



ABAG POWER Executive Committee Meeting No. 2010-01
February 17, 2010 (12 Noon - 2:00 p.m.)

Association of Bay Area Governments
101 Eighth Street, MTC's Claremont Room 271, 2nd Floor
Oakland, CA 94607

AGENDA*

1. **Welcome and Introductions**
2. **Public Comments**
3. **Approve Summary Minutes of Executive Committee Meeting**
Action:
ATTACHMENT 3A – SUMMARY MINUTES OF DECEMBER 16, 2009
4. **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 4A – MONTHLY SUMMARY OF OPERATIONS FY 09-10
ATTACHMENT 4B – MARKET PRICE CHART
ATTACHMENT 4C – MONTHLY AND CUMULATIVE USAGE SUMMARY (ACTUAL VS. BUDGETED)
5. **Noncore Gas Scheduling and Continued Use of the NBAA**
Action / Information: Staff will discuss the pros and cons of continuing to use a Noncore Balancing Aggregation Agreement (NBAA) for scheduling noncore gas.
ATTACHMENT 5A – MEMO TO NONCORE MEMBERS
6. **Energy Data Pilot Report and Recommendation**
Action: Staff will provide a status report and recommendation for continuation of the Energy Data Pilot Project.
ATTACHMENT 6A – REPORT AND RECOMMENDATION ON ENERGY DATA PILOT PROJECT
7. **FY 2008-09 Audited Financial Statements**
Action: Staff will present for approval the audited financial statements for the year ending June 30, 2009.
ATTACHMENT 7A – ABAG POWER BASIC FINANCIAL STATEMENT
ATTACHMENT 7B – ABAG POWER MEMORANDUM OF INTERNAL CONTROL
8. **ABAG Funding Applications**
Information: Status update of ABAG's recent funding applications to PG&E, CEC and DOE.

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

MEMORANDUM

ASSOCIATION OF BAY AREA GOVERNMENTS

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Attachment 3A



SUMMARY MINUTES

ABAG Power Executive Committee

Regular Meeting 2009-06

December 16, 2009

Metro Center, 101 8th Street, Oakland, CA 94607

WELCOME AND INTRODUCTIONS

Vice Chairman Chris Schroeder opened the meeting with introductions at 12:00 noon.

Committee Representatives

Mark Armstrong
Richard Sealana
Jennifer Mennucci
Ron Popp
Chris Schroeder, Vice Chairman

Jurisdictions

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

Members Absent

John Cerini, Chairman
Terry Mann
Raj Pankhania

City of Vallejo
County of Contra Costa
City of Hercules

Others Present

Suzanne McFadden
Joy Young
Lisa Spearman
Golden Valley Gas Services, Inc.
Golden Valley Gas Services, Inc.
Member of Public (resident of West Oakland)

Staff Present

Herbert Pike
Vina Maharaj
Kenneth Moy
Jerry Lahr
ABAG
ABAG POWER
ABAG
ABAG POWER

PUBLIC COMMENTS & ANNOUNCEMENTS

Lisa Spearman, a resident of West Oakland was present. There were no public comments.

This is the first meeting after being voted as executive committee members in October, 2009, for Mark Armstrong of the City of Santa Rosa and Richard Sealana of the City of Union City.

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APPROVAL OF SUMMARY MINUTES OF AUGUST 19, 2009 MEETING

Motion was made by Popp/S/Armstrong/C/4:0:0 to approve the Summary Minutes of August 19, 2009 Executive Committee Meeting.

APPROVAL OF SUMMARY MINUTES OF SEPTEMBER 22, 2009 MEETING

Motion was made by Popp/S/Armstrong/C/4:0:0 to approve the Summary Minutes of September 22, 2009 Special Executive Committee Teleconference Meeting.

REPORT ON NATURAL GAS PROGRAM

Monthly Summary of Operations FY 09-10

Lahr provided the members with the Monthly Summary of Operations report for FY 2009-10. He said that the cumulative savings in comparison with PG&E is in a significant negative 31% to 35% range due to the decline in market-rate gas prices as compared to ABAG POWER's higher priced locked-in gas. As an example, PG&E's core procurement charge was \$4.95 in July and \$4.99 in August, 2009, while ABAG POWER's rate varied between a high of approximately \$7.90 to a low of \$5.81 for the fixed price gas during this period.

Jennifer Mennucci joined the meeting at this point.

Market Price Chart

Lahr provided a power point presentation and explanation of the market price indices chart.

PG&E Proceedings before the California Public Utilities Commission

PG&E has two proceedings before the California Public Utilities Commission that affect gas suppliers and customers, as follows:

- 1) Application of PG&E to Revise its Gas Rates and Tariffs Effective July 1, 2010; and;
- 2) Application of PG&E Proposing Cost of Service and Rates for Gas Transmission and Storage Services for 2011-2014.

ABAG POWER will monitor these proceedings and intervene as necessary.

Suzanne McFadden and Joy Young, ABAG POWER's gas schedulers joined the meeting at this point.

GAS OVER-DELIVERY PENALTY

A penalty of \$1,150 was charged to ABAG POWER by PG&E for over-delivered gas during one day in October. Lahr provided an explanation and an over-delivery penalty calculation estimate. Under the NBAA (Noncore Balancing Aggregation Agreement), all the three noncore accounts are scheduled as a group. Any penalty that is applied to this group is applied to ABAG POWER who has signed the NBAA agreement with PG&E. Lahr explained the systematic processes of scheduling and the extenuating circumstance which caused the penalty. The committee discussed whether to apply this penalty to the specific members involved or to the program as a whole.

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There was a general consensus among the members that Staff send correspondence to the Noncore entities with a copy to the Executive Committee, explaining the situation and giving them some ramifications of unwinding the NBAA. Staff was requested to bring back the member's reactions to the next ABAG POWER Executive Committee meeting at which time a decision will be made as to how the penalty should be applied.

NATURAL GAS PROGRAM GOALS AND PURCHASING STRATEGY

There was discussion about the current gas program goals and the associated purchasing strategy intended to meet those goals. Lahr provided a gas hedge chart, a core gas rate comparison between ABAG POWER and PG&E and a historical analysis of short-term purchase strategy. Lahr also provided the members with the current purchasing strategy, which was determined by the Executive Committee at their meeting on February 20, 2002, as follows:

“Natural Gas Purchasing Strategy. Based on continued direction from the Executive Committee, staff shall attempt to purchase natural gas at the lowest reasonable cost while taking advantage of longer-term contracts in order to stabilize prices.

- a) Purchase a three-year, fixed-price contract for approximately 50% of the current gas requirements.
- b) Purchase one-year, “participating” fixed-price contracts, for approximately 20% of the current gas requirements.
- c) Purchase the remaining gas requirements (30%) based on a NYMEX index that will float with the monthly spot price of gas.”

Motion was made by Sealana/S/Mennucci/C/5:0:1 (Armstrong abstained) to adjust the current purchasing strategy as follows:

1. Purchase three-year, fixed-price contract(s) for up to 40% of the current gas requirements.
2. Purchase one-year (near-term), “participating” fixed-price contracts, for up to 30% of the current gas requirements.
3. Purchase the remaining gas requirements (30%) based on a monthly or daily index that will float with the spot price of gas.

2007-08 NATURAL GAS PROGRAM TRUE-UP

The 2008-09 True-up revealed that ABAG POWER over-collected funds by approximately \$3 million. These funds have begun to be refunded to members on their monthly invoices, starting with November, 2009.

True-up Calculation of Gas Accounts

Lahr mentioned that prior true-ups were calculated on a “member by member” basis, however, starting with the 2007-08 true-up, he has begun calculating it on a “site by site” basis. While the

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“account by account” basis would have been desirable, he was able to achieve the 07-08 true-up on a “site by site” basis, which was less labor-intensive.

2009-10 BUDGET UPDATE

Lahr said that the executive committee normally reviews the budget mid-way during the financial year primarily to determine if there is a need to adjust the levelized charges. However, looking at the income statement, the sale of energy is 33.60% of budget for the October financials, which is what is expected at this time of the financial year. The interest expense/bank charges were 73.71% of budget which was extremely high. Finance Director, Pike said he was working with the bank to reduce the FDIC costs.

ENERGY DATA PILOT UPDATE

Lahr provided an update indicating the frustrations he and his staff have faced in getting data from PG&E in a timely manner. Getting the data translated for ABAG POWER’s system has also been difficult. He was not able to provide a Pilot Assessment report at this point due to these problems, however, from a program manager’s viewpoint, he presumes the program would be somewhat costly for the members considering at least the requirement of a half-time staff.

Schroeder said he has had some very good results from the set-up to the current phase of the Pilot program. The program has the potential to eliminate a lot of man hours that his agency currently puts into electric billing.

SEP 2 APPLICATION & ENERGY FINANCING DISTRICT UPDATE

Lahr presented the members with a copy of a memo which was presented to ABAG’s Executive Board on November 4, 2009. This memo was an update on the various Energy Financing District programs including applications for funding under the stimulus funding opportunities.

2010 MEETING SCHEDULE

A list of 2010 Executive Committee meetings were presented to the Committee. These meetings are also now available for viewing at ABAG POWER’s website.

ADJOURNMENT

Vice Chairman Schroeder adjourned the meeting at 2:10 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 = abstentions

ABAG POWER Natural Gas Program
FY 2009-10 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	15,500	15,500	15,000	15,500	15,000	15,500	15,500						107,500
	Price	\$7.90	\$7.90	\$7.90	\$7.90	\$7.90	\$7.90	\$7.90						
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	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50
Purchase 3	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	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81
Purchase 4	Qty	9,145	9,455	8,520	8,215	7,800	15,500	15,500						74,135
	Price	\$3.09	\$3.19	\$2.54	\$3.75	\$4.95	\$5.95	\$5.95						
Purchase 5	Qty	3,950	3,400	5,300	11,600	21,150	33,754	27,529						106,683
	Price	\$3.52	\$3.29	\$3.57	\$5.01	\$4.35	\$5.66	\$5.98						
Total Quantity Purchased		59,595	59,355	58,820	66,315	73,950	95,754	89,529	28,000	31,000	30,000	31,000	30,000	653,318
Total Purchase Cost		\$370,935	\$370,069	\$358,713	\$417,687	\$448,824	\$611,941	\$585,645	\$186,340	\$206,305	\$199,650	\$206,305	\$199,650	\$4,162,063
Backbone Shrinkage (Dths)		(527)	(527)	(510)	(527)	(540)	(558)	(558)						
Weighted Avg. Cost of Gas (WACOG) ⁽²⁾		\$6.28	\$6.29	\$6.15	\$6.35	\$6.11	\$6.43	\$6.58	\$6.66	\$6.66	\$6.66	\$6.66	\$6.66	\$6.37
Storage/Inventory														
Total Injections/ (Withdrawals)		7,450	8,550	8,200	7,800	(5,529)	(12,897)	(18,220)						(4,646)
Total Inventory Quantity (Dths)		57,726	66,276	74,476	82,276	76,747	63,850	45,630						
Total Inventory (\$)		\$375,630	\$418,449	\$456,254	\$504,338	\$470,446	\$391,390	\$279,704						
Gas Program Monthly Expenses (from Financial Reports)														
Cost of Energy Used ⁽³⁾		\$ 386,034	\$ 355,073	\$ 359,103	\$ 384,659	\$ 498,715	\$ 612,151							\$ 2,595,735
Program Operating Expenses ⁽⁴⁾		32,198	30,104	30,506	20,629	31,837	33,502							178,776
Subtotal		\$ 418,232	\$ 385,177	\$ 389,609	\$ 405,289	\$ 530,552	\$ 645,652	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,774,511
Rate (\$/Dth)		\$7.50	\$7.47	\$7.30	\$6.39	\$6.61	\$6.09							\$6.76
PG&E Pass-through costs ⁽⁵⁾		125,983	118,275	103,515	200,519	148,869	291,233							988,394
Total ABAG POWER Cost		\$ 544,215	\$ 503,452	\$ 493,124	\$ 605,808	\$ 679,422	\$ 936,885							\$ 3,762,906
Actual (metered) Gas Usage														
Core ⁽⁶⁾		43,193	41,093	40,716	53,609	72,281	95,299							346,191
Non Core		12,570	10,442	12,669	9,842	7,945	10,708							64,176
Total Program Usage		55,763	51,535	53,385	63,451	80,226	106,007	0	0	0	0	0	0	410,367
ABAG POWER Total Core Rate		\$ 10.42	\$ 10.35	\$ 9.84	\$ 10.13	\$ 8.67	\$ 9.15							
PG&E Rate⁽⁷⁾														
Procurement Charge ⁽⁸⁾		4.95	4.99	4.32	5.13	5.99	5.29	5.80	6.24					
Transportation/Other Charge ⁽⁹⁾		2.92	2.88	2.54	3.74	2.06	3.06							
Total PG&E Rate		\$ 7.87	\$ 7.87	\$ 6.87	\$ 8.87	\$ 8.05	\$ 8.35	\$ 5.80	\$ 6.24	\$ -	\$ -	\$ -	\$ -	
Monthly Rate Difference (\$/Dth)		2.55	2.48	2.97	1.26	0.62	0.80							
Monthly Savings (\$)		(109,995)	(102,083)	(121,111)	(67,548)	(45,032)	(76,358)							
Cumulative Savings (\$)		(109,995)	(212,078)	(333,189)	(400,737)	(445,769)	(522,127)							
Cumulative Savings (%)		-32.4%	-32.0%	-35.3%	-28.3%	-22.3%	-18.7%							

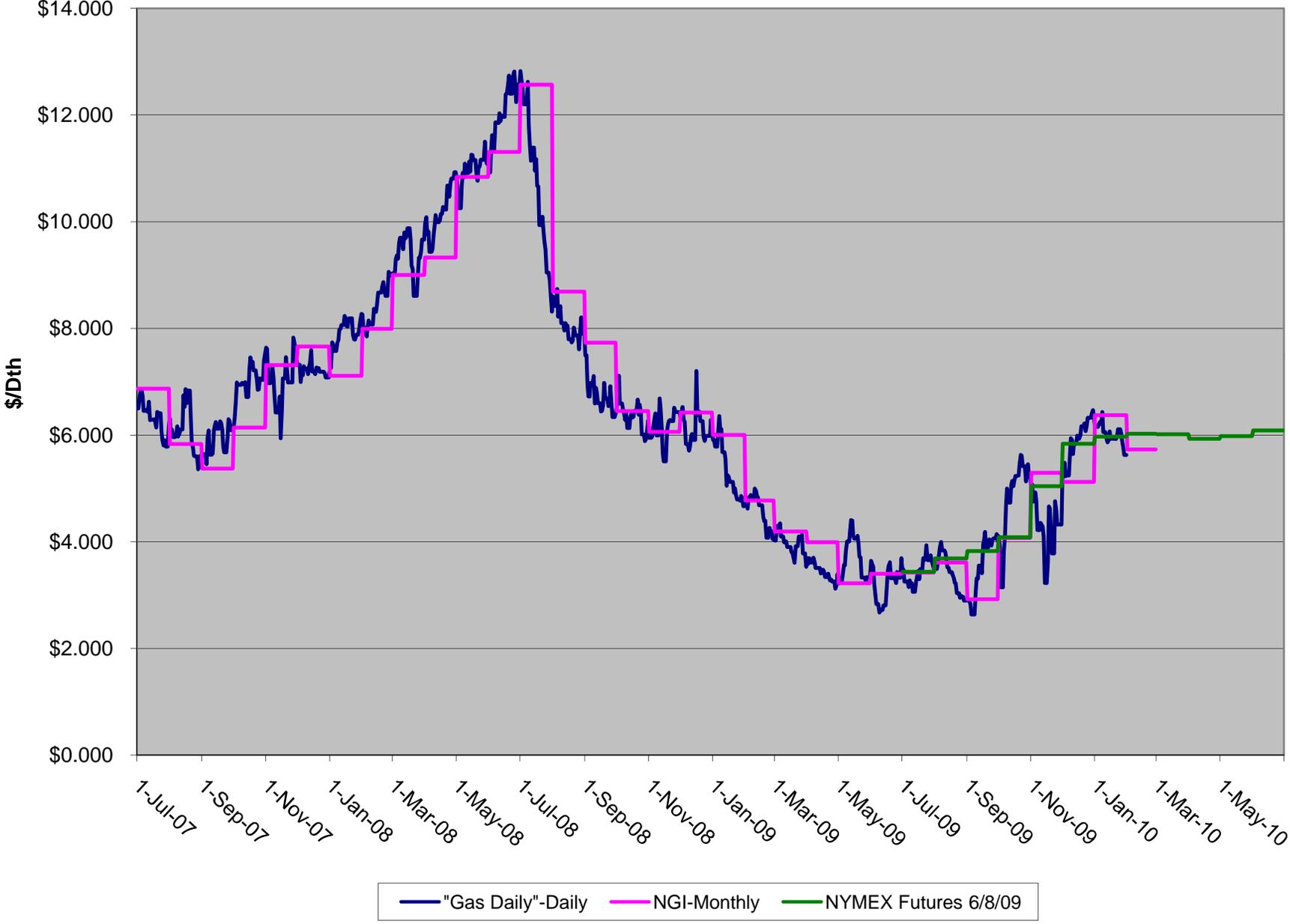
ABAG POWER Natural Gas Program
FY 2009-10 Monthly Summary of Operations

		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Storage Gas Accounting														
Beginning Quantity		50,276												
Average Price		\$6.90												
Beginning of Month	Qty	50,276	57,726	66,276	74,476	82,276	76,747	63,850	45,630	45,630	45,630	45,630	45,630	
Injections	Qty	0	0	204	450	0	0	0						
Storage Shrinkage	Qty			-4	-6									
	Price	\$0.00	\$0.00	\$6.15	\$6.35	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Imbalance Trades	Qty	7,450	8,550	8,000	7,800	-1,500								
	Price	\$3.85	\$5.01	\$4.57	\$6.15	\$6.13								
Withdrawals	Qty				444	4,029	12,897	18,220						
	Price	\$6.90	\$6.51	\$6.31	\$6.13	\$6.13	\$6.13	\$6.13	\$6.13					
End of Month	Qty	57,726	66,276	74,476	82,276	76,747	63,850	45,630	45,630	45,630	45,630	45,630	45,630	
	Avg. Pric	\$6.51	\$6.31	\$6.13	\$6.13	\$6.13	\$6.13	\$6.13						
End of Month Inventory		\$375,630	\$418,449	\$456,254	\$504,338	\$470,446	\$391,390	\$279,704						
Monthly Index Postings														
NGI Bidweek for PG&E Citygate		\$3.42	\$3.61	\$2.92	\$4.07	\$5.29	\$5.12	\$6.37	\$5.73					
Gas Daily Avg. for PG&E Citygate		\$3.43	\$3.38	\$3.53	\$4.84	\$4.27	\$5.90	\$6.00						
NGI Bidweek for Malin		\$3.07	\$3.17	\$2.53	\$3.73	\$4.88	\$4.75	\$5.95	\$5.55					

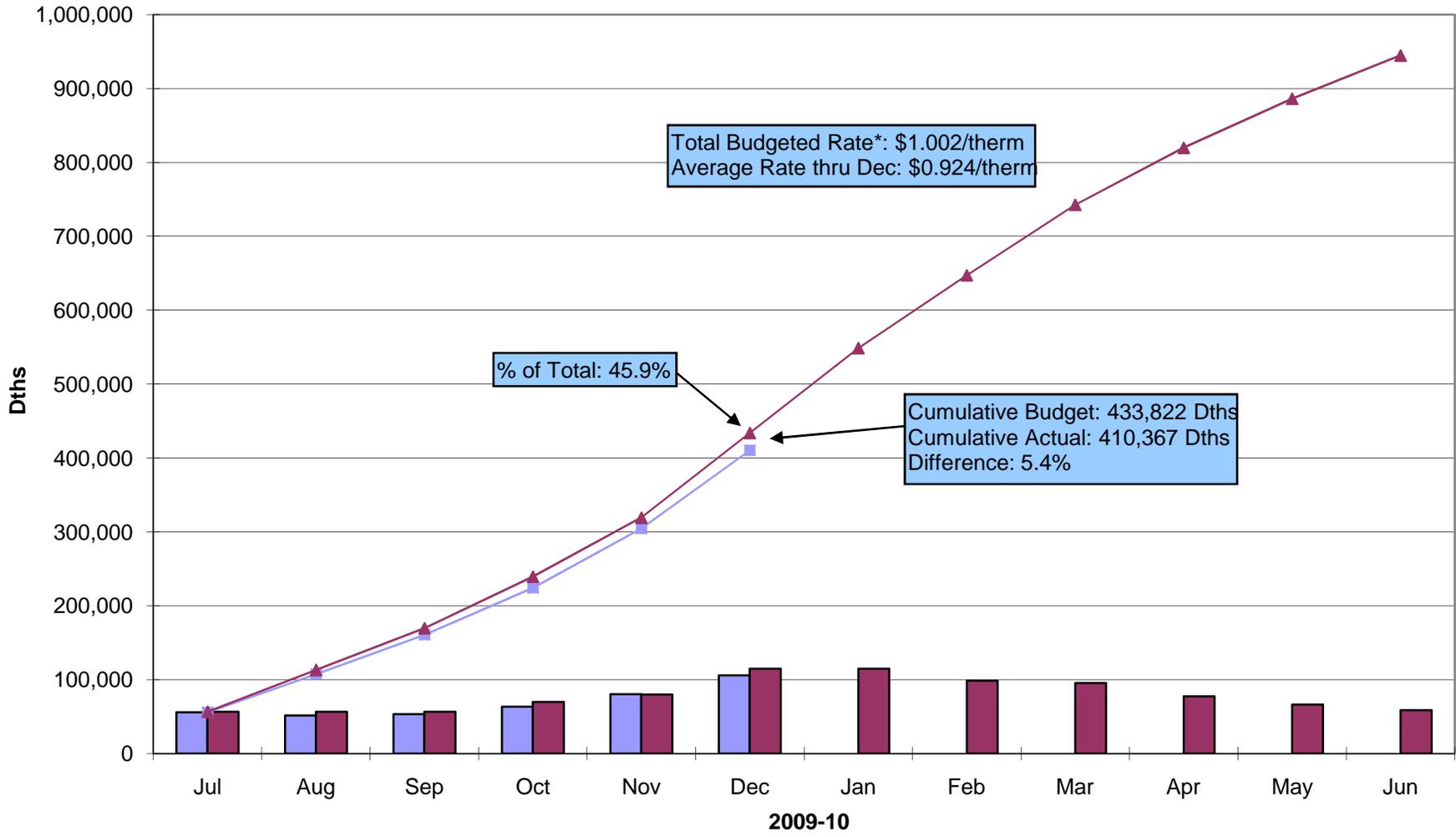
Notes:

- (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. Excludes costs of Energy Data Pilot Project.
- (4) Includes scheduling fees, billing fees, administrative costs and misc. expenses; less interest income.
- (5) Actual cost of PG&E charges billed to customer via EDI process. 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.

Market Price Indices @ PG&E Citygate



**Monthly & Cumulative Usage Summary
(Actual vs. Budgeted)**



*Combinded core/noncore rate

■ Monthly Actual
 ■ Monthly Estimate
 —■— Cumulative Actual
 —▲— Cumulative Estimate

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Attachment 5A



DT: February 1, 2010

TO: ABAG POWER Noncore Members

FM: Gerald L. Lahr, ABAG POWER Program Manager

RE: **Noncore Gas Scheduling**

In order to reduce the risk of OFO non-compliance penalties, ABAG POWER is considering whether to continue scheduling gas for its noncore accounts through the use of a Noncore Balancing Aggregation Agreement (NBAA) with PG&E, or whether to disband the NBAA and instead provide scheduling and balancing services for each account separately. The optional scheduling methods, and issues related to each approach, are discussed below. We ask that you review these issues, and provide us with feedback regarding your agency's concerns and preference for either approach.

Background. PG&E's Gas Tariff G-BAL provides the rules and regulations regarding gas balancing services for intrastate transportation customers on PG&E's system. The sections of the tariff relevant to this discussion are cited below:

Noncore End-Use Customers may elect to aggregate Cumulative Imbalances for multiple premises, or they may assign their balancing obligations to a Balancing Agent. If the Cumulative Imbalances are aggregated or assigned to a Balancing Agent, PG&E will aggregate individual Balancing Service accounts into a single Balancing Service account with both the usage and the deliveries aggregated. A single Monthly Tolerance Band shall apply to the aggregated quantities.

The Balancing Agent is the party financially responsible for managing and clearing imbalances described in schedule G-BAL. The Balancing Agent shall be responsible for all applicable balancing and Rule 14 Operational Flow Order, Emergency Flow Order and diversion noncompliance charges. The following are Balancing Agents: Core Transport Agent (CTA), PG&E Core Procurement Department, *Noncore Balancing Aggregation Agreement (NBAA) Agent*, a *Noncore End-Use Customer* or Wholesale/Resale Customer that is not part of an NBAA. All Balancing Agents are subject to creditworthiness requirements. [emphasis added]

Natural Gas Rule No. 14 states the following regarding Operational Flow Order (OFO) noncompliance charges:

If a Balancing Agent's OFO noncompliance charge is calculated to be less than or equal to \$1,000 for an OFO, the noncompliance charge will be exempted and the

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charge will be zero. If the noncompliance charge is greater than \$1,000, the Balancing agent will be responsible for the full noncompliance charge; i.e., \$1,000 will not be deducted from the calculated noncompliance charge.

In December 2004 ABAG POWER signed an NBAA with PG&E, and subsequently incorporated all the noncore accounts under this agreement. ABAG POWER currently has three noncore accounts in its program.

In October 2009, ABAG POWER received an OFO non-compliance penalty of \$1,134. This is the only non-compliance penalty charged to ABAG POWER since initiating the NBAA.

Scheduling Options. ABAG POWER is now considering the following options related to the continued use of an NBAA:

Option 1. Maintain the current NBAA and scheduling practices. Relevant factors:

- ABAG POWER would continue its gas procurement, scheduling and balancing services for noncore customers as before.
- ABAG POWER would be responsible for all OFO non-compliance charges. [Note: according to the terms of the Noncore Aggregation Agreement with its members, ABAG POWER may pass along any penalties that are determined to be the responsibility of an individual member.]
- ABAG POWER noncore customers would receive one \$1000 penalty exemption for the entire aggregated gas load.
- ABAG POWER would continue to be responsible for any PG&E credit requirements associated with gas procurement and delivery.
- ABAG POWER would receive one Monthly Imbalance Statement for its noncore customers.

Option 2. Unwind the NBAA and provide scheduling and balancing services for each noncore account separately. Relevant factors:

- ABAG POWER would continue to provide gas procurement, scheduling and balancing services to noncore accounts through its Noncore Aggregation Agreement with each member. Only minor internal scheduling modifications would be necessary.
- Each noncore account would become responsible for any non-compliance charges associated with its account.
- Each noncore account would receive a \$1000 penalty exemption. [This effectively triples the amount of OFO penalty exemptions.]
- Individual members would become responsible for any PG&E creditworthiness requirements. [This has not been a significant issue in the past.]
- Each noncore facility would receive a Monthly Imbalance Statement by mail

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ABAG POWER's gas scheduler, Golden Valley Gas Services, has indicated that the differences in day-to-day scheduling procedures between these two options are very minor and not material for the purposes of making this decision.

Discussion. Subsequent to the recent non-compliance penalty charged to ABAG POWER, staff has undertaken a review of its scheduling and balancing procedures. While we consider the risk of non-compliance penalties to be low under either option above, the implementation of option 2 is being considered for the purpose of further reducing the likelihood of non-compliance penalties in the future.

We are asking that each noncore member provide staff any relevant comments and/or their preference with regard to the options above. This issue will be discussed at the ABAG POWER Executive Committee meeting on February 17th.

Please contact me if you have any questions (510-464-7908 / JerryL@abag.ca.gov).

/vm

MEMORANDUM

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Representing City and County Governments of the San Francisco Bay Area



DT: February 10, 2010

TO: ABAG POWER Executive Committee

FM: Gerald L. Lahr, ABAG POWER Program Manager

RE: **Report and Recommendation on Energy Data Pilot Project**

At its October 2008 meeting the ABAG POWER Board authorized the expenditure of up to \$50,000 on an energy data system upgrade and pilot project. Subsequent to the Board meeting, the pilot project was initiated in early 2009 using the City of Milpitas as the test agency. Project implementation proceeded slowly but steadily, and has reached a point at which staff can provide a more thorough analysis of the costs and benefits of implementing an expanded service to its members.

Background. Utility Manager Pro (UM Pro) is a software package for the collection, management and accounting of utility billing data (costs and usage). In 2006 ABAG POWER chose to utilize this software in conjunction with its natural gas billing system. At that time, ABAG POWER hired Utility Management Services (UMS), an independent consulting firm, to provide services related to the setup of the database and installation of the software package. A number of local governments in the Bay Area have also purchased the same UM Pro software for their own internal utility data management needs.

The energy data system upgrade was conceived as an additional service option utilizing an online version of the UM Pro software (UM Online). Although available to any member, this would primarily benefit those members that had not already purchased a full version of the software, by providing a centralized utility management system via the web. It was contemplated that ABAG POWER would manage the data collection process to provide cost efficiencies, and also be available to offer additional services related to the validation of utility billing data.

ABAG POWER contracted with UMS to implement the Energy Data Pilot Project with the following potential benefits in mind:

Energy Data System Upgrade. Expand ABAG POWER's current energy data management and Electronic Data Interchange (EDI) systems to include the receipt of PG&E electric billing data for members. This would allow potential benefits that include:

- Accurate tracking and reporting of complete energy data (i.e. both gas and electric) for member accounts.
- Benchmarking and comparing facility usage and trends that can help target efficiency efforts.
- Improved forecasting and budgeting energy costs.
- Access to both electric and gas bills and analysis reports through the internet.

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During implementation of the pilot project, the following experiences were of note:

- **Database Setup.** Initial database setup requires involvement with an agency staff that has significant knowledge with the agency's buildings and utility accounts. Although somewhat time consuming, this process provides an excellent opportunity for the agency to accurately identify their accounts and correct discrepancies.
- **PG&E Assistance.** In order to receive electric billing data, PG&E must set up the appropriate Electronic Data Interchange (EDI) delivery processes in their software. The automation of this process took much longer than expected (~ 5 months) due to unknown PG&E delays/difficulties. While PG&E continues to work with us in the setup and ongoing operation of the project, it is unclear if these difficulties would occur when adding new agencies.
- **EDI Processing.** Processing of electric billing data from PG&E proved more burdensome than originally anticipated. Electric billing data has more variables than gas billing data, and the translation of the raw EDI data into a format that can be read by the UM Pro software in a consistent, accurate manner has been difficult, and has required frequent involvement with the prime consultant UMS and ABAG POWER's EDI translation software vendor (Xebec Data).
 - As an example, one issue that has not been resolved is how to accurately translate the meter read dates for re-billed electric accounts on summary bills.
- **Staff Time.** Additional staff time and consulting resources were required to track down data import errors and billing validation errors, as well as work with both UMS and the City of Milpitas on the UM Online software so all parties could become confident in their abilities to access the data and produce reports.
- **Validation Reports.** As with the gas program, the validation of the electric billing data provided a very useful service to the member agency. This relieved the City of Milpitas from the internal process they had previously undertaken to validate their utility bills, and provided a more accurate method of identifying and correcting PG&E billing errors.
- **UM Online.** The billing database contains a significant amount of information that can be investigated and presented in a variety of formats, including usage and cost graphs and tables, billing history reports, etc. This information can be sent directly to PG&E via email for further investigation/clarification if necessary. However, the online software is not always intuitive, and requires a staff person with sufficient time to become proficient with its use.

By the end of the full pilot period ABAG POWER will have expended approximately \$32,000 implementing the project, including approximately \$14,500 of ABAG POWER staff time (see

MEMORANDUM

ASSOCIATION OF BAY AREA GOVERNMENTS Attachment 6A

Representing City and County Governments of the San Francisco Bay Area



attached cost breakdown). The pilot was originally envisioned as a one year project from the time the Executive Committee selected the City of Milpitas as the test agency in February 2009, however, due to setup delays, the launch of UM Online did not begin until July, and the transmission of data was not “automated” by PG&E until November.

Basic Options. The following three options represent the basic alternatives related to the future of the energy data project:

1. Stop Project Immediately. Halt any further implementation and operational efforts related to the project as soon as practical. Stop accepting electric data for the City of Milpitas, and shut down UM Online. This would require a short transition period of approximately one month.
2. Continue Pilot Project. Continue the current pilot project for a set period of time (e.g. July 2010). And/or, continue with Milpitas as long as they are willing to pay for the incremental cost of the service.
3. Expand Project. Implement the necessary software upgrades to expand the services to other agencies. Develop a cost recovery mechanism to charge program expenses to participating agencies.

Recommendation. Continue the pilot through one full year of UM Online (July). At the end of this period give the City of Milpitas the option of continuing the same services at the rate of \$5.00/acct/month. Also, during this time, determine the level of interest from other members in receiving this service for the price indicated. Return to the Executive Committee in June with a revised recommendation regarding the expansion of the program.

/vm

Attachment: Energy Data Program - Cost Estimates
Other Energy Management Resources

cc: Henry Gardner, President, ABAG POWER
Herbert Pike, Finance Director, ABAG

Energy Data Program – Cost Estimates**A. Pilot Project Costs**

Original Pilot Project Implementation:	\$12,800
Pilot Project EDI transmission costs:	\$840
Access program software upgrade:	\$2,500
Additional Consulting Fees:	\$1,500
<u>Additional Staff Time</u>	<u>\$14,500</u>
Total Pilot Project:	\$32,140

B. Project Expansion**One-time System Upgrades**

Utility Manager (UM) software upgrade:	\$27,483
Database conversion:	\$1,000
Follow-up Tech Support:	\$1,100
<u>Server License (est):</u>	<u>\$1,000</u>
Total Upgrades:	\$30,583

One-time Costs Per Agency

Database Setup:	\$3,900 - \$4,900 (varies depending on agency size)
EDI Setup & Testing:	\$1,600
<u>Training:</u>	<u>\$650</u>
Total:	\$6,150 - \$7,150

On-going Annual Costs (assumes 1,000 accounts)

UM Online Hosting Charge:	\$11,400
Tech Support	\$4,500
Consultant	\$1,500
EDI Transmission	\$7,200
<u>Additional ABAG Labor (¼ FTE):</u>	<u>\$36,000</u>
Total:	\$60,600
Rate:	\$5.05/acct/month

Other Energy Management Resources

1. Individual software purchase. Any agency has the opportunity to purchase Utility Manager or other energy management software to meet their needs. Currently many members have already taken this step. Recently the City of Richmond purchased UM Pro and associated database consulting services for approximately \$34,000.

2. PG&E Online – Business Tools (free)
<http://www.pge.com/mybusiness/myaccount/analysis/>
PG&E’s online Business Tools allows users to view a variety of information about their accounts. Features include:
 - Energy Usage
 - Billing History
 - Rate Comparison Tools
 - Energy Outage and Restoration Status
 - Detail of Bill

3. EPA Portfolio Manager (free)
http://www.energystar.gov/index.cfm?c=evaluate_performance.bus_portfoliomanager
Portfolio Manager is an interactive energy management tool that allows you to track and assess energy and water consumption across a portfolio of buildings. This tool uses a model to benchmark facilities against a national database of similar buildings based on building characteristics entered by the user. It can be hooked into PG&E’s system to automatically receive energy use data.

**ABAG
PUBLICLY OWNED ENERGY
RESOURCES**

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

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**ABAG
PUBLICLY OWNED ENERGY RESOURCES
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

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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, 2009, 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, 2009, 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 18, 2009

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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, 2009 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 2009 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- POWER's total assets were \$7.4 million at June 30, 2009. At June 30, 2008, total assets were \$5.3 million.
- POWER's total revenues, including program and general revenues and gains from litigation settlements, were \$9.5 million in FY 2009, while total expenses were \$9.5 million.
- POWER's total net assets remained at zero at June 30, 2009. 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 \$9.1 million and cost of gas amounted to \$9.1 million in FY 2009.
- The Electricity Pool was suspended on June 30, 2001 and had no operating revenues and operating expenses during FY 2009.
- General and administrative expense, comprising professional fees and reimbursement of administrative expenses to ABAG, were \$344 thousand for the Natural Gas Pool.
- Under other income (expense), the Natural Gas Pool had \$64 thousand in interest income and \$340 thousand in Deposit Release and Settlement Gains. The Deposit Release and Settlement Gains represent litigation proceeds collected during the current fiscal year and in the first quarter of 2010 (refer to Note 5 for more details). The Electricity Pool reported administrative expenses in a net amount of \$10 thousand that is offset by a transfer of funds from the Members' Balancing Account. The Electricity Pool had \$1.3 million in Deposit Release and Settlement Gains. This amount represents the release of funds NCPA held for use in defending POWER for litigation activities. These funds were received in September 2009 (refer to Note 5 for more details). The closing of the Electricity Pool is described further in Note 4.

MAJOR PROGRAM INITIATIVES IN FY 2009

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, 2009, the pool was serving a total of 832 core accounts and three non-core accounts. For FY 2009, levelized natural gas billings totaled \$12.4 million, while total expenses were \$9.5 million. The excess of revenues over expenses in the amount of roughly \$3.0 million was recorded as unearned revenues and will be returned to members as true-up adjustments in billings during FY 2010. Total gas usage of the program was approximately 9.1 million therms during FY 2009.

Continuing with POWER's strategy in purchasing natural gas, about 49% of purchases during FY 2009 were with fixed-price contracts of greater than one month in length, and 20% 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 8.0% 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 2009, approximately \$10 thousand (net of interest earnings) was withdrawn to cover expenses, leaving a balance of less than \$1 thousand in cash as of June 30, 2009.

PROGRAM OUTLOOK FOR FY 2010

Natural gas prices have remained relatively low since the extreme highs seen during the summer of 2008, although in recent weeks there have been small increases in prices as the economy begins to rebound. 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. Management is also in the process of upgrading the billing system to enhance its usage analysis capabilities.

ABAG Energy Watch

In 2006, ABAG received funding to implement an energy efficiency program for local governments that complements the ABAG POWER energy aggregation program. The ABAG Energy Watch program is designed to assist local governments achieve energy and cost savings by improving energy efficiency in public facilities and help local governments create community-wide energy savings through energy policies and programs. The program is funded by California utility ratepayers under the auspices of the California Public Utilities Commission, and all services of the program are free to eligible agencies.

The ABAG Energy Watch achieved its goal of saving over 25,000,000 kWh/year of electricity. At June 30, 2009, 70 government entities have enrolled in the program, and more than 300 individual projects have been completed.

Funding for the current program runs through December 2009. Management is negotiating with PG&E for funding to continue various energy efficiency and GHG reduction projects for local governments in the 2009-11 funding cycle.

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, 2009

	Electricity Pool	Natural Gas Pool	Total
ASSETS			
Cash and Cash Equivalents (Note 2)	\$395	\$5,706,720	\$5,707,115
Receivable from Members and others		72,594	72,594
NCPA Deposits Released (Note 4)	1,250,000		1,250,000
Interest Receivable		12,311	12,311
Capital Assets (Note 3)		28,442	28,442
Natural Gas Inventory (Note 1E)		346,947	346,947
Total Assets	1,250,395	6,167,014	7,417,409
LIABILITIES			
Accounts Payable	395	568,203	568,598
Payable to Members - Electrical Distribution (Note 4)	1,250,000		1,250,000
Payable to Members - Other (Note 5)		2,574,647	2,574,647
Deferred Revenue		3,024,164	3,024,164
Total Liabilities	1,250,395	6,167,014	7,417,409
NET ASSETS			

See accompanying notes to basic financial statements

ABAG
PUBLICLY OWNED ENERGY RESOURCES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Electricity Pool	Natural Gas Pool	Total
OPERATING REVENUES			
Sale of natural gas		\$9,094,433	\$9,094,433
Total operating revenues		9,094,433	9,094,433
OPERATING EXPENSES			
Cost of natural gas sold		9,105,892	9,105,892
Depreciation		14,221	14,221
Total operating expenses		9,120,113	9,120,113
Gross margin		(25,680)	(25,680)
GENERAL AND ADMINISTRATIVE EXPENSES			
Billing agent fees		(3,526)	(3,526)
Metering agent fees		36,750	36,750
Management and administration (Note 1)		344,374	344,374
Total general and administrative expense		377,598	377,598
OTHER INCOME (EXPENSE)			
Management and administration fees for suspended Electricity Pool (Note 4)	(\$10,130)		(10,130)
Interest income	32	63,660	63,692
Deposit Release and Settlement Gains (Notes 4 and 5)	1,250,000	339,618	1,589,618
Transfers to Members' Balancing Account	(1,239,902)		(1,239,902)
Total other income (expense)		403,278	403,278
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, 2009

	Electricity Pool	Natural Gas Pool	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from members		\$11,315,540	\$11,315,540
Payments to suppliers		(10,416,111)	(10,416,111)
Payments for agent and legal fees		(344,374)	(344,374)
Payments for management and administration		(33,224)	(33,224)
Cash Flows from Operating Activities		521,831	521,831
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Payments for management and administration	(\$11,673)		(11,673)
Settlement Gains collected		339,618	339,618
Distribution to members to settle Electricity Pool	3,391		3,391
Cash Flows from Noncapital Financing Activities	(8,282)	339,618	331,336
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest collections	1,921	74,166	76,087
Cash Flows from Investing Activities	1,921	74,166	76,087
NET CASH FLOWS	(6,361)	935,615	929,254
CASH AND INVESTMENTS AT BEGINNING OF PERIOD	6,756	4,771,105	4,777,861
CASH AND INVESTMENTS AT END OF PERIOD	\$395	\$5,706,720	\$5,707,115
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:			
Depreciation		14,221	14,221
Change in assets and liabilities:			
Receivables		66,041	\$66,041
Natural gas inventory		(40,725)	(40,725)
Accounts payable		(1,269,494)	(1,269,494)
Payable to Members - Other		231,769	231,769
Deferred revenue		1,520,019	1,520,019
Cash Flows from Operating Activities		\$521,831	\$521,831

See accompanying notes to basic financial statements

ABAG
PUBLICLY OWNED ENERGY RESOURCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

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 is routinely cured during following periods or by making purchases or sales on the open market.

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 \$340,236 for these services in the fiscal year ended June 30, 2009.

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, 2009

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, 2009**

NOTE 2 - CASH AND CASH EQUIVALENTS

A. Carrying Amount and Fair Value

Cash and investments comprised of the following at June 30, 2009:

	Fair Value
Local Agency Investment Fund (LAIF)	\$3,275,387
Cash in Banks	2,431,728
Total Cash and Cash Equivalents	\$5,707,115

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 235 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 105% 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.

ABAG
PUBLICLY OWNED ENERGY RESOURCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

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.

NOTE 3 - CAPITAL ASSETS

Capital Assets activity was as follows for the year ended June 30, 2009:

	June 30, 2008	Additions	June 30, 2009
Cost			
Capitalized software	\$71,105		\$71,105
Total	71,105		71,105
Accumulated depreciation			
Capitalized software	28,441	\$14,222	42,663
Total	28,441	14,222	42,663
Capital Assts, Net	\$42,664	(\$14,222)	\$28,442

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.

ABAG
PUBLICLY OWNED ENERGY RESOURCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

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 member of the Electricity Aggregation Program.

Also during fiscal 2008-09, POWER received \$339,618 from gas suppliers representing settlements of POWER's claim that the suppliers overcharged POWER during the fiscal 2000-01 energy crisis.

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

**FOR THE YEAR ENDED
JUNE 30, 2009**

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

For the Year Ended June 30, 2009

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MEMORANDUM ON INTERNAL CONTROL

November 18, 2009

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, 2009, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of POWER's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 are repeating comments made to the Association's Executive Board as part of our audit of the Association in this Memorandum to inform you of relevant issues that pertain to internal controls provided by the Association.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects POWER's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of POWER's financial statements that is more than inconsequential will not be prevented or detected by POWER's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by POWER's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

The Association's written responses included in this report have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the 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
MEMORANDUM ON INTERNAL CONTROL**

STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2008-01 – Accounting Oversight & Review

The Association's former Assistant Finance Director left the Association's employment in fiscal 2007-08 and has not yet been replaced. This position was vacant during the period under audit and provides key oversight and controls over the accounting function. The absence of this position raises the potential that a significant error could occur and not be timely detected and corrected by existing staff.

The operations of ABAG and its affiliates are diversified, complex and very unusual which increases the need for a qualified Assistant Finance Director to oversee the accounting staff. Many of the oversight functions have been assumed by the incoming Finance Director on a temporary basis. However, both functions will be needed in the future to ensure that procedures are effective and efficient and controls do not deteriorate.

Current Status:

During FY 07-08, the former Finance Director announced his plan to retire after 25 years of service and the Association started recruiting for a new Finance Director. The recruitment was successful and a qualified and experienced successor took over the Finance Director position on July 2, 2008. The former Assistant Finance Director resigned from the Association in January 2008. Recognizing the increased risk in internal control due to the departure of the Assistant Finance Director, the former Finance Director agreed to stay on to support his successor until the Assistant Finance Director position is filled. During fiscal year 2008-09, the Assistant Finance Director was hired and the former Finance Director retired on June 30, 2009.

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ACCOUNTANCY CORPORATION
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ABAG PUBLICLY OWNED ENERGY RESOURCES

REQUIRED COMMUNICATIONS

November 18, 2009

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, 2009 and have issued our report thereon dated November 18, 2009. 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 2009.

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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 2009.

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.

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 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 POWER's financial reporting process.

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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.

Mage & Associates

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