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

Tuesday, May 16, 2023
10:00 a.m.
Zoom Video Conference and Teleconference

CALL TO ORDER

The Meeting was called to order at 10:04 a.m. in virtual teleconference and in the Peninsula Clean Energy Authority lobby.

ROLL CALL

Participating Remotely:
Donna Colson, Burlingame, participating remotely under AB 2449
Carlos Romero, East Palo Alto
Leslie Ragsdale, Hillsborough
Jeff Aalfs, Portola Valley
Marty Medina, San Bruno

Absent:
None

A quorum was established.

PUBLIC COMMENT

None

ACTION TO SET AGENDA AND TO APPROVE CONSENT AGENDA ITEMS

MOTION: Director Aalfs moved, seconded by Director Medina to set the Agenda and approve Agenda Item Number 1.

1. Approval of the Minutes for the November 7, 2022 and February 13, 2023 Audit & Finance Committee Meetings

MOTION PASSED: 5-0 (Absent: None)

JURISDICTION	BOARD MEMBER	YES	NO	ABSTAIN	ABSENT
Burlingame	Director Colson	X			
East Palo Alto	Director Romero	X			
Hillsborough	Director Ragsdale	X			
Portola Valley	Director Aalfs	X			
San Bruno	Director Medina	X			
	Totals	5			

REGULAR AGENDA

2. Chair Report

Chair Colson shared that Andy Stern will serve as interim Chief Financial Officer and she and Chair DeGolia are continuing to work on the Chief Executive Officer search. There are three candidates under consideration and will provide another update as soon as they have more public information.

3. Staff Report

Andy Stern, Interim Chief Financial Officer, provided an update to the Committee on the closure of the Wilmington account noting that the funds were transferred to Schwab and an update on the renewal of insurance policies.

4. Appointment of Audit and Finance Committee Chair (Action)

Director Romero nominated Director Donna Colson as the Audit and Finance Committee Chair.

MOTION: Director Romero moved, seconded by Director Medina to appoint Donna Colson as the Audit and Finance Committee Chair.

MOTION PASSED: 5-0 (Absent: None)

JURISDICTION	BOARD MEMBER	YES	NO	ABSTAIN	ABSENT
Burlingame	Director Colson	X			
East Palo Alto	Director Romero	X			
Hillsborough	Director Ragsdale	X			
Portola Valley	Director Aalfs	X			
San Bruno	Director Medina	X			
	Totals	5			

5. Review Financial Reports and Investment Summary for Third Quarter Fiscal Year (FY) 2022-2023 (Discussion)

Andy Stern, Interim Chief Financial Officer, gave a presentation for Fiscal Year (FY) 2022-2023 including increased revenues in the third quarter.

Director Romero asked if the change in net position was through the 3rd quarter which he confirmed ends March 31st and also that the presentation is the year to date (YTD) through the end of the 3rd quarter. Andy confirmed the presentation is the YTD through the 3rd quarter.

Andy continued the presentation with cash reserves, quarterly trend of cash and investments, a historical view of cash balances over time and as of May 5, 2023, and the forecast for the full year FY 2023.

Director Romero asked about unrestricted operating funds, and Andy explained that their policy requires them to maintain 180 days of unrestricted cash on hand. The balance as of March 31st was a calculated $220 million for 239 days, which is 59 days over the requirement not because of energy costs.

Director Romero asked if Wilmington is considered a regional bank and this is why they moved over. Andy explained that Wilmington was set up when Peninsula Clean Energy was set up as a lockbox account for all PG&E transfers and over the years they do not need to have a lock box any longer and PG&E deposits are going directly to any account they designate which is the First Republic Bank account, so they do not need an intermediator account anymore.

Director Romero asked if they will be totally closing the account out, and Andy confirmed that is the plan.

Chair Colson asked if they can put a sub-bullet under US Bank and a parenthetical because they do not have $125 million. They have $125 million in securities in custody at US Bank and as PCE's custodian, she thinks it should be differentiated. Andy explained that on the prior slide there was a sub-note, but the reality is that they are mostly holding direct ownership of municipal bonds, treasuries, and a few corporate bonds.

Chair Colson disagreed and said they do not control the banking relationship at US Bank. If there was a problem at US Bank, it would be PFM or First Republic Bank that would terminate the custodian relationship and move it to a different custody.

Andy explained they have a direct relationship with US Bank as their custodian. A year ago when they were running negative cash balances where they had to withdraw funds, they would tell First Republic Bank (FRB) and PFM to send money, but that US Bank had to give direction to FRB to send money, so the agreement is between Peninsula Clean Energy and US Bank.

Chair Colson noted that US Bank is not managing the money for PCE. They are simply acting as the custodian of the money. All of the other organizations, such as Schwab, Wilmington, Fidelity, and FRB are managing money. Andy agreed to follow-up.

Public Comment: None

6. Review of Fiscal Year 2023-2024 Draft Budget (Discussion)

Andy Stern, Interim Chief Financial Officer, gave a presentation including the schedule for budget review and approval, key assumptions for the draft budget for Fiscal Year (FY) 2023-2024, PG&E Power Charge Indifference Adjustment (PCIA) assumptions, revenue assumptions, cost of energy assumptions, staffing assumptions, other budgeting assumptions, a summary of the FY 2024 draft budget, budget summary and 5-year plan for the draft budget for FY 2023-2028, context for discussion of excess funds, and alternatives for excess funds.

Director Romero asked if PCIA rates go negative if they get to bank that.

Jan Pepper, Chief Executive Officer, responded that they are setting it to zero. If it goes negative it would mean their customers would get a benefit from PG&E. Peninsula Clean Energy (PCE) does not bank that extra themselves, so they are not making their rate higher by adding in a negative PCIA.

Director Aalfs asked why doesn't the PCIA start going back up after 2024. Jan said it is a projection of energy prices- if energy prices go higher, the PCIA goes lower.

Director Aalfs asked what if their PCIA is almost gone in 2025 and 2026 because they are so far gone from PG&E and cannot argue their contracting quest, and asked how long this would go on for. Jan said she thinks it goes on forever. Andy indicated it would go on for years because it is based on contracts that they signed that could be 20-25 years long.

Jeremy Waen, Director of Regulatory Policy, commented that resources in the PCIA portfolio will be under contract at least until 2040. For Diablo Canyon, it will roll out of the PCIA calculation for 2024 and 2025 but it will be kept operational for 5 years, and the costs will be calculated with a different cost recovery process and shared across the state. Based upon the CalCCA analysis, there will be downward pressure on the PCIA which should help with those resources falling out of the calculus.

Andy continued his presentation, stating customer rates at PCE are relatively flat for the next three years and lower in 2027 and 2028, although still well above the low year of 2021. He spoke on the cost of energy budgeted which is an increase over the forecast for this year, inclusion of two conservatism contingencies, did modeling around the 100% renewable in 2027 and this will achieve contracting for 15 additional projects, with $50 million of contingency in the next four years.

Jan added that they will be 100% renewable on an annual basis by 2025. Their goal was to be 99% time-coincident by 2025 but the time-coincident is a bit challenging as projects are taking longer and not operational until 2027. The 99% hourly may shift and this will be discussed with the Board in May.

Director Romero asked about the energy cost volatility number and asked if this is based on previous spikes assuming there is a percentage of chance of spikes going forward based on history. Jan confirmed and noted that when there is a heat wave, prices go from $100 to $2000 and in a few hours, millions extra could be spent to serve customers.

Shawn Marshall, Chief Operating Officer, added that this number was modeled under the September 2022 event. Andy added that volatility that was extended for a week with high temperatures. PCE weathered it well because they are mostly hedged, which mitigated much of the cost.

Jan added that with Resource Adequacy (RA) they are assuming they will find RA and pay the exorbitant prices, but they may also be paying penalties if they do not hit requirements by certain dates. They are fighting this in the legislature as they currently have to show that they have procured 90% of their year-ahead requirement. This past year, they did not hit their year-ahead requirement for 3 months, even though now they have procured 2 of the months, and are being penalized for not hitting the year ahead on October 31st so they will have to pay the California Public Utilities Commission (CPUC) $2 million in penalties.

Director Ragsdale asked if the penalty comes back to PCE. Jan explained it does not, and it does not go to creating more RA by paying this penalty. It likely goes into the State's general fund.

Chair Colson asked if they are penalized before meeting RA requirements by certain dates she asked if they have any obligation to not take the penalty and not then pay the very high price for the RA. Andy explained they could pay a follow-on penalty, but the early penalty does not negate the penalty for not meeting the obligation in the end. It is millions in savings if you take the penalty, but there is a process of penalty points that add up and, as you get to a certain threshold, the penalties double and triple.

Director Romero noted there is a technical discussion at the CalCCA conference on RA. He does not quite understand procurement and how they are getting this, and it sounds like it will be a problem in the future. Jan explained that Jeff Wright went through the information on penalties at a Procurement Subcommittee meeting.

Shawn said the points can have an effect on counter-party negotiations and other areas.

Director Aalfs noted that a strategy is to procure more batteries. Batteries have an RA value absorbed into them. Jan said getting PG&E to do inter-connections is an issue and you do not necessarily get credit for batteries on the distribution system.

Andy continued the presentation and spoke about solar storage plans for public buildings, budgeting for capital outlay, outside consultant and legal advice on Biden's Inflation Reduction Act on investment tax credit, and assumption of repayment of capital outlay that will come through charges to municipalities over 20 years.

Director Romero noted that it will be important for the Board to understand that they have capital assets that they cannot touch so a certain percentage of "x" is invested in capital and when they go through the understanding of how much money they have to use now that they have capital investments.

Andy added that the budget shows the capital outlay of $7.4 million in FY 2024 and $43 million in FY 2025, and a capital inflow of $2.2 million in 2026 and $15 million in 2027 as a result of the investment tax credit. Even though there are cash outlays and inflows, the cash balance and unrestricted days cash on hand reflects those investments.

Andy then referred to excess funds, volatility in years and energy costs, discounts that reduce revenue, and to make a substantial impact on customers they will have to have a pretty big discount which might set precedence for a long period. Some Community Choice Aggregators (CCAs) implemented GASB 62 which allows you to move revenue from one accounting period to another which has the effect of smoothing the net position.

Director Aalfs asked if a credit rating agency will look at their cash accounting and GASB 62 will not influence that. Andy explained they will look at a trend over multiple years and he did not think they are fooled by using GASB 62 but the main reason would be bond convenance. He said one alternative is to provide a one-time benefit to low income customers.

Director Medina agreed with finding a balance between returning back and reducing rates and investing more in our programs.

Director Ragsdale added that while late in the program, they should encourage charging stations for multi-family housing.

Andy added that another piece is the cost of the service study. It will take time to do and if they do it, revenues would be more closely aligned with costs and they would not achieve that $500 million.

Public Comments: None

Andy added, if there was anything that came out that would like to be incorporated into the budget at this time, or they can leave it as an open item as an idea to discuss with the Board, allowing them to adjust amounts. Director Ragsdale suggested more input. Chair Colson agreed with more input and also thinks given they will have a new CEO it is courteous to let them work it out. It is a big decision and it is worthwhile to hang on for 6 weeks.

Chair Colson said she thinks it is a financial decision and she would like the Audit and Finance committee to vet it a little more. She is happy to work hard on this over the next 30 days to throw out more comprehensive numbers to have the Board to discuss it at a broader level.

Director Aalfs said it feels like without prescribing a program he hates to waste rounds of iteration because the Board always wants to give input. He thinks they can bring alternatives to the Board which gives the committee one more round of feedback before the committee meets again.

Jan confirmed that for the Board of Directors meeting they will have a slide with possible alternatives for excess funds which is not quite as detailed. They can then take additional input at the Board meeting to expand that list, will ask for a subcommittee of volunteers to discuss further and then come back in 90 days with a recommendation as to what to do with excess reserves. Maybe 2 people from the AFC could participate and 4 from the EC could participate, and others as they wish, as long as there is less than 11 people on the subcommittee.

Chair Colson said she would like to talk to Chair DeGolia and run it by him for the Board of Directors meeting to obtain his input in the next day or two.

7. Committee Members' Reports

None

ADJOURNMENT

Meeting was adjourned at 11:48 a.m.