 | \$ 347,131 | \$ 497,055 | \$ 448,597 | \$ 902,318 | \$ 1,039,742 | \$ 723,038 | \$ 737,334 | \$ 591,640 | \$ 575,554 | \$ 422,254 | \$ 7,113,416 |
| Actual (metered) Gas Usage | | | | | | | | | | | | | | |
| Core ⁽⁶⁾ | | 34,337 | 33,252 | 35,006 | 42,963 | 53,182 | 81,138 | 85,508 | 65,416 | 59,200 | 45,885 | 42,783 | 35,546 | 614,217 |
| Non Core | | 7,471 | 9,159 | 9,760 | 8,561 | 6,160 | 6,514 | 6,779 | 5,579 | 6,748 | 5,887 | 6,685 | 7,218 | 86,519 |
| Total Program Usage | | 41,808 | 42,410 | 44,766 | 51,524 | 59,342 | 87,652 | 92,287 | 70,996 | 65,947 | 51,772 | 49,468 | 42,763 | 700,736 |
| ABAG POWER Total Core Rate | | \$ 11.75 | \$ 10.44 | \$ 8.81 | \$ 10.80 | \$ 8.02 | \$ 10.79 | \$ 11.83 | \$ 10.70 | \$ 12.01 | \$ 12.28 | \$ 12.74 | \$ 11.10 | |
| PG&E Rate⁽⁷⁾ | | | | | | | | | | | | | | |
| Procurement Charge ⁽⁸⁾ | | 2.58 | 2.94 | 2.79 | 3.70 | 4.42 | 3.78 | 4.36 | 4.26 | 3.86 | 4.06 | 3.82 | 3.75 | |
| Transportation/Other Charge ⁽⁹⁾ | | 7.25 | 5.56 | 4.84 | 6.93 | 4.44 | 6.62 | 7.62 | 6.57 | 8.06 | 7.48 | 8.16 | 7.26 | |
| Total PG&E Rate | | \$ 9.83 | \$ 8.49 | \$ 7.64 | \$ 10.63 | \$ 8.86 | \$ 10.40 | \$ 11.98 | \$ 10.83 | \$ 11.92 | \$ 11.55 | \$ 11.98 | \$ 11.01 | |

ABAG POWER Natural Gas Program

FY 2016-17 Monthly Summary of Operations

| | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Total |
|----------------------------------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------|
| Rate Comparison | | | | | | | | | | | | | |
| Monthly Rate Difference (\$/Dth) | 1.92 | 1.94 | 1.17 | 0.17 | (0.84) | 0.38 | (0.16) | (0.13) | 0.09 | 0.73 | 0.76 | 0.09 | |
| Monthly Savings (\$) | (65,763) | (64,558) | (41,047) | (7,243) | 44,729 | (31,136) | 13,331 | 8,318 | (5,292) | (33,644) | (32,350) | (3,153) | |
| Cumulative 'Savings' (\$) | (65,763) | (130,321) | (171,368) | (178,611) | (133,882) | (165,018) | (151,687) | (143,369) | (148,662) | (182,306) | (214,656) | (217,809) | |
| Cumulative 'Savings' (%) | -19.5% | -21.0% | -19.3% | -13.3% | -7.4% | -6.2% | -4.1% | -3.3% | -2.9% | -3.2% | -3.5% | -3.3% | |
| Monthly Index Postings | | | | | | | | | | | | | |
| NGI Bidweek for PG&E Citygate | \$3.04 | \$3.08 | \$3.31 | \$3.40 | \$3.25 | \$3.55 | \$3.95 | \$3.71 | \$2.99 | \$3.23 | \$3.24 | \$3.42 | |
| Gas Daily Avg. for PG&E Citygate | \$2.98 | \$3.20 | \$3.36 | \$3.24 | \$2.82 | \$3.76 | \$3.62 | \$3.26 | \$3.14 | \$3.31 | \$3.38 | \$3.13 | |
| NGI Bidweek for Malin | \$2.62 | \$2.61 | \$2.71 | \$2.76 | \$2.67 | \$3.08 | \$3.74 | \$3.22 | \$2.36 | \$2.74 | \$2.72 | \$2.89 | |

Notes:

- (1) All gas quantities in Dth and rates in \$/Dth. (Does not include imbalance purchases traded to storage.)
- (2) Weighted Average Cost of Gas (WACOG) at PG&E Citygate
- (3) Includes costs to transport gas to PG&E Citygate from alternate delivery points, as well as physical storage costs.
- (4) Includes scheduling fees, billing fees, administrative costs and misc. expenses; less interest income.
- (5) PG&E charges billed to ABAG POWER via EDI process and passed through to customers. These costs do not necessarily tie directly to the actual gas usage shown above due to timing difference in reporting.
- (6) From billing data
- (7) Based on PG&E's G-NR1 rate schedule.
- (8) Includes: Procurement Charge, Capacity Charge, Brokerage Fee, Shrinkage, and Storage.
- (9) PG&E Transportation Charge; Customer Charge, and surcharge for Public Purpose Programs. Does not include Franchise Fees and City Taxes.

MEMORANDUM

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area



DATE: October 26, 2017

TO: ABAG POWER Board

FROM: Gerald Lahr, Energy Programs Manager

RE: **Natural Gas Program Review & Recommendations**

ABAG POWER staff provide this review of the Natural Gas Aggregation Program as part of an on-going effort by the Executive Committee and Board to understand the opportunities and benefits of the program, as well as any potential program limitations.

Background.

ABAG POWER. Since 2002 the ABAG POWER Natural Gas Program has operated with the dual goals of *Cost Savings* and *Price Stability*.

- **Price Stability.** It is desirable that the Program's purchasing strategy and costs allocation methods be such that will provide members a reasonable degree of certainty of the costs to be shared within any given program year.
- **Cost Savings.** Given the desire for price stability, the Program shall attempt to provide gas procurement services for less than the equivalent services provided by the default provider (i.e. PG&E).

For many years the program strived to achieve these goals by implementing a gas purchasing strategy that emphasized multiple layers of long-term, fixed-price contracts for a majority of its gas load, while the remaining portion of gas was purchased with short-term, variable-priced (indexed-based) contracts. This strategy generally resulted in positive savings during times of rising markets, and negative savings during falling markets, while maintaining price stability.

In late 2014, ABAG POWER's Executive Committee voted to alter its gas purchasing strategy by shifting its emphasis from long-term, fixed-price contracts to short-term, indexed-based contracts.¹ The decision hoped to capitalize on comparatively low market prices of natural gas and served as an effort to combat increased costs related to the pipeline capacity issues. While this modified strategy has been successful in providing rates that are more stable than PG&E's, and also achieving lower rates than likely would have otherwise been achieved, the strategy has not yet provided sustainable 'savings'.

PG&E. PG&E is the default natural gas provider for all core customers within its territory. PG&E's exact purchasing strategy is subject to confidentiality rules approved by the CPUC, however PG&E purchases gas from the market, and is incentivized to keep their gas prices within a specified range of

¹ During the past year ABAG POWER purchased approximately 25% of its gas in long term, fixed price contracts.

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specific market indices, and is thus subject to the significant market swings. (See CPIM discussion below.) Additionally, PG&E is allowed to enter into certain hedging products following an approved ‘hedging plan’, and recover the costs of these products from core customers. The hedging plan is also subject to confidentiality. PG&E sets the commodity portion of their gas rate (‘Core Procurement’ Rate) on a monthly basis. PG&E does not provide gas commodity supply to noncore (high usage) customers.

Current Program Status.

Purchasing Strategy. ABAG POWER’s general gas purchasing policy limits the duration of gas purchases to no more than three years, and the current gas purchasing strategy established by the Executive Committee is as follows:

- The program will purchase the majority of its gas requirements based on a monthly or daily index that will float with the market price of gas.
- The program will attempt to have a maximum of 500 Dth/day in long-term, fixed-price contracts.
- Staff will monitor the price volatility of the overall portfolio and recommend actions necessary to ensure adequate cash flow, including changes to members’ monthly levelized payments.
- No gas purchase commitments beyond June 30, 2018.

Savings. ABAG POWER calculates ‘savings’ by comparing its weighted average year-end rate (\$/Dth) to the rate that most members would be assigned if they were a customer of PG&E (Small Commercial Tariff: GNR-1). Since 2010 ABAG POWER’s relative savings has ranged from a +1.7% to -7.7%, with an average of -1.7%.²

| <u>ABAG POWER Natural Gas Savings</u> | |
|---------------------------------------|------------------|
| <u>Fiscal Yr</u> | <u>% Savings</u> |
| FY 2010-11 | -1.1% |
| FY 2011-12 | 1.7% |
| FY 2012-13 | 1.4% |
| FY 2013-14 | 0.5% |
| FY 2014-15 | -3.3% |
| FY 2015-16 | -7.7% |
| FY 2016-17 | -3.3% |
| | -1.7% |

These low savings figures can be attributed to: the relatively low market rates for gas commodity over this period; the low PG&E core procurement rates, and the additional pipeline capacity costs which were implemented beginning in early 2012.

Stability. During this same period (2010 – 2017), ABAG POWER has maintained a more stable (less volatile) rate than PG&E. See table below.

² The FY 2015-16 savings of -7.7% included an adjustment for a previous Imbalance error by PG&E.

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| Period | Rate Volatility (β) ³ | | | |
|------------|--|--------------|--------------|-----------------------------|
| | ABAG POWER | | | PG&E |
| | Budgeted Rate | Monthly Rate | True-up Rate | G-NR1 Core Procurement Rate |
| FY 2010-11 | 0.00 | 0.55 | 0.00 | 0.36 |
| FY 2011-12 | 0.00 | 0.67 | 0.00 | 1.09 |
| FY 2012-13 | 0.00 | 0.79 | 0.00 | 0.53 |
| FY 2013-14 | 0.00 | 0.36 | 0.00 | 1.10 |
| FY 2014-15 | 0.00 | 0.66 | 0.00 | 1.18 |
| FY 2015-16 | 0.00 | -0.06 | 0.00 | 1.19 |
| FY 2016-17 | 0.00 | -0.34 | 0.00 | 1.17 |
| FY 2003-17 | 0.61 | 0.78 | 0.65 | 1.03 |

ABAG POWER's greater rate stability can be attributed to its implementation of a levelized billing system, and its greater reliance on long term, fixed price contracts.

Opportunities / Challenges.

Risk Management – Purchasing Strategy/Flexibility. When operating an aggregation program such as ABAG POWER participants are better able to manage their risks to meet the needs of the specific group. As in any financial portfolio management a wide variety of risk/reward options are available. These range from the high risk/reward option of being 100% in the spot market to the low risk/reward option of hedging or buying forward 100% of your commodity needs. If desired, a Core Transportation Agent (CTA), such as ABAG POWER, has the flexibility to design a purchasing strategy that would allow members to lock in a price and thus have almost complete price certainty for budgeting purposes. This flexibility is not available as a PG&E customer.

PG&E CPIM. PG&E is incentivized to keep their natural gas prices at a reasonable level through a process known as the Core Procurement Incentive Mechanism (CPIM). Through this process, approved by the CPUC, PG&E is allowed to recover the full costs of their gas purchases if they keep their costs within a specified range of a baseline amount. The baseline is determined by averaging certain monthly gas price indices. If PG&E's costs are higher than the specified range their shareholders must share in the additional cost. If PG&E's costs are below the range, their shareholders are able to share in the additional savings. This incentive mechanism places PG&E at risk for gas purchases that are outside the parameters of the baseline indices. That is, any purchases they buy forward longer than a one-month period would put them at risk. As a result of this, PG&E's prices will tend to follow the monthly spot market and thus be subject to significant volatility. While PG&E is allowed to engage in certain hedging products (e.g., options, swaps), PG&E does not have an incentive to provide price stability. This, therefore, creates an opportunity for CTAs to provide services so that their customers can achieve greater price stability than that provided by PG&E's pricing system.

³ A β value of 1.0 represents a rate volatility equivalent to the volatility of the NGI Monthly PG&E Citygate Index; a value of 0.0 represents a rate with no volatility.

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Commodity Costs. ABAG POWER competes with other CTAs, as well as PG&E to receive the lowest priced gas commodity available that will meet the group's needs. CTAs are challenged to find opportunities to purchase gas at a rate consistently below PG&E's while maintaining other program goals. Additionally, ABAG POWER's dual goals of Price Stability and Cost Savings can potentially fight against each other.

If 'price stability' is the more highly valued goal, then the majority of the program's gas needs should be met with long term, fixed price contracts, which would increase the program's long term cost stability. However, this would also place the program at risk of buying gas at rates higher than the market (and PG&E) if market rates were to subsequently fall. I.e., cost savings may be compromised.

If, on the other hand, 'cost savings' is the more highly valued goal, than a strategy of shorter term purchasing may be appropriate. Below is an analysis that compares ABAG POWER and PG&E rates to two standard market indices.

Gas Price Comparison 2010 - 2016

(Commodity and operational costs only - does not include PG&E transportation costs)

| Fiscal Year | ABAG POWER Avg. Rate* | PG&E Core Proc. Avg. (GNR-1)* | Avg. Market Rates (Commodity only) | |
|-------------|-----------------------------|-------------------------------------|---------------------------------------|------------------------|
| | | | NGI Monthly Index | Gas Daily Avg Index |
| 2010-11 | 5.54 | 5.44 | 4.31 | 4.27 |
| 2011-12 | 4.53 | 4.67 | 3.51 | 3.40 |
| 2012-13 | 4.38 | 4.50 | 3.69 | 3.71 |
| 2013-14 | 5.09 | 5.13 | 4.49 | 4.67 |
| 2014-15 | 4.98 | 4.67 | 3.85 | 3.71 |
| 2015-16 | 3.78 | 3.15 | 2.60 | 2.56 |
| 2016-17 | 4.18 | 3.82 | 3.35 | 3.27 |
| Average | 4.64 | 4.48 | 3.68 | 3.65 |

* Average weighted by monthly usage.

| | |
|------------------|------|
| Purchase Margin: | 0.02 |
| Operating Exp: | 0.51 |
| Total: | 4.18 |
| \$ Savings: | 0.30 |
| % Savings: | 6.7% |

Cost Efficiencies. Gas commodity costs and transportation costs represent the great majority of ABAG POWER expenses. These are both variable costs, i.e, the costs increase directly as the gas usage increases. Because of this relationship there is no 'economies of scale' associated with these costs.

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However, a small portion of the budget is represented by fixed costs that change very little with a change in usage. These costs are primarily the program operating expenses (administrative costs/ABAG fees, scheduling fees, legal and regulatory costs, etc.) If these costs were spread across a larger pool of usage, a modest increase in savings could be achieved.

Relative Savings Increase w/ Increase Usage

| Usage Incr % | Avg. Savings Incr |
|--------------|-------------------|
| 0 | 0.00% |
| 10 | 0.54% |
| 20 | 1.00% |
| 30 | 1.38% |
| 40 | 1.71% |
| 50 | 2.00% |
| 60 | 2.25% |
| 70 | 2.47% |
| 80 | 2.66% |
| 90 | 2.84% |
| 100 | 2.99% |

Noncore Services. Higher usage accounts have the opportunity to be designated as ‘noncore’ and thus take advantage of lower distribution rates than they could otherwise receive as a core account.⁴ PG&E does not provide gas supply services to noncore accounts, so any customer that is eligible and chooses noncore service, is required to contract with an alternate provider for their gas commodity supply.⁵

ABAG POWER provides natural gas supply, scheduling and balancing services to noncore accounts. High usage, local government accounts that are typically eligible for noncore service include: hospitals, wastewater treatments facilities, jails, large office buildings, co-generation facilities, etc. While ABAG POWER currently has three such accounts in its program, gaining additional noncore accounts would allow the program to spread its fixed costs and gain additional purchasing power.

Recommendations. Staff recommend the following actions to improve the ability of ABAG POWER to meet its goals, and provide on-going benefits to its members.

- Increase usage/membership to spread fixed costs and gain greater economies of scale, including increasing noncore customers. This effort should target higher usage accounts – both core and noncore (e.g., hospitals, wastewater treatment plants, jails, etc.).
- Modify gas purchasing strategy to move predominately into the short term market. I.e., by default, gas purchases would be made based on monthly and daily indices – longer term purchases would be made only by exception. (Note: This strategy could not be fully implemented until July 2018.)

⁴ Noncore customers must have an average monthly usage greater than 20,800 therms.

⁵ PG&E provides gas distribution services to noncore customers at the appropriate noncore rate.

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- Continue to implement a levelized billing system that stabilizes gas rates and bills within a fiscal year.
- Continue to provide CTA Consolidated billing, and associated billing support services. This would include supporting members with their interactions with PG&E.
- Look for additional ways to provide value to members that meets the objectives of ABAG POWER, e.g., biogas.



| ABAG POWER Proposed Executive Committee | | |
|--|-------------------------------|-------------------------------------|
| Fiscal Year 2017-18 | | |
| Name | Title | Member Agency |
| Angela Walton | DIMO Administrative Manager | City of Richmond |
| Chris Schroeder | Purchasing Officer | City of Milpitas |
| Dave Brees | Special Projects Manager | City of Los Altos |
| Melissa Morton | District Manager | Vallejo Flood & Wastewater District |
| Misty Mersich | Acting Sustainability Manager | City of Cupertino |
| Tonya Gilmore | Senior Management Analyst | City of Orinda |

The ABAG POWER Executive Committee oversees all aspects of the administration and operation of the ABAG POWER Joint Powers Authority (JPA), including energy programs that directly affect the member agencies. Currently, this primarily consists of the natural gas aggregation program and our efforts to adapt the program to California's ambitious environmental goals within an ever-changing regulatory landscape. The Executive Committee approves the budget and sets the strategic direction for all program activities.

Executive Committee members can also expect to be involved in discussions regarding Community Choice Aggregation, regional energy efficiency efforts, solar photovoltaic adoption, and opportunities to add value to the program to ensure its viability as an alternative to Pacific Gas & Electric.

ABAG POWER values and encourages active participation from member agencies. For this reason, we invite you to send us an email at power@abag.ca.gov if you are interested in learning more about the program or opportunities to join the Executive Committee.



Date: October 26, 2017

To: Board of Directors
ABAG Publicly Owned Energy Resources ("POWER")

From: Steve Heminger, Executive Director

Subject: **Appointment of President, Chief Financial Officer, Secretary and Acting Legal Counsel**

Background

The POWER Bylaws were adopted on October 22, 1997 and were amended in 1997, 2002, 2004, and in 2016. The Bylaws currently provide that the Board of Directors or Executive Committee of ABAG POWER shall appoint the President, the Chief Financial Officer, and Secretary for ABAG POWER (Article VIII, Section 1). At its October 19, 2016 meeting of the Board of Directors, the Board appointed the following ABAG personnel to the following positions:

| | |
|---|-------------------------|
| Brad Paul, Deputy Director of ABAG | President |
| Courtney Ruby, Administrative Services and Finance Director | Chief Financial Officer |
| Gerald Lahr, Energy Programs Manager | Secretary |

Since the Association of Bay Area Governments' (ABAG) staff was consolidated with the MTC staff effective July 1, 2017 pursuant to the Contract for Services between ABAG and MTC, effective May 30, 2017, the foregoing enumerated ABAG employees no longer exist in the positions listed above.

It is necessary to name current consolidated staff to function as officers for POWER, and additionally to acknowledge the MTC General Counsel as Acting Legal Counsel for POWER.

Recommended Action

The POWER Board of Directors is requested to name Steve Heminger or his designee as President, Brian Mayhew as Chief Financial Officer, Gerald Lahr as Secretary, and Adrienne Weil as Acting Legal Counsel of POWER.

| | |
|---|-------------------------|
| Steve Heminger, Executive Director, MTC | President |
| Brian Mayhew, Chief Financial Officer, MTC | Chief Financial Officer |
| Gerald Lahr, Assistant Director, Energy Programs, MTC | Secretary |
| Adrienne Weil, General Counsel, MTC | Acting Legal Counsel |



Steve Heminger