



ABAG POWER Executive Committee Meeting No. 2014-01
February 19, 2014 (12 Noon - 2:00 p.m.)
Association of Bay Area Governments
101 Eighth Street, Conference Room C
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 11, 2013
4. **Natural Gas Pipeline Capacity Issues**
Information: Staff will discuss the effects to the program of the recent stranded pipeline capacity costs.
ATTACHMENT 4A – STRANDED PIPELINE CAPACITY COSTS
5. **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)
6. **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 6A – MONTHLY SUMMARY OF OPERATIONS FY 2013-14
ATTACHMENT 6B – GAS HEDGE CHART
ATTACHMENT 6C – MARKET PRICE CHART
7. **FY 2012-13 Audited Financial Statements**
Action: Staff will present for approval the audited financial statements for the year ending June 30, 2013.
ATTACHMENT 7A – ABAG POWER BASIC FINANCIAL STATEMENT
ATTACHMENT 7B – ABAG POWER MEMORANDUM OF INTERNAL CONTROL
8. **BayREN Update**
Information: Staff will update members on the status of the Bay Area Regional Energy Network (BayREN).
9. **Other Business**
10. **Adjournment**

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

MEMORANDUM

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area



Attachment 3A

SUMMARY MINUTES

ABAG Power Executive Committee

Regular Meeting 2013-05

December 11, 2013

Metro Center, ABAG's Conference Room B

101 8th Street, Oakland, CA 94607

WELCOME AND INTRODUCTIONS

Chairman Richard Sealana opened the meeting with introductions at 12:00 PM.

Committee Representatives

Stephanie Hom
Chris Schroeder
Richard Sealana (Chair)
Daniel Smith
Angela Walton

Jurisdictions

Town of Moraga
City of Milpitas
City of Union City
City of Pleasanton
City of Richmond

Members Absent

Alan Olds
Julie Bueren

Housing Authority of the City of Alameda
County of Contra Costa

Staff Present

Jennifer Berg
Jerry Lahr
Vina Maharaj
Kenneth Moy

ABAG
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ABAG

PUBLIC COMMENTS & ANNOUNCEMENTS

There were no public comments.

Vina Maharaj, the ABAG POWER Customer Services Assistant's retirement date is December 30, 2013. The Executive Committee expressed their deep appreciation for Vina's years of service and dedication to the ABAG POWER program. Recruitment for a replacement is in the process. Two Executive Committee members were part of the interview panel.

Lahr mentioned the new amendments in the Brown Act law, as follows, to be effective immediately:

In September, 2013, the Governor signed into law SB 751 which amends the Brown Act which governs meetings of a public entity's 'legislative body'. Effective immediately, the following

MEMORANDUM

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area



Attachment 3A

requirements apply to ABAG POWER's Executive Committee and Annual Board of Directors' meetings:

- The need to record every vote for each and every member of the board or committee;
- If a member is absent for the vote, it has to be noted;
- Votes are recorded as yes/yea, no/nay or abstain;
- The record of the vote has to be made available ASAP after the meeting and to be reflected in the minutes of the meeting.

APPROVAL OF SUMMARY MINUTES OF AUGUST 21, 2013.

Motion was made by Hom/S/Schroeder/C/5:0:0 to approve the Summary Minutes of August 21, 2013 Executive Committee Meeting.

Votes:

Julie Bueren - Absent

Stephanie Hom – Yes

Alan Olds - Absent

Chris Schroeder – Yes

Richard Sealana – Yes

Daniel Smith – Yes

Angela Walton – Yes

REPORT ON NATURAL GAS PROGRAM

Monthly Summary of Operations FY 12-13

Lahr provided the members with the Monthly Summary of Operations reports for FY13-14. He updated the members on the percentage savings comparisons with PG&E. The cumulative savings through October, 2013 is -11.0%. This comparison includes the CTA Unrecovered Pipelines Capacity costs.

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 (3-year)

Lahr provided a 3-year comparison of gas prices.

Historic Stranded 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 \$130,663.40 for these costs starting from April, 2012. Members requested that the document be revised to show an estimate column so that one could compare the actual costs with the estimates.

2013-14 BUDGET UPDATE

MEMORANDUM

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area



Attachment 3A

Staff reviewed actual gas usage and costs as compared to the 2013-14 budget, and it was recommended and agreed that no changes were needed to be made to the budget at this time.

ABAG ENERGY PROGRAMS UPDATE

Lahr provided an update on the various energy programs

2014 MEETING SCHEDULE

Motion was made by Schroeder/S/Smith/C:5:0:0 to accept the 2014 Executive Committee meeting schedule as presented.

Votes:

Julie Bueren - Absent

Stephanie Hom – Yes

Alan Olds - Absent

Chris Schroeder – Yes

Richard Sealana – Yes

Daniel Smith – Yes

Angela Walton – Yes

CLOSED SESSION

Conference with Legal Counsel—Existing Litigation, Govt. C. Sec. 54956.9(c)

Application of PG&E to Set New Core Interstate Pipeline Capacity Planning Range (A.13-06-011)

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

OTHER BUSINESS

None.

ADJOURNMENT

Chairman Sealana adjourned the meeting at 1:25 pm.

/vm

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

ABAG POWER
CTA Unrecovered Capacity - Invoices

<u>Bill Period</u>	<u>Amount</u>	
Apr-12	\$ 616	
May-12	614	
Jun-12	663	
<u>Total FY 2011-12:</u>	\$ 1,892	
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	
<u>Total FY 2012-13:</u>	\$ 67,587	
		<u>Projected (8/13)</u>
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		14,993
Mar-14		13,732
Apr-14		18,657
May-14		18,657
Jun-14		18,657
<u>Total FY 2013-14:</u>	\$ 112,513	\$ 189,707

Jul-14		\$	18,657
Aug-14			18,657
Sep-14			18,657
Oct-14			18,657
Nov-14			18,657
Dec-14			20,451
Jan-15			20,451
Feb-15			20,451
Mar-15			18,657
Apr-15			25,223
May-15			25,223
Jun-15			25,223
Total FY 2013-14:	\$	-	\$ 248,961

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
Total FY 2013-14:	\$	-	\$ 310,189

Total to date: \$ 181,992

ABAG POWER Natural Gas Program

FY 2013-14 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	14,000	15,500	15,000	15,500	15,000	182,500
	Price	\$3.74	\$3.74	\$3.74	\$3.74	\$3.74	\$3.74	\$3.74	\$3.74	\$3.74	\$3.74	\$3.74	\$3.74	\$3.74
Purchase 2	Qty	15,500	15,500	14,963	15,500	15,000	15,500	15,500	14,000	15,500	15,000	15,500	15,000	182,463
	Price	\$3.68	\$3.68	\$3.68	\$3.68	\$3.68	\$3.68	\$3.68	\$3.68	\$3.68	\$3.94	\$3.94	\$3.94	\$3.94
Purchase 3	Qty	31,819	32,798	31,674	32,798	29,790	30,783	30,783						220,445
	Price	\$3.56	\$3.42	\$3.45	\$3.41	\$3.70	\$3.73	\$4.44						
Purchase 4	Qty	3,776	1,500	7,800	5,250	-7,700	29,605	30,907						71,138
	Price	\$3.85	\$3.72	\$4.00	\$3.99	\$3.91	\$4.67	\$4.70						
Purchase 5	Qty				-13,000									-13,000
	Price				\$3.91									
Total Quantity Purchased		66,595	65,298	69,437	56,048	52,090	91,388	92,690	28,000	31,000	30,000	31,000	30,000	643,546
Total Purchase Cost		\$242,753	\$232,683	\$251,549	\$196,890	\$191,341	\$368,142	\$396,867	\$103,810	\$114,933	\$115,125	\$118,963	\$115,125	\$2,448,179
Backbone Shrinkage (Dths)		(488)	(496)	(482)	(496)	(450)	(465)							
WACOG ⁽²⁾		\$3.67	\$3.59	\$3.65	\$3.54	\$3.71	\$4.05	\$4.28	\$3.71	\$3.71	\$3.84	\$3.84	\$3.84	\$3.80
Storage/Inventory														
Total Injections/ (Withdrawals)		9,351	12,100	13,749	0	0	(20,000)	(17,000)						(1,800)
Total Inventory Quantity (Dths)		49,264	61,364	75,113	75,113	75,113	55,113	38,113						
Total Inventory (\$)		\$214,946	\$257,523	\$308,550	\$308,550	\$308,550	\$226,394							
Avg. Inventory Rate (\$/Dth)		\$4.36	\$4.20	\$4.11	\$4.11	\$4.11	\$4.11							
Gas Program Monthly Expenses (from Financial Reports)														
Cost of Energy Used ⁽³⁾		\$ 242,846	\$ 224,231	\$ 235,899	\$ 231,785	\$ 230,005	\$ 481,935							\$ 1,646,701
Program Operating Expenses ⁽⁴⁾		27,461	35,276	31,846	37,678	30,840	49,077							212,176
Subtotal		\$ 270,307	\$ 259,506	\$ 267,745	\$ 269,462	\$ 260,845	\$ 531,012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,858,877
Rate (\$/Dth)		\$5.26	\$5.09	\$5.36	\$4.35	\$3.41	\$5.32							\$4.76
PG&E Pass-through costs ⁽⁵⁾		130,690	158,155	125,539	168,638	198,955	354,489							1,136,466
Total ABAG POWER Cost		\$ 400,997	\$ 417,661	\$ 393,283	\$ 438,100	\$ 459,800	\$ 885,502							\$ 2,995,343
Actual (metered) Gas Usage														
Core ⁽⁶⁾		45,863	45,642	45,394	57,662	72,511	94,948							362,020
Non Core		5,523	5,372	4,582	4,260	4,002	4,831							28,569
Total Program Usage		51,386	51,014	49,976	61,922	76,513	99,779	0	0	0	0	0	0	390,589
ABAG POWER Total Core Rate		\$ 8.11	\$ 8.55	\$ 8.12	\$ 7.28	\$ 6.15	\$ 9.06							
PG&E Rate⁽⁷⁾														
Procurement Charge ⁽⁸⁾		4.46	4.33	4.02	4.06	5.14	4.73	5.20	5.91					
Transportation/Other Charge ⁽⁹⁾		2.85	3.47	2.77	2.92	2.74	3.73							
Total PG&E Rate		\$ 7.31	\$ 7.79	\$ 6.78	\$ 6.98	\$ 7.88	\$ 8.46	\$ 5.20	\$ 5.91	\$ -	\$ -	\$ -	\$ -	

ABAG POWER Natural Gas Program

FY 2013-14 Monthly Summary of Operations

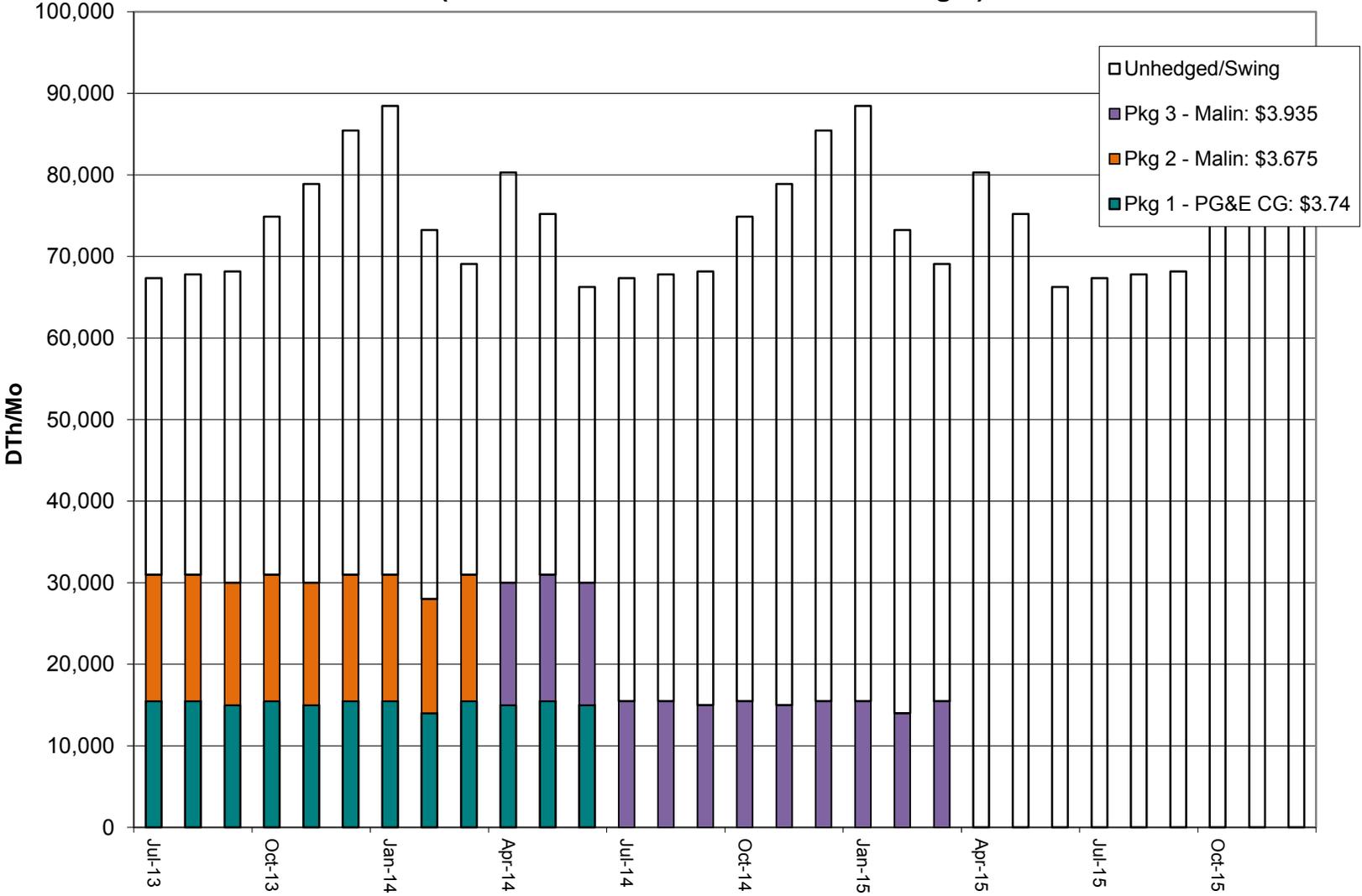
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
<u>Rate Comparison</u>													
Monthly Rate Difference (\$/Dth)	0.80	0.76	1.34	0.29	(1.73)	0.60							
Monthly Savings (\$)	(36,881)	(34,667)	(60,760)	(16,823)	125,195	(56,552)							
Cumulative 'Savings' (\$)	(36,881)	(71,548)	(132,309)	(149,132)	(23,937)	(80,489)							
Cumulative 'Savings' (%)	-11.0%	-10.4%	-13.2%	-10.6%	-1.2%	-2.9%							
<u>Monthly Index Postings</u>													
NGI Bidweek for PG&E Citygate	\$3.81	\$3.76	\$3.88	\$3.86	\$3.98	\$3.95	\$4.64	\$5.18					
Gas Daily Avg. for PG&E Citygate	\$3.82	\$3.71	\$3.99	\$3.98	\$3.86	\$4.67	\$4.69						
NGI Bidweek for Malin	\$3.55	\$3.41	\$3.44	\$3.40	\$3.69	\$3.72	\$4.43	\$4.98					

Notes:

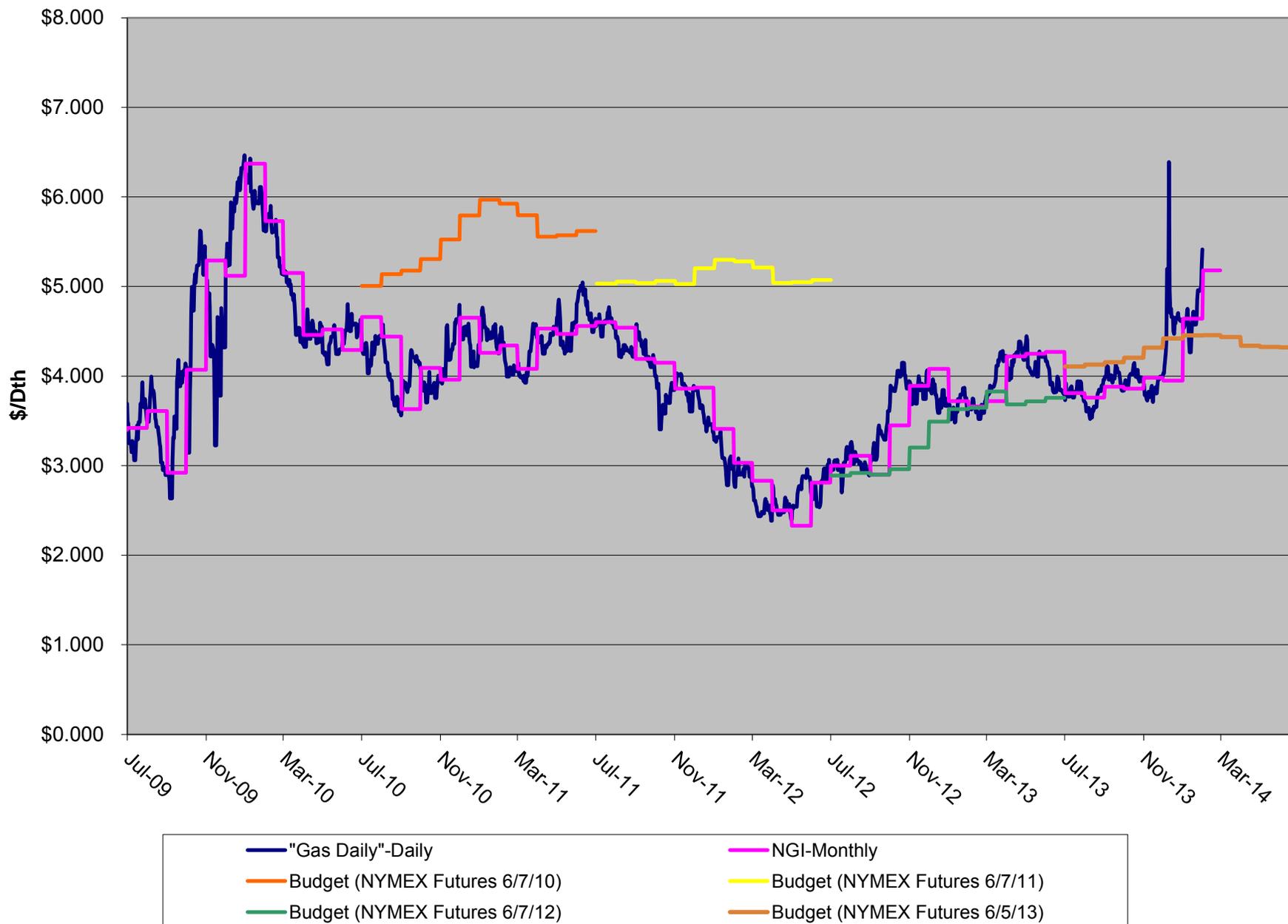
- (1) All gas quantities in Dth and rates in \$/Dth. (Does not include imbalance purchases traded to storage.)
- (2) Weighted Average Cost of Gas (WACOG) at PG&E Citygate
- (3) Includes costs to transport gas to PG&E Citygate from alternate delivery points, as well as physical storage costs.
- (4) Includes 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)**



Historical/Future Market Price Indices @ PG&E Citygate Market Price Chart



**ABAG
PUBLICLY OWNED ENERGY
RESOURCES**

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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ABAG
PUBLICLY OWNED ENERGY RESOURCES
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

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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, 2013, 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 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 respective financial position of the business-type activities of POWER as of June 30, 2013, and the respective 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 Matters

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2013 that resulted in certain changes in nomenclature on the financial statements:

Statement 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

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.

Mare & Associates

Pleasant Hill, California
January 28, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

ABAG Publicly Owned Energy Resources (POWER) has issued the financial reports for fiscal year ending June 30, 2013 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 2013 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- POWER's total assets were \$3.2 million at June 30, 2013. At June 30, 2012, total assets were \$4.1 million.
- POWER's total revenues, including program and general revenues, were \$6.4 million in FY 2013, while total expenses were \$6.4 million. At June 30, 2012, total revenues, including operating revenues, were \$6.9 million, while total expenses were \$6.9 million.

- POWER's total net position remained at zero at June 30, 2013. 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 \$6.4 million and cost of gas amounted to \$6.0 million in FY 2013.
- General and administrative expense, comprising professional fees and reimbursement of administrative expenses to ABAG, were \$384 thousand.
- Under nonoperating income (expense), the Natural Gas Pool had \$7 thousand in interest income.

MAJOR PROGRAM INITIATIVES IN FY 2013

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, 2013, the pool was serving a total of 793 core accounts and three non-core accounts. For FY 2013, levelized natural gas billings totaled \$7.2 million, while total expenses were \$6.4 million. The excess of revenues over expenses in the amount of roughly \$800,000 was recorded as unearned revenues and will be returned to members as true-up adjustments in billings during FY 2014. Total gas usage of the program was approximately 8.6 million therms during FY 2013.

Continuing with POWER's strategy in purchasing natural gas, about 43% of purchases during FY 2013 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 index-based purchases. This combination of purchases produced an end-of-year weighted average price that was approximately 1.4% lower than PG&E's similar rate schedule (GNR-1).

PROGRAM OUTLOOK FOR FY 2014

Natural gas prices began a modest climb during the past year which was a turnaround from the decline that the market has seen over the previous three years. Near-term, market-rate prices rose for most of the year – beginning at about \$3.00/dth and increasing to approximately \$4.20/Dth in April-May. Recently prices have come down to approximately \$4.00/Dth. While the direction of prices seems to have reversed, the overall the market volatility remains consistent with the recent past. 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 initiatives are under the ABAG programs in which contract work are held by ABAG, however these programs are in the interest of POWER and its members.

DOE Better Buildings Program. ABAG was a subcontractor to LA County as part of the state and national *Better Buildings Program* coordinated by the Department of Energy (DOE). Four Bay Area agencies (Alameda County, San Francisco, San Jose, Sonoma County) are implementing variety energy efficiency retrofit projects under this program. This program was completed in May 2013, although some of the individual projects will be continued in modified formats as part of the BayREN program.

BayREN. In November 2012 the California Public Utilities Commission (CPUC) approved \$26.5 million for implementation of the BayREN program during calendar years 2013-2014. 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). During the past year ABAG was the lead agency for the EV Corridor grant from the California Energy Commission. This program provided \$1.5 million for the installation of EV charging infrastructure in the San Francisco and Monterey Bay Areas.

In addition, 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, 2013

	Natural Gas Pool
ASSETS	
Cash and Cash Equivalents (Note 2)	\$2,786,288
Receivable from Members and Others	214,363
Interest Receivable	1,431
Natural Gas Inventory (Note 1E)	180,608
Total Assets	3,182,690
 LIABILITIES	
Accounts Payable	386,197
Payable to Members	2,000,785
Unearned Revenue	795,708
Total Liabilities	3,182,690
NET POSITION	

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, 2013

	Natural Gas Pool
OPERATING REVENUES	
Sale of natural gas	\$6,424,872
OPERATING EXPENSES	
Cost of natural gas sold	6,048,098
Gross margin	376,774
GENERAL AND ADMINISTRATIVE EXPENSES	
Metering and billing agent fees	37,442
Management and administration (Note 1)	346,442
Total general and administrative expenses	383,884
OPERATING LOSS	(7,110)
NONOPERATING INCOME	
Interest income	7,110
CHANGE IN NET POSITION	
BEGINNING NET POSITION	
ENDING NET POSITION	

See accompanying notes to basic financial statements

ABAG
PUBLICLY OWNED ENERGY RESOURCES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Natural Gas Pool</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from members	\$5,512,627
Payments to suppliers	(5,951,359)
Payments for management and administration	(346,442)
Payments for agent and legal fees	<u>(37,442)</u>
Cash Flows from Operating Activities	<u>(822,616)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest collections	<u>7,837</u>
Cash Flows from Investing Activities	<u>7,837</u>
Net increase (decrease) in cash and cash equivalents	(814,779)
Cash and cash equivalents at beginning of period	<u>3,601,067</u>
Cash and cash equivalents at end of period	<u><u>\$2,786,288</u></u>
Reconciliation of Operating Income (Loss) to Cash Flows	
from Operating Activities:	(\$7,110)
Change in assets and liabilities:	
Receivables	74,153
Natural gas inventory	(1,567)
Accounts payable	98,306
Payable to members	(19,652)
Unearned revenue	<u>(966,746)</u>
Cash Flows from Operating Activities	<u><u>(\$822,616)</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, 2013

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 \$327,838 for these services and \$11,160 for contract services in the fiscal year ended June 30, 2013.

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, 2013

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, 2013:

	Fair Value
Local Agency Investment Fund (LAIF)	\$2,087,753
Cash in Banks	698,535
Total Cash and Cash Equivalents	\$2,786,288

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 278 days.

**ABAG
PUBLICLY OWNED ENERGY RESOURCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

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 \$1,186,025 as of June 30, 2013.

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

**FOR THE YEAR ENDED
JUNE 30, 2013**

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

For the Year Ended June 30, 2013

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MEMORANDUM ON INTERNAL CONTROL

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, 2013, and have issued our report thereon dated January 28, 2014. In planning and performing our audit of the basic financial statements of 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. 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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe to be of potential benefit to POWER.

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.

Mare & Associates

Pleasant Hill, California
January 28, 2014

ABAG PUBLICLY OWNED ENERGY RESOURCES
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF 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.

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REQUIRED COMMUNICATIONS

January 28, 2014
 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, 2013. 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 POWER are included in Note 1 of the financial statements. The following pronouncements became effective, and required certain changes in nomenclature to the financial statements:

Statement 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. *Concepts Statement No. 4, Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in *Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

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.

We have reported 2 uncorrected misstatements totaling \$11,550 found during our audit to management which has concluded that they do not have a material effect individually or in total to the financial statements as a whole. We concur with management's conclusion, but are required by professional standards to report these unposted entries to you.

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 January 28, 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 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.

Very truly yours,

Maze & Associates

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