

**Special Meeting of the Audit and Finance Committee of the
Peninsula Clean Energy Authority (PCEA)
Minutes**

Monday, August 15, 2022
8:30 a.m.
Zoom Video Conference and Teleconference

CALL TO ORDER

Meeting was called to order at 8:31 a.m. in virtual teleconference.

ROLL CALL

Participating Remotely:

Donna Colson, Burlingame, arrived at 8:32 a.m.
Carlos Romero, East Palo Alto
Laurence May, Hillsborough, *Chair*
Jeff Aalfs, Portola Valley

John Keener, Director Emeritus
Pradeep Gupta, Director Emeritus

Absent:

A quorum was established.

PUBLIC COMMENT

None

ACTION TO SET AGENDA AND TO APPROVE CONSENT AGENDA ITEMS

MOTION: Director Colson moved, seconded by Director Romero to set the Agenda and approve Agenda Item Numbers 1-2.

1. Adopt Findings Pursuant to AB 361 to Continue Fully Teleconferenced Committee Meetings Due to Health Risks Posed by In-Person Meetings
2. Approval of the Minutes for the June 13, 2022 Audit and Finance Committee Meeting

MOTION PASSED: 4-0

JURISDICTION	BOARD MEMBER	YES	NO	ABSTAIN	ABSENT
Burlingame	Director Colson	X			
East Palo Alto	Director Romero	X			
Hillsborough	Director May	X			
Portola Valley	Director Aalfs	X			
	Totals	4			

REGULAR AGENDA

3. Chair Report

None

4. Staff Report

None

Chair May announced that Kristina Cordero, Chief Financial Officer, could present the Agenda Items in the order of her choosing. Kristina chose to review Agenda Item Number 6 before Agenda Item Number 5.

6. Review of the Audit Schedule (Discussion)

Kristina Cordero, Chief Financial Officer, gave a review of the audit schedule for the Fiscal Year 2021-2022 financial statements.

5. Review Financial Reports and Investment Summary for 4th Quarter Fiscal Year (FY) 2021-2022 (Discussion)

Kristina Cordero, Chief Financial Officer, gave a presentation on the 4th Quarter Financial Review of the Preliminary Financial Statements for Fiscal Year 2021-2022 including a review of revenue trends, cost of energy, the financial statements versus budget, the change in net position, cash and investment summary and cash reserves.

Director Aalfs asked if it was a fair assessment to assume that higher energy prices result in higher PG&E prices and higher rates for the foreseeable future. Kristina explained that generally this is correct as Peninsula Clean Energy's rates are tied to PG&E but that contract engagements and power purchase costs also play a role. Andy Stern, Peninsula Clean Energy's outgoing Chief Financial Officer, added that the higher expected cost of energy also contributes to a lower Power Charge Indifference Adjustment (PCIA) which could be more impactful than PG&E's rates.

Director Aalfs added that barring something that is unforeseen, but that the future looks good for Peninsula Clean Energy. Jan explained that at the June 23, 2022 Board of Directors meeting a 5-year projection showed Peninsula Clean Energy's net position increasing by about \$75 million and continuing around \$15-18 million per year, but that factors such as Diablo Canyon coming back online creates uncertainties.

Vice Chair Colson asked if the energy from Diablo Canyon would be more expensive due to a \$1.4 billion loan for PG&E that would be forgivable. Jan explained that the energy costs and operating costs for Diablo Canyon are high, and while the hope is that would not be reflected in the rates, Peninsula Clean Energy hasn't seen analysis on that yet.

Director Emeritus Gupta asked about cost-based rate setting rather than tying rates to PG&E. Jan explained that Kristina will be working on a cost-of-service analysis.

Kristina shared that an action is underway to work on the lockbox with Wilmington Bank and move all banking to First Republic Bank to streamline overall cash flow and processes as a growing organization. Vice Chair Colson asked for clarification. Andy explained that Peninsula Clean

Energy only has one contract with a vendor obligating a lockbox and that the Power Resources Team is working to get that removed. The intention would be to notify PG&E that the daily trend transfer could be sent directly to Peninsula Clean Energy's accountant.

7. Review of investment Managers (Discussion)

Kristina Cordero, Chief Financial Officer, introduced Kevin Douglas and Alan Remedios from First Republic Private Wealth Management who presented an investment portfolio review.

Director Romero asked, without regard to inflation, if Peninsula Clean Energy is holding most investments to maturity but selling some for cash flow. Kevin explained that to raise capital for unexpected needs some were liquidated prior to maturity. Carlos asked for clarification if the goal was to try and hold to maturity. Kevin explained that yes, the intent of the portfolio is to hold until maturity.

Andy Stern, Peninsula Clean Energy's outgoing Chief Financial Officer, added that all Peninsula Clean Energy's cash is sent from PG&E to the lockbox and that the setup was limited to once-a-month withdrawals. Andy explained that unexpected spikes in energy costs can result in a need for unexpected and rapid needs for cash which would result in a request to the investment managers to sell securities, but that with the plan to eliminate the lockbox this need should go away altogether.

Vice Chair Colson asked if there was anything in the forecast that could knock the portfolio off-course. Kevin explained that he didn't see any added risk right now and that Peninsula Clean Energy is in an opportunistic position.

Kristina introduced Monique Spyke, Sarah Walsh and David Reeser from PFM Asset Management who presented an update on portfolio, strategy, and market conditions.

Director Aalfs asked for an example of a high social risk. Dave explained that the ESG risk assessment is generally focused on risks that are considered to be significant with respect to that particular issuer.

Vice Chair Colson asked that if there were anything in Peninsula Clean Energy's policy resulting in adverse environmental and climate impacts if PFM would bring it to Peninsula Clean Energy's attention and assist in reimagining the policies.

Vice Chair Colson noted the difference in investment strategies between First Republic Private Wealth Management and PFM Asset Management and the importance of having these two managers.

Vice Chair Colson asked if Directors and staff remain confident in the investment managers. Director Aalfs responded that the two strategies are diversified, and that the overall strategy is sound and is comfortable with the approach being taken. Kristina responded that she would not change anything at this point but added that Peninsula Clean Energy should discuss a way to compare and contrast with the two different investment managers. Andy responded that diversity is good, but not required. Andy also added that only 30% of Peninsula Clean Energy's portfolio is invested in non-government securities which don't have an ESG. Andy also added that it is slightly more complicated to have two managers, but that it isn't a large burden and that there isn't an overwhelming need for change at this time. Jan Pepper, Chief Executive Officer, shared that diversification is good and that a review in six months for performance would be good.

Vice Chair Colson noted that during a slower time, a summary comparison of performance and to determine if the 10 basis points for ESG is a good strategy or should that change to a mandate to not invest in oil or gas, or to go into the next layer about diverse boards and hiring women as an extension of our DEAI work. Andy explained that ten basis points is not very much within a third of the portfolio.

8. Committee Members' Reports

None

ADJOURNMENT

Meeting was adjourned at 10:26 a.m.