



ABAG POWER Executive Committee Meeting No. 2010-01
February 16, 2011 (12 Noon - 2:00 p.m.)

Association of Bay Area Governments
101 Eighth Street, Conference Room B
Oakland, CA 94607

AGENDA*

1. Welcome and Introductions

2. Public Comments

3. Approve Summary Minutes of Executive Committee Meetings

Action:

ATTACHMENT 3A – SUMMARY MINUTES OF DECEMBER 15, 2010

4. Appointment to Executive Committee

Action: Chairman's appointment of Beth Balita to the Executive Committee, representing Contra Costa County.

5. Report on Natural Gas Program

Information: Staff will review recent gas operation, including gas purchases; the program's long-term hedge position; gas imbalances; and other miscellaneous program items.

ATTACHMENT 5A – MONTHLY SUMMARY OF OPERATIONS FY 10-11

ATTACHMENT 5B – MARKET PRICE CHART

ATTACHMENT 5C – GAS HEDGE CHART

6. FY 2009-10 Audited Financial Statements

Action: Staff will present for approval the audited financial statements for the year ending June 30, 2010.

ATTACHMENT 6A – ABAG POWER BASIC FINANCIAL STATEMENT

ATTACHMENT 6B – ABAG POWER MEMORANDUM OF INTERNAL CONTROL

7. ABAG Energy Programs Update

Information: Staff will update members on the status of the following programs:

- ABAG Green Communities (Partnership with PG&E)
- Energy Upgrade California (Retrofit Bay Area)
- DOE Better Buildings Program
- Electric Vehicle (EV) Projects

ATTACHMENT 7A – ADDITIONAL ABAG ENERGY PROGRAMS

*The Committee may take action on any item on this agenda

MEMORANDUM

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area

Attachment 3A



SUMMARY MINUTES

**ABAG Power Executive Committee
Teleconference/Regular Meeting 2010-05**

December 15, 2010

Metro Center, ABAG's Conference Room B
101 8th Street, Oakland, CA 94607

WELCOME AND INTRODUCTIONS

Chairman Chris Schroeder opened the meeting with introductions at 12:05 p.m.

Committee Representatives

Mark Armstrong
Jennifer Mennucci (via teleconference)
Ron Popp
Chris Schroeder (Chairman)
Richard Sealana

Jurisdictions

City of Santa Rosa
Golden Gate Bridge District
City of Millbrae
City of Milpitas
City of Union City

Members Absent

Raj Pankhania
Mike J. Lango

City of Hercules
County of Contra Costa

Staff Present

Herbert Pike
Ken Moy
Jerry Lahr
Debra Lawyer

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PUBLIC COMMENTS & ANNOUNCEMENTS

There were no public comments.

APPROVAL OF SUMMARY MINUTES OF AUGUST 25, 2010

Motion was made by Popp/S/Sealana/roll call vote/C/4:0:1 (Chris Schroeder abstained) to approve the Summary Minutes of August 25, 2010 Executive Committee Meeting.

MEMORANDUM

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area

Attachment 3A



REPORT ON NATURAL GAS PROGRAM

Monthly Summary of Operations FY 10-11

Lahr provided the members with the Monthly Summary of Operations report for FY 2010-11. He said that the cumulative savings in comparison with PG&E as of October 31, 2010 is a low -0.8% as compared to a significant -16.3% at the end of June, 2010.

Historical Market Price Chart

Lahr presented a chart showing historical natural gas market prices indicating the monthly and daily market price indices at PG&E Citygate, along with the futures market prices.

Gas Hedge Chart

Lahr provided the members with a chart showing ABAG POWER's long-term gas purchases. A new 3-month winter package for the months of December, 2010, January & February, 2011 was added recently. Lahr will be looking to purchase a few long-term gas contracts, starting from the month of April, 2011.

2009-10 NATURAL GAS PROGRAM TRUE-UP

Lahr presented and discussed the annual true-up for FY 2009-10. In aggregate the true-up represented an overcollection of \$1,116,483. This amount will be returned to members on the final 8 invoices of the current fiscal year (Nov '10– Jun '11).

Master accounts with a credit totaled \$1,239,642.

Master accounts with a debit totaled \$123,159.

2010-11 BUDGET UPDATE

Lahr updated the committee on the current year budget and expenses. The committee concluded that no changes to the current levelized billings are necessary at this time.

CITY OF VALLEJO ACCOUNT OPT-OUT REQUEST

The City of Vallejo has requested ABAG POWER to allow 3 specific accounts which fall under their transportation division to be opted-out of the program bypassing their commitment to the three-year opt-out rules as laid down in the ABAG POWER Aggregation Agreement.

Following discussion of the request a motion was made (Schroeder/S/Mennucci/roll call vote/C/5:0:0) to respond to the City of Vallejo indicating that absent any extenuating circumstances, their three accounts will be held to the three-year opt-out rule as per the Natural Gas Aggregation Agreement.

MEMORANDUM

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area

Attachment 3A



ABAG ENERGY PROGRAMS UPDATE

Lahr provided the Committee with an update on ABAG's current energy-related funding proposals.

These proposals/programs are:

- DOE Retrofit Ramp-Up
- CEC Retrofit Bay Area
- PG&E Green Communities:
 - GHG Inventory Assistance
 - Energy Benchmarking Assistance

2011 MEETING SCHEDULE

Motion was made by Sealana/S/Popp/roll call vote/C/5:0:0 to approve the proposed meetings for calendar year 2011 as presented.

ADJOURNMENT

Chairman Schroeder adjourned the meeting at 1:08 p.m.

/vm

*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.

Attachment 5A

ABAG POWER Natural Gas Program

FY 2010-11 Monthly Summary of Operations

	<u>days/mo.</u>	<u>Jul</u> <u>31</u>	<u>Aug</u> <u>31</u>	<u>Sep</u> <u>30</u>	<u>Oct</u> <u>31</u>	<u>Nov</u> <u>30</u>	<u>Dec</u> <u>31</u>	<u>Jan</u> <u>31</u>	<u>Feb</u> <u>28</u>	<u>Mar</u> <u>31</u>	<u>Apr</u> <u>30</u>	<u>May</u> <u>31</u>	<u>Jun</u> <u>30</u>	<u>Total</u>
<u>Gas Purchases⁽¹⁾</u>														
Purchase 1	Qty	15,500	15,500	15,000	15,500	15,000	15,500	15,498	14,000	15,500	15,000	15,500	15,000	182,498
	Price	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$4.47	\$4.47	\$4.47	
Purchase 2	Qty	15,500	15,500	15,000	15,500	15,000	15,500	15,500	14,000	15,500	15,000	15,500	15,000	182,500
	Price	\$5.90	\$5.90	\$5.90	\$5.90	\$5.90	\$5.90	\$5.90	\$5.90	\$5.90	\$5.90	\$5.90	\$5.90	
Purchase 3	Qty	20,057	20,026	24,030	24,800	23,970	15,500	15,500	14,000					157,883
	Price	\$4.28	\$4.11	\$3.37	\$3.74	\$3.57	\$5.45	\$5.45	\$5.45					
Purchase 4	Qty	5,450	7,800	7,650	17,350	36,200	24,769	26,013						125,232
	Price	\$4.32	\$3.99	\$4.05	\$3.89	\$4.44	\$4.35	\$4.08						
Purchase 5	Qty						19,125	21,250						40,375
	Price						\$4.34	\$4.53						
Total Quantity Purchased		56,507	58,826	61,680	73,150	90,170	90,394	93,761	42,000	31,000	30,000	31,000	30,000	688,488
Total Purchase Cost		\$317,077	\$321,139	\$312,967	\$367,871	\$447,089	\$482,953	\$494,449	\$263,900	\$207,700	\$155,475	\$160,658	\$155,475	\$3,686,753
Backbone Shrinkage (Dths)		(527)	(527)	(570)	(589)	(570)	(589)	(467)						
Weighted Avg. Cost of Gas (WACOG) ⁽²⁾		\$5.66	\$5.51	\$5.12	\$5.07	\$4.99	\$5.38	\$5.30	\$6.28	\$6.70	\$5.18	\$5.18	\$5.18	\$5.35
<u>Storage/Inventory</u>														
Total Injections/ (Withdrawals)		7,151	8,635	8,534	14,720	13,811	(19,479)	(15,000)						18,372
Total Inventory Quantity (Dths)		34,219	42,854	51,388	66,108	79,919	60,440	45,440						
Total Inventory (\$)		\$210,432	\$259,565	\$306,499	\$377,262	\$447,355	\$338,336	\$254,374						
<u>Gas Program Monthly Expenses (from Financial Reports)</u>														
Cost of Energy Used ⁽³⁾		\$ 270,210	\$ 272,003	\$ 266,628	\$ 297,108	\$ 397,993	\$ 590,473							\$ 2,094,414
Program Operating Expenses ⁽⁴⁾		25,117	30,816	29,535	32,367	30,770	25,785							174,391
Subtotal		\$ 295,327	\$ 302,819	\$ 296,163	\$ 329,475	\$ 428,763	\$ 616,258	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,268,806
Rate (\$/Dth)		\$5.33	\$5.40	\$5.22	\$5.12	\$5.17	\$6.09							\$5.45
PG&E Pass-through costs ⁽⁵⁾		68,342	126,842	223,275	150,229	164,512	335,626							1,068,827
Total ABAG POWER Cost		\$ 363,669	\$ 429,661	\$ 519,439	\$ 479,705	\$ 593,275	\$ 951,884							\$ 3,337,632
<u>Actual (metered) Gas Usage</u>														
Core ⁽⁶⁾		46,264	47,543	44,139	52,395	71,791	89,736							351,869
Non Core		9,138	8,571	12,552	12,017	11,079	11,404							64,760
Total Program Usage		55,402	56,114	56,691	64,412	82,870	101,139	0	0	0	0	0	0	416,629
ABAG POWER Total Core Rate		\$ 6.81	\$ 8.06	\$ 10.28	\$ 7.98	\$ 7.47	\$ 9.83							
<u>PG&E Rate⁽⁷⁾</u>														
Procurement Charge ⁽⁸⁾		5.06	5.34	5.24	5.26	4.82	5.43	5.56	6.36					
Transportation/Other Charge ⁽⁹⁾		1.48	2.67	5.06	2.87	2.29	3.74							
Total PG&E Rate		\$ 6.53	\$ 8.00	\$ 10.30	\$ 8.13	\$ 7.11	\$ 9.17	\$ 5.56	\$ 6.36	\$ -	\$ -	\$ -	\$ -	
<u>Rate Comparison</u>														
Monthly Rate Difference (\$/Dth)		0.27	0.06	(0.02)	(0.15)	0.35	0.66							
Monthly Savings (\$)		(12,636)	(2,912)	908	7,660	(25,301)	(59,222)							
Cumulative 'Savings' (\$)		(12,636)	(15,548)	(14,641)	(6,980)	(32,282)	(91,503)							
Cumulative 'Savings' (%)		-4.2%	-2.3%	-1.3%	-0.4%	-1.6%	-3.2%							

ABAG POWER Natural Gas Program

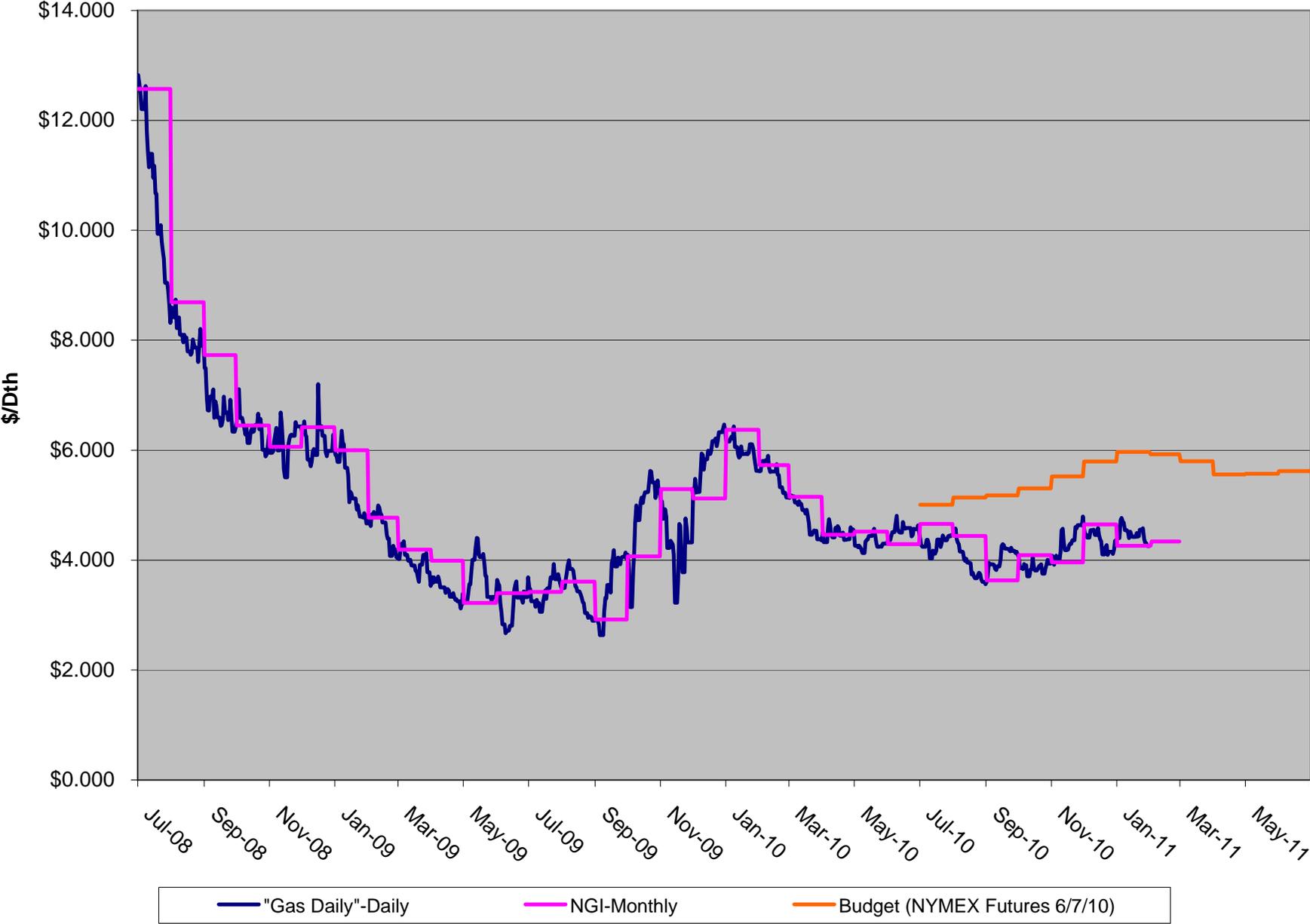
FY 2010-11 Monthly Summary of Operations

		<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Total</u>
<u>Storage Gas Accounting</u>														
Beginning Quantity		27,068												
Average Price		\$6.04												
Beginning of Month	Qty	27,068	34,219	42,854	51,388	66,108	79,919	60,440	45,440	45,440	45,440	45,440	45,440	45,440
Injections	Qty	0	0	188	260	2,699	0	0						
Storage Shrinkage	Qty			-4	-5	-53								
	Price	\$0.00	\$0.00	\$5.12	\$5.07	\$4.99	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Imbalance Trades	Qty	7,151	8,635	8,350	14,465	11,165	-3,514	-1,400						
	Price	\$6.55	\$5.69	\$5.51	\$4.80	\$5.10	\$5.59	\$5.59						
Withdrawals	Qty						15,965	13,600						
	Price	\$6.04	\$6.15	\$6.06	\$5.96	\$5.71	\$5.60	\$5.60	\$5.60					
End of Month	Qty	34,219	42,854	51,388	66,108	79,919	60,440	45,440	45,440	45,440	45,440	45,440	45,440	45,440
	Avg. Pric	\$6.15	\$6.06	\$5.96	\$5.71	\$5.60	\$5.60	\$5.60						
End of Month Inventory		\$210,432	\$259,565	\$306,499	\$377,262	\$447,355	\$338,336	\$254,374						
Monthly Index Postings														
NGI Bidweek for PG&E Citygate		\$4.66	\$4.44	\$3.63	\$4.09	\$3.96	\$4.65	\$4.26	\$4.34					
Gas Daily Avg. for PG&E Citygate		\$4.30	\$3.95	\$4.04	\$3.86	\$4.30	\$4.34	\$4.47						
NGI Bidweek for Malin		\$4.26	\$4.09	\$3.35	\$3.72	\$3.55	\$4.33	\$4.06	\$4.17					

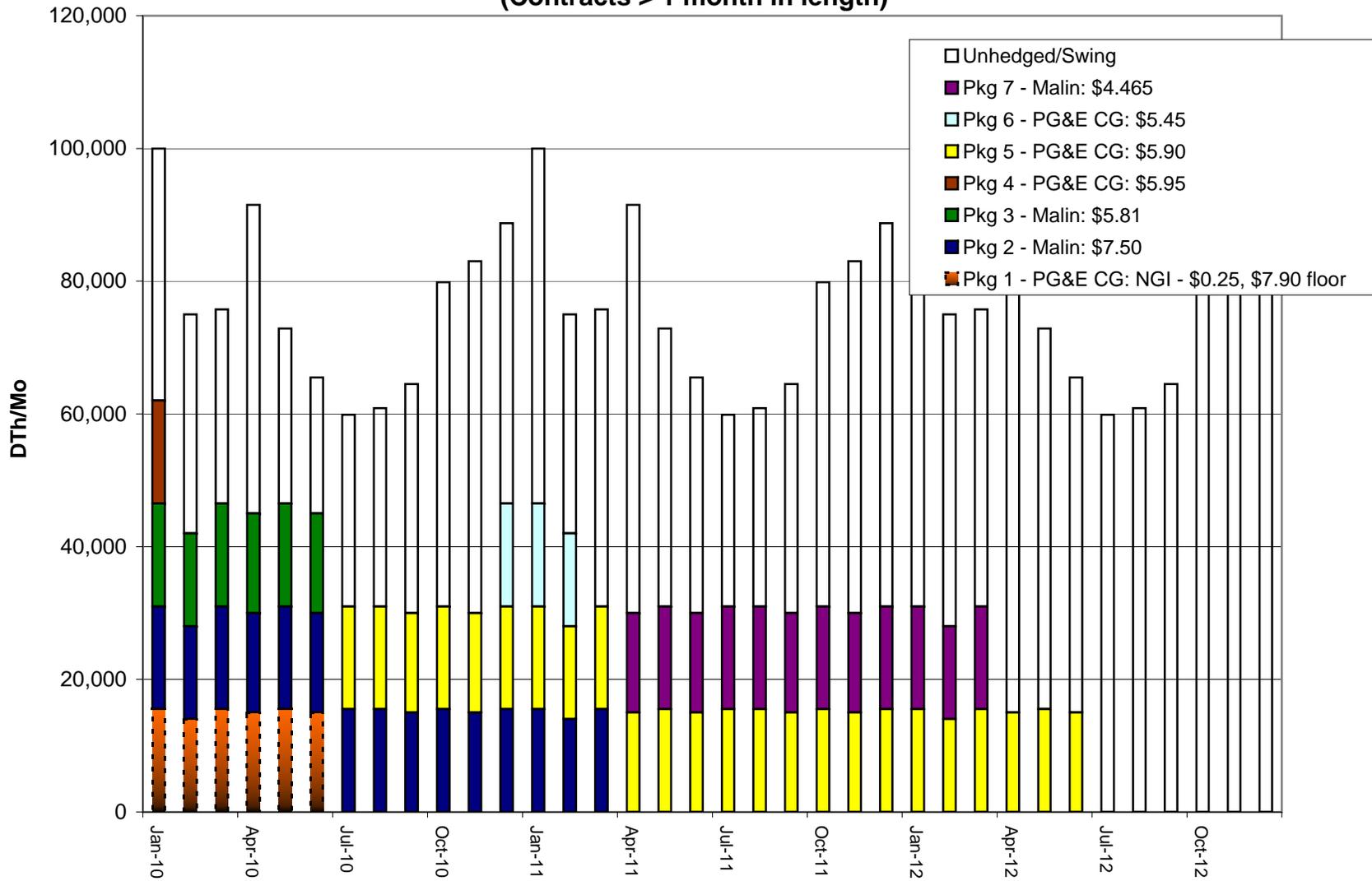
Notes:

- (1) All gas quantities in Dth and rates in \$/Dth. (Does not include imbalance purchases traded to storage.)
- (2) 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.

Historical Market Price Indices @ PG&E Citygate



**ABAG POWER Long Term Gas Purchases
(Contracts > 1 month in length)**



**ABAG
PUBLICLY OWNED ENERGY
RESOURCES**

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

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ABAG
PUBLICLY OWNED ENERGY RESOURCES
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
ABAG Publicly Owned Energy Resources
Oakland, California

We have audited the financial statements of each major fund of the ABAG Publicly Owned Energy Resources (POWER) for the year ended June 30, 2010, which collectively comprise POWER's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of POWER's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects the respective financial position of each major fund of POWER as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maze - Associates

November 30, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS

ABAG Publicly Owned Energy Resources (POWER) has issued the financial reports for fiscal year ending June 30, 2010 based on the provisions of the Government Accounting Standards Board Statement 34, "Basic Financial Statement and Management's Discussion & Analysis—for State and Local Governments," (GASB 34). One of the most significant requirements of GASB 34 is for government entities to prepare financial reports using the full accrual basis of accounting. Since POWER has already been using this method of accounting, changes in its financial reports are primarily in format of presentation.

GASB 34 requires POWER to provide an overview of financial activities in the fiscal year and it should be read in conjunction with the accompanying financial statements.

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements required under GASB 34 include:

- (1) Statement of Net Assets—provides information about the financial position of POWER, including assets, liabilities and net assets. The difference between this statement and the traditional Balance Sheet is that net assets (fund equity) are shown as the difference between total assets and total liabilities.
- (2) Statement of Activities—presents revenues, expenses and changes in net assets for the fiscal year. It differs with the traditional Statement of Revenues and Expenses in that revenues and expenses directly attributable to operating programs are presented separately from investment income and financing costs.
- (3) Statement of Cash Flows—provides itemized categories of cash flows. This statement differs from the traditional Statement of Cash Flows in that it presents itemized categories of cash in flows and out flows instead of computing the net cash flows from operation by backing out non-cash revenues and expenses from net operating income. In addition, cash flows related to investments and financing activities are presented separately.

The Basic Financial Statements above provide information about the financial activities of POWER's two programs—Natural Gas and Electricity, each in a separate column instead of in summary form, as in the past.

FISCAL YEAR 2010 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- POWER's total assets were \$3.7 million at June 30, 2010. At June 30, 2009, total assets were \$7.4 million.
- POWER's total revenues, including program and general revenues, were \$8.7 million in FY 2010, while total expenses were \$8.7 million.

- POWER's total net assets remained at zero at June 30, 2010. The accounting process for POWER is set up such that all surpluses and deficits are recorded as liabilities due to members.
- Revenues from sale of natural gas were \$8.7 million and cost of gas amounted to \$8.3 million in FY 2010.
- The Electricity Pool was suspended on June 30, 2001 and had no operating revenues and operating expenses during FY 2010.
- General and administrative expense, comprising professional fees and reimbursement of administrative expenses to ABAG, were \$365 thousand for the Natural Gas Pool.
- Under other income (expense), the Natural Gas Pool had \$21 thousand in interest income. The Electricity Pool reported administrative expenses in a net amount of \$8 thousand that is offset by a transfer of funds to the Members' Balancing Account. The Electricity Pool had \$1.3 million in Deposit Release and Settlement Gains in FY 2009. This amount represents the release of funds NCPA held for use in defending POWER for litigation activities and potential state and federal regulatory actions. These funds were received in September 2009 and distributed to members during FY 2010 (refer to Note 5 for more details). The closing of the Electricity Pool is described further in Note 4.

MAJOR PROGRAM INITIATIVES IN FY 2010

Natural Gas Pool

Currently the natural gas aggregation program has 38 member cities, counties and special districts located in Northern California. As of June 30, 2010, the pool was serving a total of 803 core accounts and three non-core accounts. For FY 2010, levelized natural gas billings totaled \$9.8 million, while total expenses were \$8.7 million. The excess of revenues over expenses in the amount of roughly \$1.1 million was recorded as unearned revenues and will be returned to members as true-up adjustments in billings during FY 2011. Total gas usage of the program was approximately 9.0 million therms during FY 2010.

Continuing with POWER's strategy in purchasing natural gas, about 46% of purchases during FY 2010 were with fixed-price contracts of greater than one month in length, and 21% was purchased through a hybrid product ('index minus with a floor'). The remainder of the program's gas requirements was filled with monthly and daily index-based purchases. This combination of purchases produced an end-of-year weighted average price that was approximately 3.0% higher than PG&E's similar rate schedule (GNR-1).

Electricity Pool

In accordance with the wind up agreement, ABAG POWER distributed to members in 2004 the remaining assets of the Electricity Pool in the amount of \$21 million and retained \$100,000 to cover residual administrative expenses going forward. During FY 2010, approximately \$8 thousand was withdrawn to cover expenses.

During fiscal 2008-09, POWER reached an agreement with the Northern California Power Agency (NCPA), its former power scheduling coordinator which resulted in the release of funds NCPA held for use in defending POWER in the wake of regulatory and litigation activities by the Federal Energy Regulatory Commission and other federal and state agencies. The agreement provides for a release of POWER from future liabilities to the above proceedings and the return of \$1.25 million to POWER. In September 2009, NCPA remitted these funds to POWER which in turn distributed them to members of the Electric Aggregation Program.

PROGRAM OUTLOOK FOR FY 2011

The past fiscal year began with market-rate natural gas prices at lows not seen since before the energy crisis of 2000-01. Prices rose moderately during the winter months but retreated again during the spring and summer periods. Price volatility remains a significant risk. There are many factors that can cause significant price volatility, including: abnormal weather patterns, increased demand from gas powered electric generators, restrictions in gas transportation capacity and/or imports, the price of oil, regulatory actions, and political instability. In addition, an increased focus on environmental issues may cause regulatory actions that produce increased costs for using petroleum products, including natural gas. The business objective of ABAG POWER is to offer a reliable energy source at stable prices. The program is deemed to be even more valued during periods of uncertainty.

Other ABAG Energy/Sustainability Initiatives

Green Communities. In 2011, in partnership with PG&E, ABAG will be offering two projects to assist local governments with their sustainability and energy efficiency efforts:

- GHG Inventory Assistance – ABAG will provide resources to assist local governments to complete an inventory of their greenhouse gases resulting from municipal operations in accordance with the Local Government Operations Protocol (LGOP).
- Energy Use Benchmarking – ABAG will provide training and on-going assistance to encourage local governments to benchmark their facilities in energy use intensity. ABAG will utilize the on-line tool *Portfolio Manager* created by the US EPA.

Retrofit Bay Area (Energy Upgrade California). ABAG is the lead agency for an 8-county collaborative that seeks to increase the number of energy efficiency retrofits in residential homes in the Bay Area. This program is part of the larger, state-wide program *Energy Upgrade California*.

DOE Better Buildings Program. ABAG is a subcontractor to LA County as part of the statewide *Better Buildings Program* coordinated by the Department of Energy (DOE).

Four Bay Area agencies (Alameda County, San Francisco, San Jose, Sonoma County) will implement various energy efficiency retrofit projects under this program.

In addition, ABAG is seeking to develop customer friendly pathways to coordinate and synergize energy efficiency retrofits, renewable energy installations, incentives, and financing mechanisms.

CONTACTING POWER'S FINANCIAL MANAGEMENT

This Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of POWER's finances. Questions about this Report should be directed to the Finance Department, at 101 Eighth Street, Oakland, California 94607.

ABAG
PUBLICLY OWNED ENERGY RESOURCES
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Electricity Pool	Natural Gas Pool	Total
ASSETS			
Cash and Cash Equivalents (Note 2)		\$3,441,939	\$3,441,939
Receivable from Members and others		43,510	43,510
Interest Receivable		4,262	4,262
Capital Assets (Note 3)		14,221	14,221
Natural Gas Inventory (Note 1E)		163,564	163,564
Total Assets		3,667,496	3,667,496
LIABILITIES			
Accounts Payable		530,575	530,575
Payable to Members		2,020,437	2,020,437
Deferred Revenue		1,116,484	1,116,484
Total Liabilities		3,667,496	3,667,496
NET ASSETS			

See accompanying notes to basic financial statements

ABAG
PUBLICLY OWNED ENERGY RESOURCES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	Electricity Pool	Natural Gas Pool	Total
OPERATING REVENUES			
Sale of natural gas		\$8,665,815	\$8,665,815
Total operating revenues		8,665,815	8,665,815
OPERATING EXPENSES			
Cost of natural gas sold		8,271,218	8,271,218
Depreciation		14,221	14,221
Total operating expenses		8,285,439	8,285,439
Gross margin		380,376	380,376
GENERAL AND ADMINISTRATIVE EXPENSES			
Metering and billing agent fees		36,071	36,071
Management and administration (Note 1)		365,345	365,345
Total general and administrative expense		401,416	401,416
OTHER INCOME (EXPENSE)			
Management and administration fees for suspended Electricity Pool (Note 4)	(\$7,717)		(7,717)
Interest income		21,040	21,040
Transfers to Members' Balancing Account	7,717		7,717
Total other income (expense)		21,040	21,040
CHANGE IN NET ASSETS			
BEGINNING NET ASSETS			
ENDING NET ASSETS			

See accompanying notes to basic financial statements

ABAG
PUBLICLY OWNED ENERGY RESOURCES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	Electricity Pool	Natural Gas Pool	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from members		\$6,233,009	\$6,233,009
Payments to suppliers		(8,125,463)	(8,125,463)
Payments for management and administration		(365,345)	(365,345)
Payments for agent and legal fees		(36,071)	(36,071)
Cash Flows from Operating Activities		<u>(2,293,870)</u>	<u>(2,293,870)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Payments for management and administration	(\$8,112)		(8,112)
Settlement Gains collected (Note 5)	1,250,000		1,250,000
Distribution to members to settle Electricity Pool	<u>(1,242,283)</u>		<u>(1,242,283)</u>
Cash Flows from Noncapital Financing Activities	<u>(395)</u>		<u>(395)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest collections		29,089	29,089
Cash Flows from Investing Activities		<u>29,089</u>	<u>29,089</u>
Net increase (decrease) in cash and cash equivalents	(395)	(2,264,781)	(2,265,176)
Cash and investments at beginning of period	395	5,706,720	5,707,115
Cash and investments at end of period	<u>395</u>	<u>\$3,441,939</u>	<u>\$3,441,939</u>
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:			
Depreciation		\$14,221	\$14,221
Change in assets and liabilities:			
Receivables		29,084	29,084
Natural gas inventory		183,383	183,383
Accounts payable		(37,628)	(37,628)
Payable to Members - Other		(575,250)	(575,250)
Deferred revenue		<u>(1,907,680)</u>	<u>(1,907,680)</u>
Cash Flows from Operating Activities		<u>(\$2,293,870)</u>	<u>(\$2,293,870)</u>

See accompanying notes to basic financial statements

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ABAG
PUBLICLY OWNED ENERGY RESOURCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description

ABAG Publicly Owned Energy Resources (POWER) is a joint powers agency of local government entities in Northern California. POWER is governed by a Board of Directors composed of representatives from member jurisdictions. The Board appoints an Executive Committee to carry out policy decisions.

POWER is a "Energy Service Provider (ESP)", aggregating the natural gas requirements of its members as allowed by the California Public Utilities Commission, and purchasing gas directly from natural gas producers that offer competitive prices and reliable supply. POWER arranges for the transportation and delivery of natural gas to its members by pipelines from its source. POWER pays these vendors and bills its members for their usage, transportation and administration costs on a monthly basis.

The area served by POWER is encompassed by Pacific Gas & Electric Company, which delivers gas to POWER's members.

POWER has contracted with a number of vendors for natural gas purchases. As required by the utility companies, the amount of gas POWER purchases each month must be nominated to PG&E distribution system in advance, and POWER is obligated to purchase the amount nominated, regardless of actual usage. The difference between the amount of gas nominated and the amount actually used results in an "imbalance", which may be cured by making purchases or sales on the open market or allocated to a future month's use.

POWER has contracted separately with the Association of Bay Area Governments (ABAG), to act as POWER's trustee, providing promotional, administrative, accounting and clerical support. POWER paid ABAG \$347,572 for these services in the fiscal year ended June 30, 2010.

The members of POWER must be voting members or cooperating members of ABAG at the time they join POWER, but not all ABAG members are members of POWER. For that reason, POWER is not a component unit of ABAG.

B. Basis of Presentation

POWER's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Statements require that the financial statements described below be presented.

The Statement of Net Assets and the Statement of Activities display overall financial activities of POWER's overall operation. Eliminations have been made to minimize the double counting of internal activities. These statements display the *business-type activities* of POWER that are financed in whole or in part by fees charged to external parties.

ABAG
PUBLICLY OWNED ENERGY RESOURCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of POWER's business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues are presented as general revenues.

C. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenses equal to at least ten percent of their fund-type total and five percent of the grand total. POWER's major funds are presented separately in the fund financial statements.

POWER reported all its enterprise funds as major funds in the accompanying financial statements:

Electricity Pool Fund – this fund accounts for the discontinued utility electricity operations.

Natural Gas Pool Fund – this fund accounts for utility natural gas pool operations.

D. Basis of Accounting

POWER accounts for all transactions in enterprise funds, which are separate sets of self-balancing accounts that comprise assets, liabilities, net assets, revenues and expenses. All transactions are accounted for on the accrual basis, which means that expenses are recorded when the liability is incurred and revenues are recorded when earned, rather than when cash changes hands.

Revenues from sales of natural gas are recognized in the period in which the gas is delivered to members. Members are billed monthly on a levelized basis based on anticipated average usage.

Any excess of billings to members over total actual cost of a fiscal year is reflected as deferred revenue and will be reflected as true-up adjustments in billings in the following fiscal year.

POWER follows statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

E. Natural Gas Inventory

Temporary inventories of natural gas are stated at cost, and transfers to the cost of natural gas sold are accounted for on a weighted average cost basis.

**ABAG
PUBLICLY OWNED ENERGY RESOURCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

NOTE 2 - CASH AND CASH EQUIVALENTS

A. Carrying Amount and Fair Value

Cash and investments comprised of the following at June 30, 2010:

	Fair Value
Local Agency Investment Fund (LAIF)	\$2,557,286
Cash in Banks	884,653
Total Cash and Cash Equivalents	\$3,441,939

B. Interest Rate Risk

Interest rate risk is the potential adverse effect resulting from changes in market interest rates on the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates. As of year end, the weighted average maturity of the investments in the LAIF investment pool is approximately 203 days.

C. Credit Risk

Credit risk is the risk of failure of an issuer of an investment in fulfilling its obligation to the holder of the investment. LAIF is not rated by a nationally recognized statistical rating organization.

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, POWER may not be able to recover its deposits. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its agent having a fair value of 110% to 150% of a public agency's deposit. All of POWER's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in POWER's name.

E. Local Agency Investment Fund

POWER is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The carrying value of LAIF approximates fair value.

F. Statement of Cash Flows

For purposes of the statement of cash flows, POWER considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

ABAG
PUBLICLY OWNED ENERGY RESOURCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2010

NOTE 3 - CAPITAL ASSETS

Capital Assets activity was as follows for the year ended June 30, 2010:

	June 30, 2009	Additions	June 30, 2010
Cost			
Capitalized software	\$71,105		\$71,105
Total	71,105		71,105
Accumulated depreciation			
Capitalized software	42,663	\$14,221	56,884
Total	42,663	14,221	56,884
Capital Assts, Net	\$28,442	(\$14,221)	\$14,221

NOTE 4 – DISCONTINUED OPERATION – ELECTRICITY AGGREGATION PROGRAM

In April 2004, POWER received the \$17,000,000 PG&E DA credit claim settlement plus accrued interest. During fiscal year 2003-2004, a windup agreement to distribute the Electricity Pool's assets was drafted. This agreement was ultimately signed by members of the Electricity Pool. According to the windup agreement, POWER has distributed to the Electricity Pool members during fiscal 2004-05 all CTC reversed billings (with a retention to pay for future expenses), and all working capital balances.

NOTE 5 – LITIGATION SETTLEMENTS

During fiscal 2008-09, POWER reached an agreement with Northern California Power Agency (NCPA), its power scheduling coordinator which resulted in the release of funds NCPA held for use in defending POWER in the wake of regulatory and litigation activities by the Federal Energy Regulator Commission and other federal and state agencies. The agreement provides for a release of POWER from future liabilities to the above proceedings and the return of \$1.25 million to POWER. In September 2009, NCPA remitted these funds to POWER which in turn distributed them to members of the Electricity Aggregation Program.

NOTE 6 – PURCHASE COMMITMENTS

During the fiscal year, POWER entered into various agreements with energy companies to facilitate the sale and purchase of gas for a particular delivery period. These agreements constituted commitments of \$1,026,563 at June 30, 2010.

**ABAG PUBLICLY OWNED ENERGY RESOURCES
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED
JUNE 30, 2010**

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**ABAG PUBLICLY OWNED ENERGY RESOURCES
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

For the Year Ended June 30, 2010

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MEMORANDUM ON INTERNAL CONTROL STRUCTURE

November 30, 2010

To the Board of Directors of the
ABAG Publicly Owned Energy Resources
Oakland, California

In planning and performing our audit of the financial statements of the ABAG Publicly Owned Energy Resources as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered POWER's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the POWER's internal control. Accordingly, we do not express an opinion on the effectiveness of the POWER's internal control. As POWER's administration and the majority of its internal controls are provided by the Association of Bay Area Government (the Association) staff we included tests of procedures and controls performed by them as part of our work.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of POWER's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, the Executive Board, others within the organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.



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ABAG PUBLICLY OWNED ENERGY RESOURCES

REQUIRED COMMUNICATIONS

November 30, 2010

To the Board of Directors of the
ABAG Publicly Owned Energy Resources
Oakland, California

We have audited the financial statements of the ABAG Publicly Owned Energy Resources as of and for the year ended June 30, 2010 and have issued our report thereon dated November 30, 2010. Professional standards require that we advise you of the following matters relating to our audit.

Financial Statement Audit Assurance: Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards does not provide absolute assurance about, or guarantee the accuracy of, the financial statements. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is an inherent risk that material errors, fraud, or illegal acts may exist and not be detected by us.

Other Information Included with the Audited Financial Statements: Pursuant to professional standards, our responsibility as auditors for other information in documents containing POWER's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. Our responsibility also includes communicating to you any information that we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements. This other information and the extent of our procedures is explained in our audit report.

Accounting Policies: Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by POWER is included in Note 1 to the financial statements. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2010. During the year, the following pronouncements became effective without materially impacting POWER's financial statements:

ABAG PUBLICLY OWNED ENERGY RESOURCES

REQUIRED COMMUNICATIONS

- **GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets***

Governments have different types of intangible assets, such as easements, water rights, patents, trademarks, and computer software. Easements are referred to in the GASB 34 description of capital assets which has raised questions about whether and when intangible assets should be considered capital assets for financial reporting purposes.

The absence of specific authoritative guidance has resulted in inconsistencies in the recognition, initial measurement, and amortization of intangible assets among governments. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies and enhance comparability.

- **GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments***

This Statement is intended to improve how state and local governments report information about derivative instruments in their financial statements. Specifically, GASB 53 requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting (proprietary and entity-wide financial statements). Governments enter into derivative instruments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (that is, hedgeable items); or to lower the costs of borrowings. Governments often enter into derivative instruments with the intention of effectively fixing cash flows or synthetically fixing prices. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. In addition, this standard addresses hedge accounting requirements.

Unusual Transactions, Controversial or Emerging Areas: No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during fiscal year ending 2010.

Estimates: Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

Disagreements with Management: For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to POWER's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

ABAG PUBLICLY OWNED ENERGY RESOURCES

REQUIRED COMMUNICATIONS

Retention Issues: We did not discuss any major issues with management regarding the application of accounting principles and auditing standards that resulted in a condition to our retention as POWER's auditors.

Difficulties: We encountered no serious difficulties in dealing with management relating to the performance of the audit.

Audit Adjustments: For purposes of this communication, professional standards define an audit adjustment, whether or not recorded by the POWER, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through the audit procedures performed. These adjustments may include those proposed by us but not recorded by POWER that could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.

We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the entity's financial reporting process.

Uncorrected Misstatements: Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the audit committee.

This report is intended solely for the information and use of the Board, its committees, and management and is not intended to be and should not be used by anyone other than these specified parties.

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Additional ABAG Energy Programs

ABAG Green Communities. Green Communities offerings are a joint effort of ABAG and PG&E and funded by energy rate payers through the California Public Utilities Commission.

- **GHG Inventory Assistance.** Provide assistance to local governments in completing a municipal operations greenhouse gas (GHG) emissions inventory in accordance with the Local Government Operations Protocol (LGOP). The program partners trained interns with participating local governments to complete the inventories.
 - Participants. Cities of Concord, Lafayette, Pleasant Hill, Oakley, Napa, Sausalito, Yountville, and all jurisdictions in Sonoma County (via Sonoma RCPA)
 - Funding: Funded through PG&E's Green Communities Program. Budget: \$259,495
- **Energy-Use Benchmarking.** The goal of this program is to significantly increase the number of local government buildings using ENERGY STAR *Portfolio Manager*. The program offers free benchmarking workshops and individual agency assistance to give local governments the tools necessary to evaluate their facilities' energy use.
 - Participants: On-going recruitment to Bay Area cities and counties.
 - Funding: Funded through PG&E's Green Communities Program. Budget: \$202,300

Retrofit Bay Area (CEC Energy Upgrade California¹). Retrofit Bay Area strives to accelerate consumer demand for home energy upgrades through innovative marketing and communication strategies that leverage existing community and private-sector distribution channels, and expand the upgrade delivery capacity of building professionals and the supply chain through self-sustaining workforce development programs. Retrofit Bay Area is a support program under the broader Energy Upgrade California (EUC).

- Participants: Counties of Alameda (StopWaste.org), Contra Costa, Marin, San Francisco, San Mateo, Santa Clara, Solano (Suisun City), Sonoma (RCPA)
- Goals: Energy efficiency retrofits in 11,250 single family homes and 1,500 multifamily homes.
- Funding: ARRA funded through the Department of Energy's (DOE) State Energy Program (SEP) via the California Energy Commission (CEC). Budget: \$10,750,000

Retrofit California (DOE Better Buildings Program (BBP)). Facilitate energy upgrades in buildings through over 20 targeted pilot projects in four regions of the State (LA, San Diego, Sacramento, SF Bay Area). The BBP Program seeks to: (1) test innovative marketing tactics, (2) help build a workforce to complete building upgrades, (3) evaluate building improvement impacts, and (4) assist in providing financing options for building owners. The California pilot projects fall into the following categories:

- Community Based Social Marketing (Alameda, Los Angeles, Sacramento, San Diego, San Francisco)

¹ Energy Upgrade California (EUC) is a statewide program and brand administered by the California Energy Commission (CEC). EUC intends to offer a "one-stop shop" experience – providing the tools and resources to educate and motivate participation among building owners about energy upgrades, program-qualified contractors, rebates and financing resources.



- Home Improvement Retail Partnerships (Alameda, San Diego, San Francisco)
- Whole Neighborhood Approach (Los Angeles, Sacramento, San Diego, San Francisco, San Jose, Sonoma)
- HVAC Contractor Outreach (Los Angeles, San Diego)
- Multifamily (Alameda, Los Angeles, San Francisco)
- Green Building Labeling (Alameda, Los Angeles, San Francisco)
- On-Water-Bill Financing (Sonoma)
- Participants: Los Angeles County, San Diego (CCSE), Sacramento (SMUD), ABAG (Alameda (StopWaste.org), San Jose, San Francisco, Sonoma (RCPA))
- Goals: Energy efficiency retrofits in 15,282 single family homes and 965 multifamily homes.
- Funding: ARRA funded through the Department of Energy's (DOE). Budget: Statewide: \$30,000,000. ABAG: \$8,395,886.

Electric Vehicle (EV) Projects

- **EV Streamlining.** Promote EV charger installation streamlining in Bay Area and Southern California jurisdictions. Develop and disseminate guidelines for the EV infrastructure deployment by local and regional agencies, including EV-friendly building codes and public works guidelines. Provide outreach to other Councils of Government to support sharing of best practices among elected leaders and senior agency managers.
 - Project Partners: EV Communities Alliance, Clean Fuel Connection, Bay Area Climate Collaborative, Light Moves Consulting
 - Targeted Communities: Cities in the following counties: Alameda, Contra Costa, San Mateo, San Francisco, Santa Clara; Southern California Cities (LA, Long Beach, Santa Monica, Riverside).
 - Funding: Grant funding from the Reformulated Gasoline (RFG) Settlement Fund, a court administered fund set up to manage a \$5 million court penalty against the Unocal Corporation. Because of eligibility rules established by the Court, the ABAG non-profit 'Balance Foundation' was designated the lead applicant and fiscal agent for the project. Budget: \$615,800
- **EV Corridor.** Install 212 EV charging units (423 charging points) in the SF and Monterey Bay Areas.
 - Partners: EV Communities Alliance (project coordination), Clean Fuel Connections (charger installations), Ecology Action (project coordination in Monterey region)
 - Installation Participants: County of Alameda, City of Palo Alto, City/County of San Francisco, City of San Jose, County of Santa Clara, Marin County, Monterey Bay Electric Vehicle Alliance, Coulomb Technologies, Inc, 350Green LLC, A Better Place
 - Funding: Grant funding from the California Energy Commission's (CEC) Alternative and Renewable Fuel and Vehicle Technology Program created by AB 118. Budget: \$1,493,164 (CEC). In addition, \$2,745,843 in agency match funding will be used to support charger installations.