



**ABAG POWER Executive Committee Meeting No. 2015-01**  
**February 18, 2015 (12 Noon - 2:00 p.m.)**  
**Association of Bay Area Governments**  
**101 Eighth Street, Conference Room C171**  
**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 10, 2014
4. **FY 2013-14 Audited Financial Statements**  
**Action:** Staff will present for approval the audited financial statements for the year ending June 30, 2014. Staff will include a discussion of ABAG fiscal controls.  
ATTACHMENT 4A – ABAG POWER BASIC FINANCIAL STATEMENT  
ATTACHMENT 4B – ABAG POWER MEMORANDUM OF INTERNAL CONTROL
5. **Report on Natural Gas Program**  
Information: Staff will review recent gas operations, including gas purchases; the program's long-term hedge position; gas imbalances; and other miscellaneous program items.  
ATTACHMENT 5A – MONTHLY SUMMARY OF OPERATIONS FY 2014-15  
ATTACHMENT 5B – GAS HEDGE CHART  
ATTACHMENT 5C – MARKET PRICE CHART  
ATTACHMENT 5D – HISTORIC STRANDED CAPACITY COSTS  
ATTACHMENT 5E – RATE STABILITY COMPARISON
6. **ABAG POWER Operations Manual**  
**Action:** Staff will present for approval the revised Operations Manual  
ATTACHMENT 6A – OPERATIONS MANUAL
7. **FY 2015-16 Preliminary Operating Budget**  
Information: Staff will present a preliminary look at the 2015-16 operating budget.  
ATTACHMENT 7A – FY 2015-16 PRELIMINARY OPERATING BUDGET
8. **Closed Session**  
The following item will be discussed in closed session, pursuant to the requirements of the Ralph M. Brown Act. All reportable actions taken will be announced in open session prior to the adjournment of the meeting.  
Conference With Legal Counsel—Existing Litigation, Govt. C. Sec. 54956.9(d):
  1. Application of Pacific Gas & Electric Company to Set New Core Interstate Pipeline Capacity Planning Range (A.13-06-011)
  2. Application of Pacific Gas & Electric Company Proposing Cost of Service and Rates for Gas Transmission and Storage Services for the Period 2015-2017 (A.13-12-012)
9. **Other Business**



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**AGENDA\***

**10. Adjournment**

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



# SUMMARY MINUTES

**ABAG Power Executive Committee**

**Regular Meeting 2014-06**

**December 10, 2014**

MetroCenter, ABAG's Conference Room B

101 8<sup>th</sup> Street, Oakland, CA 94607

## WELCOME AND INTRODUCTIONS

Chairman Schroeder opened the meeting with introductions at 12:05 PM.

### Committee Representatives

Alan Olds

Chris Schroeder (Chair)

Tonya Gilmore

Angela Walton

Richard Sealana

Julie Bueren

Stephanie Hom

### Jurisdiction

Housing Authority of the City of Alameda

City of Milpitas

City of Orinda

City of Richmond

City of Union City

County of Contra Costa

Town of Moraga

### Members Absent

### Staff Present

Jerry Lahr

Ryan Jacoby

Jennifer Berg

ABAG POWER

ABAG POWER

ABAG

### Guests Present

Walker Wright

Sunrun, Inc.

## PUBLIC COMMENTS & ANNOUNCEMENTS

Lahr informed members that Scott Lines, City of Pleasanton, (appointed to the Executive Committee in June, 2014) is no longer a member of the Executive Committee.



#### **APPROVAL OF SUMMARY MINUTES OF AUGUST 28, 2014.**

Motion was made by Sealana/S/Walton/C/7:0:0 to approve the Summary Minutes of August 28, 2014 Executive Committee Meeting.

The aye votes were: Bueren, Gilmore, Hom, Olds, Schroeder, Sealana, Walton.

The nay votes were: None.

Abstentions were: None.

Absentees were: None.

#### **SOLAR NET ENERGY METERING (NEM)**

Walker Wright, Director of Public Policy, Sunrun Inc., elaborated on policy issues related to solar energy supply tariffs.

#### **REPORT ON NATURAL GAS PROGRAM**

##### **Monthly Summary of Operations FY 14-15**

Lahr provided members with the Monthly Summary of Operations reports for FY14-15; members were updated on the percentage savings comparisons with PG&E. The cumulative savings through October, 2014 is -0.3% including the CTA Unrecovered Pipelines Capacity costs. The program's 'Rate Comparisons excluding Pipeline Capacity Costs' calculation displayed a cumulative savings through October, 2014 of 2.3%.

##### **Gas Hedge Chart**

Lahr provided information on the various current long-term gas purchases (contracts which are greater than one month in length).

##### **Market Price Chart**

Lahr provided information on gas prices.

##### **Pipeline Capacity Costs**

Lahr provided a list of invoices received from PG&E for the CTA Unrecovered Pipelines Capacity costs. To date the program has paid a total of \$321,031 for these costs starting from April, 2012 (costs for FY 14-15: \$59,315). Lower than expected costs during recent months are primarily due to an increase in the costs recovered through PG&E's capacity auctioning process.

Members remained optimistic that their decision to alter the "Gas Purchasing Strategies" may give the program the ability to better manage the impact of the Pipeline Capacity costs.



## **FY 2013-14 NATURAL GAS PROGRAM TRUE-UP**

### **Gas True-up Summary FY 2013-14**

Staff reviewed the 2013-14 true-up calculation, highlighting each component of the calculation and elaborating on several portions of the process, particularly revising levelized charges mid-year as necessary.

## **FY 2014-15 BUDGET UPDATE**

### **ABAG POWER Income Statement – October 2014**

Lahr presented the status of the current fiscal year's budget. Staff noted that a legal services invoice budgeted for FY 2013-14 was paid during FY 2014-15, shifting the costs from this fiscal year to last.

### **Budget to Actual Graph**

Staff reviewed actual gas usage and costs as compared to the 2014-15 budget, and it was recommended and agreed that no changes were needed to be made to the budget at this time.

## **NATURAL GAS PROGRAM OPERATIONS MANUAL UPDATE**

Lahr requested that members review the current draft of the gas program operations manual. It was agreed that members' revisions would be sent to staff no later than January 15, 2015 and any changes would be discussed during the February 2015 Executive Committee meeting.

## **CLOSED SESSION**

Conference with Legal Counsel—Existing Litigation, Govt. C. §54956.9(d):

1. Application of Pacific Gas & Electric Company to Set New Core Interstate Pipeline Capacity Planning Range (A.13-06-011)
2. Application of Pacific Gas & Electric Company Proposing Cost of Service and Rates for Gas Transmission and Storage Services for the Period 2015-2017 (A.13-12-012)

The Chairman announced that no reportable action was taken in closed session.

## **2015 MEETING SCHEDULE**

Motion was made by Sealana/S/Walton/C/6:0:0 to accept the 2015 Executive Committee meeting schedule as presented.

The aye votes were: Bueren, Gilmore, Hom, Schroeder, Sealana, Walton.

The nay votes were: None.

Abstentions were: None.

Absentees were: Olds.

# MEMORANDUM

Attachment 3A

ASSOCIATION OF BAY AREA GOVERNMENTS

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Representing City and County Governments of the San Francisco Bay Area

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## ADJOURNMENT

Chairman Schroeder adjourned the meeting at 2:09 PM.

/rj

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\*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.

**ABAG  
PUBLICLY OWNED ENERGY  
RESOURCES  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**ABAG**  
**PUBLICLY OWNED ENERGY RESOURCES**  
**BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Executive Committee  
ABAG Publicly Owned Energy Resources  
Oakland, California

### *Report on Financial Statements*

We have audited the accompanying financial statements of the ABAG Publicly Owned Energy Resources (POWER) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise POWER's basic financial statements as listed in the Table of Contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to POWER's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of POWER's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of POWER as of June 30, 2014, and changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter***

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2014 but did not have a material effect on the financial statements:

Statement 65 – *Items Previously Reported as Assets and Liabilities.*

Statement 67 – *Financial Reporting for Pension Plans.*

Statement 70 – *Accounting and Reporting for Non-exchange Financial Guarantees.*

The emphasis of this matter does not constitute a modification to our opinion.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Pleasant Hill, California  
December 29, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

ABAG Publicly Owned Energy Resources (POWER) has issued the financial reports for fiscal year ending June 30, 2014 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 Position—provides information about the financial position of POWER, including assets, liabilities and net position. The difference between this statement and the traditional Balance Sheet is that net position (fund equity) is shown as the difference between total assets and total liabilities.
- (2) Statement of Activities—presents revenues, expenses and changes in net position 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 Natural Gas program.

### **FISCAL YEAR 2014 FINANCIAL HIGHLIGHTS**

Financial highlights of the year include the following:

- POWER's total assets were \$3.5 million at June 30, 2014. At June 30, 2013, total assets were \$3.2 million.
- POWER's total revenues, including program and general revenues, were \$6.7 million in FY 2014, while total expenses were \$6.7 million. At June 30, 2013, total revenues, including operating revenues, were \$6.4 million, while total expenses were \$6.4 million.

- POWER's total net position remained at zero at June 30, 2014. 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 \$6.7 million and cost of gas amounted to \$6.2 million in FY 2014.
- General and administrative expense, comprising professional fees and reimbursement of administrative expenses to ABAG, were \$412 thousand.
- Under nonoperating income (expense), the Natural Gas Pool had \$5 thousand in interest income.

## **MAJOR PROGRAM INITIATIVES IN FY 2014**

### 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, 2014, the pool was serving a total of 780 core accounts and three non-core accounts. For FY 2014, levelized natural gas billings totaled \$7.7 million, while total expenses were \$6.7 million. The excess of revenues over expenses in the amount of roughly \$1,000,000 was recorded as unearned revenues and will be returned to members as true-up adjustments in billings during FY 2015. Total gas usage of the program was approximately 7.9 million therms during FY 2014.

Continuing with POWER's strategy in purchasing natural gas, about 45% of purchases during FY 2014 were with fixed-price contracts of greater than one month in length. The remainder of the program's gas requirements was filled with monthly and daily indexed purchases. This combination of purchases produced an end-of-year weighted average price that was approximately 0.5% lower than PG&E's similar rate schedule (GNR-1).

## **PROGRAM OUTLOOK FOR FY 2015**

Natural gas prices remained relatively moderate for most of the past year, although prices rose significantly in the winter due to cold weather and high demand in much of the country. December and January, in particular, saw dramatic, short-term spikes with gas prices rising as high as \$23.00/Dth. Excluding these short-term spikes, near term, market-rate prices remained close to \$5.00/Dth for most of this period, as opposed to the \$4.00/Dth gas seen during the early fall. More recently prices have come down to approximately \$4.50/Dth. While the general direction of prices has continued to increase modestly, the overall the market volatility seems to have increased, at least during the winter months. 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**

The following are energy related initiatives in which the contract for work is held by ABAG, however these programs are in the interest of POWER and its members.

BayREN. The California Public Utilities Commission (CPUC) approved an additional \$12.8 million for continued implementation of the BayREN program during calendar year 2015. The purpose of this program is to implement energy savings programs throughout the region in collaboration with the local government agencies in the nine-county area. The BayREN program consists of four primary energy efficiency subprograms that are designed to address key cost, process, work force and other market barriers to energy efficiency upgrades:

- Single-family energy efficiency retrofit program
- Multi-family energy efficiency retrofit program
- Codes and standards compliance and enforcement
- Financing for energy efficiency projects

Electric Vehicles (EV). ABAG is a principal sponsor of the Bay Area EV Strategic Council which provides coordination with other Bay Area Regional Agencies, as well as regulatory bodies and private industry.

### **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 POSITION  
JUNE 30, 2014

	<u>Natural Gas Pool</u>
<b>ASSETS</b>	
Cash and Cash Equivalents (Note 2)	\$2,920,773
Receivable from Members and Others	399,942
Interest Receivable	1,201
Natural Gas Inventory (Note 1E)	<u>178,082</u>
Total Assets	<u>3,499,998</u>
<b>LIABILITIES</b>	
Accounts Payable	496,364
Payable to Members	2,000,785
Unearned Revenue	<u>1,002,849</u>
Total Liabilities	<u>3,499,998</u>
<b>NET POSITION</b>	<u><u>                    </u></u>

See accompanying notes to basic financial statements

ABAG  
PUBLICLY OWNED ENERGY RESOURCES  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Natural Gas Pool</u>
OPERATING REVENUES	
Sale of natural gas	<u>\$6,651,281</u>
OPERATING EXPENSES	
Cost of natural gas sold	<u>6,244,713</u>
Gross margin	<u>406,568</u>
GENERAL AND ADMINISTRATIVE EXPENSES	
Metering and billing agent fees	14,393
Management and administration (Note 1)	<u>397,216</u>
Total general and administrative expenses	<u>411,609</u>
OPERATING LOSS	(5,041)
NONOPERATING INCOME	
Interest income	<u>5,041</u>
CHANGE IN NET POSITION	
BEGINNING NET POSITION	<u>                    </u>
ENDING NET POSITION	<u><u>                    </u></u>

See accompanying notes to basic financial statements

ABAG  
PUBLICLY OWNED ENERGY RESOURCES  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Natural Gas Pool</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from members	\$6,672,843
Payments to suppliers	(6,132,020)
Payments for management and administration	(397,216)
Payments for agent and legal fees	<u>(14,393)</u>
Cash Flows from Operating Activities	<u>129,214</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest collections	<u>5,271</u>
Cash Flows from Investing Activities	<u>5,271</u>
Net increase in cash and cash equivalents	134,485
Cash and cash equivalents at beginning of period	<u>2,786,288</u>
Cash and cash equivalents at end of period	<u><u>\$2,920,773</u></u>
<b>Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:</b>	
Change in assets and liabilities:	(\$5,041)
Receivables	(185,579)
Natural gas inventory	2,526
Accounts payable	110,167
Unearned revenue	<u>207,141</u>
Cash Flows from Operating Activities	<u><u>\$129,214</u></u>

See accompanying notes to basic financial statements

**ABAG  
PUBLICLY OWNED ENERGY RESOURCES  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**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 an “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 (PG&E), 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’s 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 allocation 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 \$370,093 for these services and \$11,025 for contract services in the fiscal year ended June 30, 2014.

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 Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

**ABAG  
PUBLICLY OWNED ENERGY RESOURCES  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***C. Basis of Accounting***

POWER accounts for all transactions in a single enterprise fund, which is a separate set of self-balancing accounts that comprise assets, liabilities, net position, 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 unearned revenue and will be reflected as true-up adjustments in billings in the following fiscal year.

***D. Estimates***

POWER's management has made a number of estimates and assumptions relating to the reporting of assets, deferred outflows/inflows of resources and liabilities and revenues and expenses and the disclosure of contingent liabilities to prepare these financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Actual results could differ from those estimates.

***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.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

***A. Carrying Amount and Fair Value***

Cash and investments comprised the following at June 30, 2014:

	Fair Value
Local Agency Investment Fund (LAIF)	\$2,093,024
Cash in Banks	827,749
Total Cash and Cash Equivalents	\$2,920,773

***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 232 days.

**ABAG**  
**PUBLICLY OWNED ENERGY RESOURCES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)**

***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 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.

**NOTE 3 – 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 \$1,222,725 as of June 30, 2014.

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**ABAG PUBLICLY OWNED ENERGY RESOURCES  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS  
  
FOR THE YEAR ENDED  
JUNE 30, 2014**

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

**For the Year Ended June 30, 2014**

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## MEMORANDUM ON INTERNAL CONTROL

To the Executive Committee  
ABAG Publicly Owned Energy Resources  
Oakland, California

In planning and performing our audit of the basic financial statements of ABAG Publicly Owned Energy Resources (POWER) 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 POWER's internal control. Accordingly, we do not express an opinion on the effectiveness of POWER's internal control.

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. Given these limitation during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

POWER's written response included in this report has not been subjected to the audit procedures applied in the audit of financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Executive Committee, others within the organization, and agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Maze + Associates*

Pleasant Hill, California  
December 29, 2014

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**ABAG PUBLICLY OWNED ENERGY RESOURCES  
MEMORANDUM ON INTERNAL CONTROL**

**CURRENT STATUS OF PRIOR YEAR OTHER MATTERS**

**2013 – 1: Bank Reconciliation – Prepare and Review Process**

**Criteria:** Bank statements should be reconciled in a timely manner denoting who the preparer was, when the bank reconciliation was prepared, who the reviewer was, and when the review was performed.

**Condition:** During our testing of POWER's March 2013 bank reconciliations, we noted that although reconciliations are being performed, there was no documentation of by whom and when the preparation and review process took place.

**Effect:** Without proper audit trail of said processes, timely bank reconciliation is questionable and no accountability is denoted.

**Cause:** Lack of audit trail processes was an oversight by staff.

**Recommendation:** We noted that POWER corrected this internal control error when the June 30, 2013 bank reconciliations were tested, however we recommend the POWER continue to implement said process.

**Management Response:** Bank reconciliations were prepared by the accountants that are responsible for the entities. Reviewers were required to review and sign off on the bank reconciliations in the past. The new recommendation will enhance internal control, and we will continue to implement the process.

**Current Status:** Recommendation was implemented in FY 2013-14.

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## REQUIRED COMMUNICATIONS

To the Executive Committee  
ABAG Publicly Owned Energy Resources  
Oakland, California

We have audited the basic financial statements of the ABAG Publicly Owned Energy Resources (POWER) for the year ended June 30, 2014. Professional standards require that we communicate to you the following matters relating to our audit under generally accepted auditing standards.

### Significant Audit Findings

#### *Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the POWER are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows. The pronouncements became effective, but did not have a material effect on the financial statements.

**GASB 65 - *Items Previously Reported as Assets and Liabilities***

**GASB 67 - *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25***

**GASB 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees***

#### *Unusual Transactions, Controversial or Emerging Areas*

We noted no transactions entered into by POWER during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

#### *Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected.

#### *Disclosures*

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not propose any audit adjustments that, in our judgment, could have significant effect either individually or in the aggregate, on the entity's financial reporting process.

***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in a management representation letter dated December 29, 2014.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to POWER's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Other Matters**

***Other Information Accompanying the Financial Statements***

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

With respect to the required supplementary information accompanying the financial statements, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not express an opinion nor provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

\*\*\*\*\*

This report is intended solely for the use of the Executive Committee and management and is not intended to be and should not be used by anyone other than these specified parties.

*Maye & Associates*

Pleasant Hill, California  
December 29, 2014

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**ABAG POWER Natural Gas Program**

FY 2014-15 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
<u>Gas Purchases<sup>(1)</sup></u>														
Purchase 1	Qty	15,493	15,446	14,883	15,500	15,000	15,500	15,500	14,000	15,500	15,000	15,500	15,000	182,322
	Price	\$3.94	\$3.94	\$3.94	\$3.94	\$3.94	\$3.94	\$3.94	\$3.94	\$3.94	\$3.88	\$3.88	\$3.88	
Purchase 2	Qty	15,500	15,500	15,000	15,500	15,000	15,500	15,500	14,000	15,500				137,000
	Price	\$4.99	\$4.99	\$4.99	\$4.99	\$4.99	\$4.99	\$4.99	\$4.99	\$4.99				
Purchase 3	Qty	22,091	22,031	21,204	22,103	21,480	22,196	22,164						153,269
	Price	\$4.50	\$3.84	\$3.94	\$3.88	\$4.10	\$3.43	\$2.89						
Purchase 4	Qty	6,516	6,975	4,800	4,200	6,900	10,400	12,400						52,191
	Price	\$4.86	\$4.50	\$4.43	\$4.42	\$4.43	\$3.90	\$3.26						
Purchase 5	Qty					-4,000								-4,000
	Price					\$4.50								
Total Quantity Purchased		59,600	59,952	55,887	57,303	54,380	63,596	65,564	28,000	31,000	15,000	15,500	15,000	520,782
Total Purchase Cost		\$269,364	\$254,127	\$238,200	\$242,672	\$234,426	\$254,912	\$242,747	\$124,950	\$138,338	\$58,200	\$60,140	\$58,200	\$2,176,275
Backbone Shrinkage (Dths)		(405)	(408)	(401)	(403)	(420)	(434)							
WACOG <sup>(2)</sup>		\$4.55	\$4.27	\$4.29	\$4.26	\$4.34	\$4.04	\$3.70	\$4.46	\$4.46	\$3.88	\$3.88	\$3.88	\$4.18
<u>Storage/Inventory</u>														
Total Injections/ (Withdrawals)		10,463	4,500	15,400	8,040	1,270	(12,093)	(22,100)						5,480
Total Inventory Quantity (Dths)		51,614	56,114	71,514	79,554	80,824	68,731	46,631						
Total Inventory (\$)		\$229,030	\$249,550	\$315,278	\$349,592	\$355,009	\$301,895							
Avg. Inventory Rate (\$/Dth)		\$4.44	\$4.45	\$4.41	\$4.39	\$4.39	\$4.39							
<u>Gas Program Monthly Expenses (from Financial Reports)</u>														
Cost of Energy Used <sup>(3)</sup>		\$ 248,521	\$ 263,343	\$ 202,120	\$ 238,935	\$ 259,317	\$ 342,063							\$ 1,554,300
Program Operating Expenses <sup>(4)</sup>		34,247	29,771	32,651	37,027	29,217	26,990							189,903
Subtotal		\$ 282,767	\$ 293,114	\$ 234,772	\$ 275,962	\$ 288,534	\$ 369,053	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,744,203
Rate (\$/Dth)		\$6.08	\$6.50	\$5.40	\$5.51	\$4.92	\$4.88							\$5.46
PG&E Pass-through costs <sup>(5)</sup>		152,189	142,623	130,734	181,023	177,184	212,756							996,508
Total ABAG POWER Cost		\$ 434,957	\$ 435,737	\$ 365,505	\$ 456,985	\$ 465,718	\$ 581,809							\$ 2,740,710
<u>Actual (metered) Gas Usage</u>														
Core <sup>(6)</sup>		40,996	40,074	38,566	44,013	55,052	69,946							288,647
Non Core		5,507	5,050	4,940	6,029	3,540	5,726							30,791
Total Program Usage		46,503	45,124	43,506	50,042	58,592	75,672	0	0	0	0	0	0	319,438
ABAG POWER Total Core Rate		\$ 9.79	\$ 10.05	\$ 8.79	\$ 9.63	\$ 8.14	\$ 7.92							
<u>PG&amp;E Rate<sup>(7)</sup></u>														
Procurement Charge <sup>(8)</sup>		6.00	5.63	6.05	5.21	4.65	5.36	4.89	4.64					
Transportation/Other Charge <sup>(9)</sup>		3.71	3.56	3.39	4.11	3.22	3.04							
Total PG&E Rate		\$ 9.72	\$ 9.19	\$ 9.44	\$ 9.32	\$ 7.87	\$ 8.40	\$ 4.89	\$ 4.64	\$ -	\$ -	\$ -	\$ -	

**ABAG POWER Natural Gas Program**

FY 2014-15 Monthly Summary of Operations

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
<u>Rate Comparison</u>													
Monthly Rate Difference (\$/Dth)	0.08	0.87	(0.65)	0.31	0.28	(0.49)							
Monthly Savings (\$)	(3,191)	(34,671)	25,024	(13,535)	(15,224)	34,005							
Cumulative 'Savings' (\$)	(3,191)	(37,862)	(12,838)	(26,373)	(41,597)	(7,592)							
Cumulative 'Savings' (%)	-0.8%	-4.9%	-1.1%	-1.7%	-2.1%	-0.3%							
<u>Rate Comparison excluding Stranded Pipeline Capacity Costs</u>													
Standed Pipeline Capacity Costs	\$ 11,827	\$ 11,575	\$ 11,522	\$ 12,298	\$ 12,094	\$ 15,740							
Monthly Savings	7,235	(24,392)	35,238	(2,719)	(3,861)	48,554							
Cumulative Savings (\$)	7,235	(17,157)	18,081	15,362	11,501	60,055							
Cumulative Savings (%)	1.8%	-2.2%	1.6%	1.0%	0.6%	2.3%							
<u>Monthly Index Postings</u>													
NGI Bidweek for PG&E Citygate	\$5.12	\$4.48	\$4.55	\$4.42	\$4.17	\$4.69	\$3.48	\$3.17					
Gas Daily Avg. for PG&E Citygate	\$4.70	\$4.49	\$4.43	\$4.29	\$4.50	\$4.34	\$3.25						
NGI Bidweek for Malin	\$4.49	\$3.83	\$3.93	\$3.87	\$3.58	\$4.45	\$3.16	\$2.67					

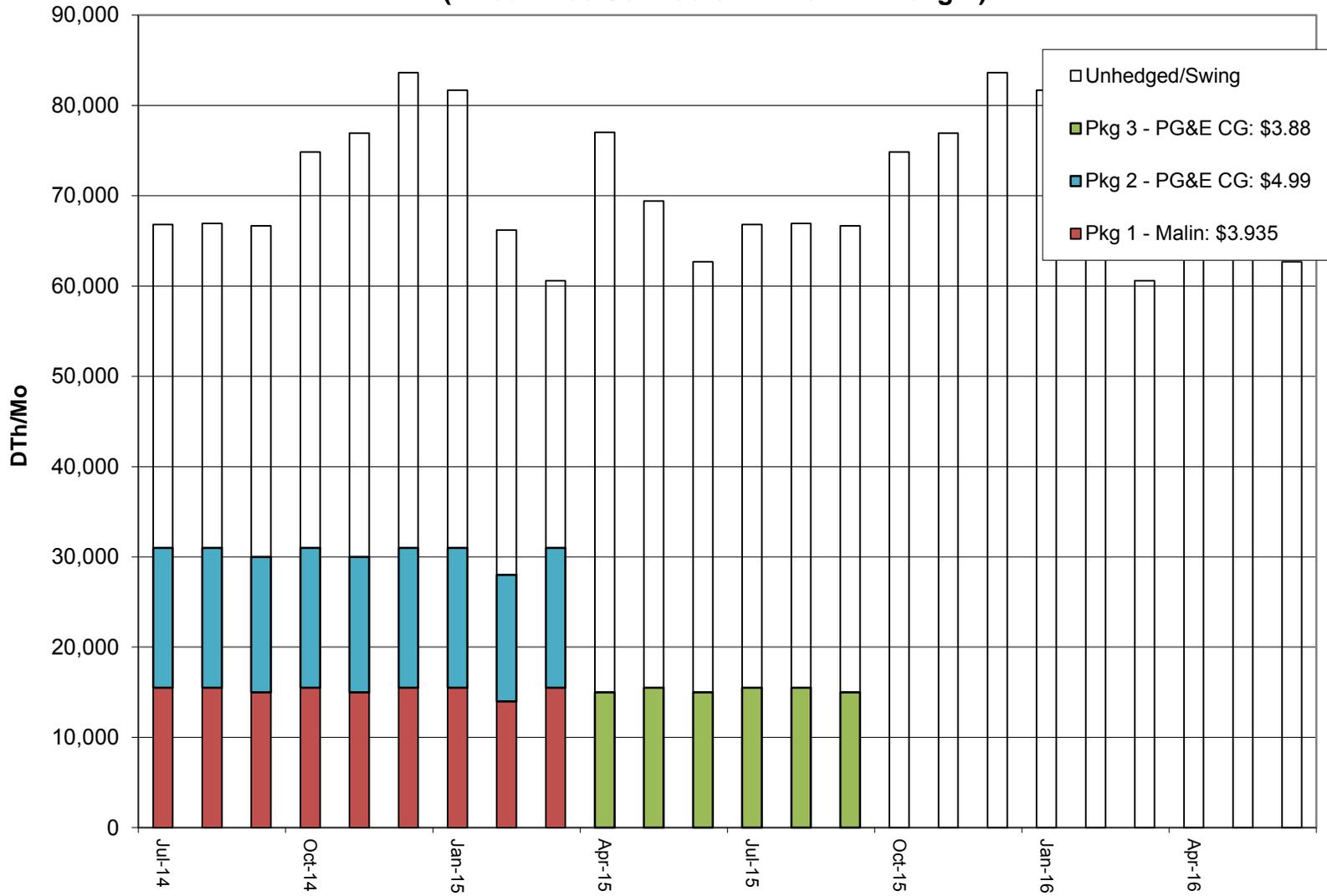
 = Revised data.

Notes:

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

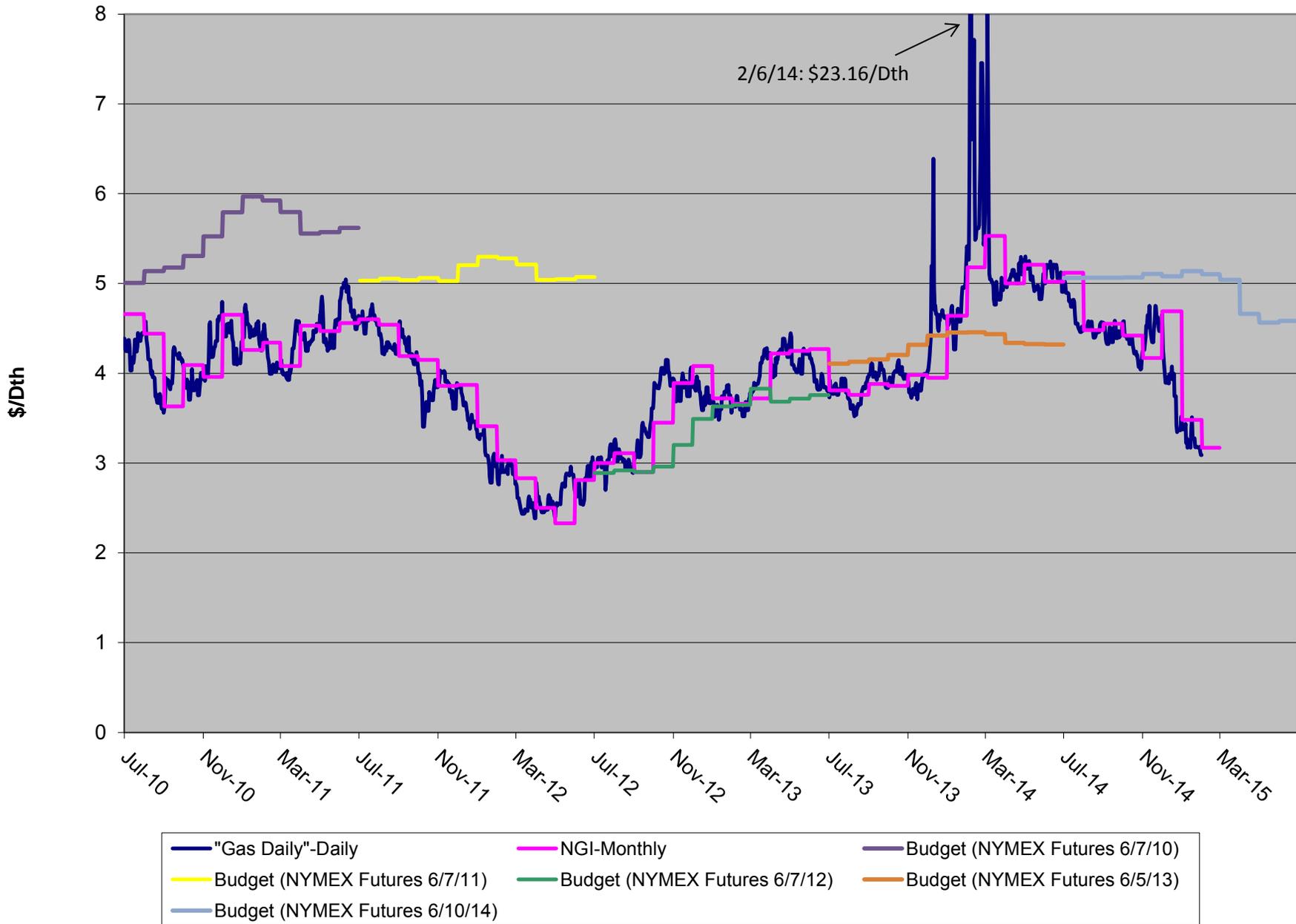
# Gas Hedge Chart

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



# Market Price Chart

## 5-Yr Historical/Future Market Price Indices @ PG&E Citygate



**ABAG POWER**

**CTA Unrecovered Capacity - Invoices**

<b><u>Bill Period</u></b>	<b><u>Amount</u></b>	<b><u>Estimate</u></b>
Apr-12	\$ 616	
May-12	614	
Jun-12	663	
<b><u>Total FY 2011-12:</u></b>	<b>\$ 1,892</b>	
Jul-12	\$ 3,358	
Aug-12	3,366	
Sep-12	3,387	
Oct-12	3,692	
Nov-12	2,704	
Dec-12	3,408	
Jan-13	3,771	
Feb-13	4,022	
Mar-13	4,687	
Apr-13	11,446	
May-13	11,683	
Jun-13	12,065	
<b><u>Total FY 2012-13:</u></b>	<b>\$ 67,587</b>	
		<b><u>Projected (8/13)</u></b>
Jul-13	\$ 15,043	\$ 15,042
Aug-13	15,539	15,042
Sep-13	15,163	15,042
Oct-13	15,439	15,042
Nov-13	14,152	14,857
Dec-13	18,186	14,993
Jan-14	18,991	14,993
Feb-14	18,759	14,993
Mar-14	14,275	13,732
Apr-14	15,999	18,657
May-14	15,319	18,657
Jun-14	15,372	18,657
<b><u>Total FY 2013-14:</u></b>	<b>\$ 192,238</b>	<b>\$ 189,707</b>

<u>Bill Period</u>	<u>Amount</u>	<u>Estimate</u>
Jul-14	\$ 11,827	\$ 18,657
Aug-14	11,575	18,657
Sep-14	11,522	18,657
Oct-14	12,298	18,657
Nov-14	12,094	18,657
Dec-14	15,740	20,451
Jan-15	17,788	20,451
Feb-15		20,451
Mar-15		18,657
Apr-15		25,223
May-15		25,223
Jun-15		25,223
<b>Total FY 2014-15:</b>	<b>\$ 92,842</b>	<b>\$ 248,961</b>
Jul-15		\$ 25,223
Aug-15		25,223
Sep-15		25,223
Oct-15		25,223
Nov-15		25,223
Dec-15		27,728
Jan-16		27,728
Feb-16		27,728
Mar-16		25,223
Apr-16		25,223
May-16		25,223
Jun-16		25,223
<b>Total FY 2015-16:</b>	<b>\$ -</b>	<b>\$ 310,189</b>
<b>Total to date:</b>	<b>\$ <u>354,559</u></b>	

**ABAG POWER Rate Stability Comparison**

Stability ('Beta') calculations for ABAG POWER and PG&E rates, as compared to the NGI's monthly PG&E Citygate index.

Period	ABAG POWER			PG&E
	Budgeted Rate	Monthly Rate	True-Up Rate	GNR1 Core Procur. Rate
(July - June)				
2003-04	-0.296	0.211	0.000	-0.657
2004-05	0.094	0.504	0.000	0.709
2005-06	-0.264	0.416	0.000	1.109
2006-07	0.000	-0.743	0.000	0.857
2007-08	0.000	0.620	0.000	0.610
2008-09	0.475	0.362	0.000	1.195
2009-10	0.000	-0.095	0.000	0.451
2010-11	0.000	0.546	0.000	0.362
2011-12	0.000	0.668	0.000	1.094
2012-13	0.000	0.786	0.000	0.529
2013-14	0.000	0.363	0.000	1.098
2003-2014	0.545	0.739	0.571	0.991

\*The figures formatted in dark blue were presented in a prior comparison during POWER's 2014 Annual Board Meeting.

ASSOCIATION OF BAY AREA GOVERNMENTS

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Publicly Owned Energy Resources (POWER)

**ABAG POWER**

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Natural Gas Aggregation Program Operations Manual



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## **1. Preface**

The ABAG POWER Joint Powers Agency was created in 1997 for the purposing of acquiring on behalf of its members, “energy including, but not limited to, natural gas and electricity, and of telecommunications services, and such other services and goods as may be necessary or convenient to optimize costs savings and to manage the use or supply of energy or telecommunications services.”

The ABAG POWER Natural Gas Program and its members are legally bound by the following documents:

- Joint Powers Agreement creating ABAG POWER
- Bylaws of ABAG POWER
- Core Natural Gas Sales and Aggregation Agreement
- Noncore Natural Gas Sales and Aggregation Agreement

This Gas Program Operations Manual (Manual) is an additional document intended to provide guidance and structure to operational issues that are not covered in the above documents. If a case should arise where this manual contradicts, or conflicts with, the above legal documents, the above documents shall take precedence.

**2. ABAG POWER Program Goals**

2.1. Price Stability

It is desirable that the Program's purchasing strategy and cost allocation methods be such that will give members a reasonable degree of certainty of the costs to be shared within any given program year.

2.2. Cost Savings

Given the desire for price stability, the Program shall attempt to provide gas procurement services for less than the equivalent services provided by the default provider (i.e. PG&E).

**3. Documents**

3.1. ABAG POWER Gas Pool Members

**CITY/TOWN**

1. City of Alameda
2. City of Albany
3. City of Benicia
4. City of Cupertino
5. City of Fremont
6. City of Gonzales
7. City of Half Moon Bay
8. City of Hercules
9. City of Los Altos
10. City of Mill Valley
11. City of Millbrae
12. City of Milpitas
13. City of Monte Sereno
14. City of Oakland
15. City of Orinda
16. City of Pacifica
17. City of Petaluma
18. City of Pleasanton
19. City of Richmond
20. City of Salinas
21. City of San Carlos
22. City of San Rafael
23. City of Santa Rosa
24. City of Saratoga
25. City of Union City
26. City of Vallejo
27. City of Watsonville
28. City of Winters
29. Town of Atherton
30. Town of Moraga

**SPECIAL DISTRICT/**

**OTHER AGENCIES**

35. Golden Gate Bridge, Highway & Transportation District
36. Regional Administration Facility Corporation
37. Vallejo Sanitation & Flood Control District
38. Housing Authority of the City of Alameda

**COUNTY**

31. County of Contra Costa
32. County of Napa
33. County of San Mateo
34. County of Santa Clara

3.2. Dated List of ABAG POWER Gas Accounts

[See Appendix B (in hard copy only): List of Accounts]

Contact ABAG POWER Program Manager for current list of accounts.

#### 4. Contracts

##### 4.1. Contracts for billing related services

- Xebec Data:
  - Main contract dated 3/16/2006\*

##### 4.2. Contract with Scheduling Agent

- DMJ Gas Marketing Consultants, LLC:
  - Main contract dated 7/1/2013
  - Current term effective 7/1/2013-6/30/2015

##### 4.3. Contracts with PG&E

- Core Gas Aggregation Service Agreement (CTA Group No.: 10031)
  - Main contract dated 10/1/2000\*
- Attachment D – Core Firm Storage Declarations
  - Main contract dated 4/1/2004
  - Current term effective 4/1/2014-3/31/2015
- Attachment F – Formal Communications between Parties
  - Main contract dated 8/1/2003\*
- Attachment K – Core Transportation Agent (CTA) Billing Agreement
  - Main contract dated 9/24/2002\*
- Gas Transmission Service Agreement (GTSA) (GTSA0045)
  - Main contract dated 10/1/2000\*
- Electronic Commerce System (ECS) User Agreement
  - Main contract dated 9/9/2002\*
- Noncore Balancing Aggregation Agreement (NBAA) (NBAA0045)
  - Main contract dated 12/2/2004
  - Contract terminated 4/1/2010

\* Contract is currently active and continual until either party provides 30-day notice of intent to terminate the agreement.

4.4. Master Gas Purchase Agreements

- Allied Energy Resources Corp (AERC)
- BP Energy
- Cook Inlet
- Shell Energy North America
- Occidental Energy Marketing (OXY West)
- Pacific Summit Energy
- Sierra Southwest Cooperative Services, Inc.
- United Energy Trading
- Utility Resource Solutions

4.5. Gas Storage Services

- PG&E
  - Main contract dated 4/1/2004
  - Current term effective 4/1/2014-3/31/2015

## 5. Gas Purchasing

Under normal circumstances the ABAG POWER Program Manager will negotiate and confirm natural gas purchases for the pool. In making decisions on what gas commodity products to purchase the Program Manager will follow the general gas purchasing strategy adopted by the ABAG POWER Board and/or Executive Committee, and take into consideration any subsequent advice provided by the Board or Committee. (See Purchasing Strategy below)

Should the Program Manager be unavailable to make gas commodity purchases, the following personnel have authority to make necessary purchases:

- ABAG POWER President/ ABAG Executive Director
- ABAG Finance Director
- ABAG Legal Counsel

### 5.1. Purchasing Strategy

While recognizing that no purchasing strategy is perfect or risk-free, staff shall strive to purchase natural gas at the lowest reasonable cost while taking advantage of longer-term contracts and other hedge products in order to stabilize prices.

ABAG POWER's gas purchasing strategy (revised 8/28/14):

- Place a greater emphasis on the short term (daily) market, including changing from purchases based on the monthly (NGI) index to the daily (Gas Daily) index.
- Authorization for a fixed price six-month gas purchase contract beginning April 1, 2015 up to 500 Dth/day<sup>1</sup>
- Beginning in April 2015 the program will attempt to have a maximum of 500 Dth/day in long term, fixed price contracts.
- No firm-quantity gas contract shall extend longer than three years.
- Staff will monitor the price volatility of the overall portfolio and recommend actions necessary to ensure adequate cash flow, including changes to members' monthly levelized payments.

### 5.2. Gas Purchasing Log

All natural gas purchases shall be entered into a "Natural Gas Purchasing Log" (see appendix C). Entries in the log shall be acknowledged by two of the persons eligible to purchase gas.

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<sup>1</sup> The Executive Committee temporarily restricted the use of longer term firm-quantity contracts pending the outcome of the CPUC's pipeline capacity proceeding.

5.3. Natural Gas Rate

The ABAG POWER Natural Gas Rate (Core and Noncore) is approved as part of the annual budgeting process, and may be revised more often if a significant difference develops between actual and budgeted program costs.

ABAG POWER Natural Gas Rate includes the following components:

- Natural Gas Commodity. – Including transportation costs to deliver gas on to the PG&E distribution system (PG&E Citygate).
- Storage Costs (core rate only)
- Program Expenses
  - ABAG Administrative Expenses
  - Scheduling Agent fees
  - Billing Agent fees
  - Legal Expenses

The ABAG POWER “Budgeted” Natural Gas Rate will equal the total approved budgeted costs shown above divided by the total estimated annual usage (therms). The Budgeted rate will be used when calculating levelized payments.

In addition, the following rates will be maintained for accounting and analysis purposes:

Monthly Rate: Equal to the actual monthly program costs divided the actual monthly usage (therms)

Final (True-up) Rate: Equal to the actual total annual program costs as determined by the annual financial reports, divided by the actual total annual usage (therms).

If ABAG POWER is conducting “ESP Consolidated Billing” then an estimate of PG&E pass-through costs will be added to the ABAG POWER Rate to determine the Total Rate.

If the Board/Executive Committee determines that costs should be allocated differently for different rate classifications (e.g., Core and Noncore), then separate rates shall be calculated for each rate classification.

## 6. Billing and Payment

### 6.1. General Billing Procedures

Monthly billings to members may be based on “actual” or “levelized” amounts as determined by the Executive Committee. The Billing Year shall be the same as the Fiscal Year – currently July to June. For billing purposes the terms “actual billing” and “levelized billing” have the following definitions:

**Actual Billing.** Members are required to pay a monthly amount equal to the actual usage (therms) as received from PG&E for all accounts, multiplied by the current ABAG POWER natural gas rate as determined by the Executive Committee. If “ESP Consolidated Billing” is being utilized, then the actual PG&E costs associated with the corresponding usage will be added to each member’s accounts.

**Levelized Billing.** Members are required to pay a monthly amount equal to an estimate of the entity’s total annual usage as determined in the annual budget, multiplied by the current ABAG POWER Budgeted natural gas rate divided by twelve (12). If ESP Consolidated Billing is being utilized, then an estimate of the annual PG&E charges for each member will be calculated, and one twelfth (1/12) of this total will be included in each monthly bill.

The payment amount determined by either of these methods will require a true-up to actual costs at the end of each fiscal year.

ABAG POWER currently utilizes Levelized Billing and ESP Consolidated Billing.

All members shall be notified if a change in billing methodology is approved.

6.2. General Billing Timeline.

- Invoices sent within the first five (5) business days of every month regardless of the amount of data received from PG&E.\*
- “Invoice Date” will be the first day of the invoiced month.\*
- “Closing Date” is the date through which all charges are included, and shall generally be the last calendar day of the month.\*
- Billing agent or Program Assistant (as appropriate) shall inform Program Manager ahead of time if there will be a delay in sending out bills and wait for directions.
- Billing agent or Program Assistant (as appropriate) shall inform the Program Manager if they are unable to follow any billing procedures.

\* Dates may be modified upon approval of the Program Manager or Chief Financial Officer.

6.3. True-ups

After the end of each fiscal year ABAG POWER shall conduct a financial true-up that compares the actual costs of the program for the year to the amount charged to each member. The results of this calculation shall be an amount to be refunded or collected (as appropriate) from each member. The true-up amount for each member shall be amortized over the remaining months in the current fiscal year as a debit or credit on the monthly invoice.

In calculating the actual charges attributable to each member the program expenses shall be prorated to each member’s account based on natural gas usage, with the exception that storage costs shall be allocated to core accounts only.

6.4. Opt-out Members

Members that declare their intent to exit the program in accordance with the terms of the Natural Gas Sales and Aggregation Agreement will have their bills calculated as all other members until they officially depart the program. ABAG POWER will attempt to have the transfer of accounts occur as soon as possible following the official date the change goes into effect, however there is often up to a one month delay in this process in order to coincide with the established meter-read cycle. ABAG POWER will continue to bill the account until all usage and billing information has been processed through the time that each account was with the ABAG POWER program. After the end of the fiscal year in which the last billing data is processed, a true-up will be conducted to ensure that the member was billed only for costs based on its actual usage during the year. Any

adjustment will then be refunded to, or collected from, the member. If ABAG POWER anticipates a significant delay (e.g. greater than 3 months) between the final billing data being received from PG&E and the final true-up adjustment, the member may request ABAG POWER provide an advance of the reasonably estimated true-up adjustment.

#### 6.5. Deposits

Working Capital deposits are maintained by ABAG POWER in order to ensure the program has a constant positive cash balance in the face of volatile natural gas costs. These deposits are refundable should an entity opt out of the program, or if the program shuts down.

Each member will be assessed a working capital deposit in accordance with the Natural Gas Aggregation Agreement at the time they initially join the program.<sup>2</sup> It is the goal of the program to maintain a program-wide deposit representing two months of working capital. The calculation of the deposit is based on the current natural gas rate and an estimate of the member's annual usage. On at least an annual basis (usually in connection with the budget approval process) the Executive Committee shall review the total program deposits, and based on current gas costs make a decision as to whether the deposits should be revised. If it is determined that total program deposits should be revised, staff shall recalculate the deposits for all members based on the most recent annual usage estimate and the current gas rate. The newly calculated deposits will be compared to the amounts currently on deposit for each member, and an additional charge or credit will be made as appropriate so that each member's deposit corresponds with the revised calculation.

If at any time an individual member feels its gas usage has changed significantly since its current deposit amount was established, it may request a re-calculation of its deposit based on the current annual estimate of its usage and the current gas rate. Absent an individual member's request for review, the Executive Committee will follow the annual review process described above. Any change to a member's deposit is subject to Executive Committee approval.

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<sup>2</sup> § 9.3 of the Agreement states the working capital deposit shall be: two times the average monthly load (therms) times the current applicable rate.

## **7. Joining the Program/Approval of New Members**

Any member of the ABAG POWER JPA may also choose to participate in the natural gas aggregation program upon approval of the Executive Committee/Board. Upon receiving a request from an entity to join the program, staff shall prepare an estimate of the cost and rate impact associated with the requesting entity's inclusion in the pool. At the next regularly scheduled meeting the Executive Committee shall take action on the request to join the program. When deciding to approve a request to join the program the Committee shall base its decision on the best long-term interests of the members, with the intent of improving the pools' overall purchasing power.

## **8. Members Opting Out**

Members will be allowed to opt out of the gas aggregation program in accordance with the Natural Gas Aggregation Agreement. Once a member provides official notification of their intent to opt out of the program, the Program Manager will verify the official opt-out date that meets the timing requirements stated in the Agreement. Approximately one month prior to the opt-out date ABAG POWER staff will begin the process to transfer all the member's accounts to the new gas provider as identified by the member (see DASR process). (Absent the identification of a specific gas provider, ABAG POWER will transfer the accounts to the default provider, currently PG&E). ABAG POWER will attempt to have the opt-out member's accounts transferred to the new provider as soon as possible after the official opt-out date.

Note: Opting out of the natural gas aggregation program does not discontinue an entity's membership in the ABAG POWER JPA (see ABAG POWER Bylaws).

## **9. "Mid-Term" Exit of Members**

An individual member's request to leave (opt out of) the program prior to the expiration of its contractual obligation will be evaluated by the Executive Committee on a case-by-case basis. This request would generally be looked on favorably if another entity eligible to join the group and of comparable usage to the departing member, or an existing member, agreed to assume the departing member's contractual responsibilities. Or, if the departing member agreed to compensate the remaining members for any financial risk associated with the entity's departure.

## 10. Direct Access Service Request (DASR) Process

Members exiting the program will have their accounts transferred to the new provider in accordance with established CPUC procedures. This generally involves ABAG POWER sending a DASR (EDI 814) to PG&E noting the changes in service providers (PG&E is the current default provider of natural gas service). The new provider will begin providing service to each individual account at its next scheduled meter read date.

### 10.1. Adding/Removing Accounts

If a participant in the gas aggregation program wishes to add or remove individual accounts the member shall make a request by listing the specific accounts to be added or removed.

Current participants in the natural gas aggregation program may add accounts to the program without receiving additional authorization from the Executive Committee; however, the new accounts may be subject to an additional working capital deposit. An additional working capital deposit shall generally be required when an entity adds accounts to its portfolio if the total estimated load of the accounts to be added will increase the total program load by 2% or more.<sup>3</sup>

Participants may request to have individual accounts removed from the program. Upon receiving a request to remove individual accounts, the Program Manager shall prepare a cost and rate impact estimate of this change. The Executive Committee shall then approve or disapprove this request at the next regularly scheduled meeting. Approval by the Executive Committee is not required if the accounts to be removed will no longer be under the control of the member (e.g. building to be demolished).  
Basic Steps to Add Account

### 10.2. Basic Steps to Add Account

Participants requesting to add an account to the pool may do so by providing the account details to the Program Assistant. In the event the account's historical usage data presents a significant difference within the member's aggregate load, a revised levelized charge may be suggested. Upon approval, Program Assistant will submit an EDI 814 (DASR) to PG&E to add the account. PG&E will acknowledge receipt of EDI 814 and provide Program Assistant an expected transfer date.

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<sup>3</sup> Regardless of whether a deposit is assessed when new accounts are added to the program, total program deposits will be reviewed on an annual basis, and adjustments applied as applicable.

## **11. Miscellaneous Member Requests**

Miscellaneous requests for information generally fall into two categories: (1) billing information including gas costs and usage, and (2) general program information (e.g. questions regarding membership/participation in the JPA and contractual questions). For questions related to information shown on the monthly bills (current and/or historic) members should contact the Program Assistant directly.

If a member is not satisfied with the information received, an additional inquiry should be sent to the Program Manager. General program information requests should be directed to the Program Manager or Program Assistant. The Program Manager will consult with other staff as necessary (i.e. ABAG POWER President, ABAG Legal Counsel, ABAG Finance Director) to provide the requested information.

## **12. Imbalance Policy**

It shall be the general policy of ABAG POWER to strive to keep the program's total Operating Imbalance carry-over to within a range of +1% to -2% of the program's estimated annual usage. If the total Operating Imbalance, as reported by PG&E, falls outside of this range the Program Manager will take actions that seek to return the imbalance to this range. These actions may include:

- Directing PG&E to apply an adjustment factor (e.g. +/-5%) to the program's monthly Determined Usage until such time as the Operating Imbalance falls within the desired range.
- Trading any positive Cumulative Imbalance against a negative Operating Imbalance.
- Trading a positive Operating Imbalance to storage.

If at any time the Program Manager deems the operating conditions to be such that a deviation from the above procedures is prudent, the Program Manager shall follow the most prudent course of action, and then report the actions taken (or not taken) to the Executive Committee at the next regularly scheduled meeting.

**Appendix A**

[List of Accounts – provided in hard-copy only]



**ABAG POWER**  
**Preliminary Operating Budget**  
Fiscal Year Ending June 30, 2016

	<u>Natural Gas</u>			
	<u>FY 2014-15</u> <u>Approved (1)</u>	<u>FY 2014-15</u> <u>Projected (2)</u>	<u>FY 2015-16</u> <u>Proposed</u>	
<b>Revenues</b>				
Sale of Energy	\$ 8,383,243		\$ 8,003,262	
Interest Income - Banks/LAIF	9,000	-	9,000	
Total revenues	<u>8,392,243</u>	<u>-</u>	<u>8,012,262</u>	
<b>Cost of energy</b>				
Cost of Energy Used (3)	4,671,091		3,495,996	
PG&E Pass-Through Costs	<u>3,281,164</u>	<u>-</u>	<u>4,076,278</u>	
Total cost of energy	7,952,255	-	7,572,275	
<b>Other Energy Costs</b>				
Meter fees	<u>-</u>	<u>-</u>	<u>-</u>	
Total Other Energy Costs	-	-	-	
<b>Program Expenses</b>				
Billing Costs, external	10,500		10,500	
Scheduling agent fees	16,288		16,288	
ABAG fees	389,199		389,199	
Interest Expense/Bank Charges	9,000		9,000	
Legal Expenses (outside)	15,000		15,000	
Other Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Program Expenses	439,987	-	439,987	
Total expenses	<u>8,392,243</u>	<u>-</u>	<u>8,012,262</u>	
True-up Adjustment	-	-	-	
Core Annual Usage (Dths):	757,313		757,313	
Noncore Annual Usage (Dths):	57,081		57,081	
Core Gas Commodity (4) (\$/Dth):	\$5.76	#DIV/0!	\$4.31	
Noncore Gas Commodity (4) (\$/Dth):	\$5.43	#DIV/0!	\$4.04	
PG&E Pass-through (\$/Dth):	\$4.33	#DIV/0!	\$5.38	
Program Expenses (5) (\$/Dth):	\$0.53	#DIV/0!	\$0.53	<u>% Chg</u>
Core Total Rate (\$/Dth):	\$10.62	#DIV/0!	\$10.22	-3.7%
Noncore Total Rate (\$/Dth):	\$5.96	#DIV/0!	\$4.57	-23.3%

Notes:

- (1) Approved budget June 2014
- (2) Actual \_\_\_\_\_ 2015 financials projected through June
- (3) Includes estimate for stranded pipeline capacity cost: \$250,000
- (4) Storage costs allocated to core accounts only
- (5) Program expenses minus interest income