MEETING of the Finance Committee of the  
Clean Power Alliance of Southern California  

Wednesday, January 23, 2019  
11:00 a.m.  

555 W. 5th Street, 35th Floor  
Los Angeles, CA 90013  

Meetings are accessible to people with disabilities. Individuals who need special assistance or a disability-related modification or accommodation to participate in this meeting, or who have a disability and wish to request an alternative format for the meeting materials, should contact Jacquelyn Betha, at least two (2) working days before the meeting at jbetha@cleanpoweralliance.org or (213) 269-5870, ext.1001.  
Notification in advance of the meeting will enable us to make reasonable arrangements to ensure accessibility to this meeting and the materials related to it.  

Members of the public may also participate in this meeting remotely at the following addresses:  

Beverly Hills City Hall  
4th Floor, Conference Room 4B  
455 N. Rexford Drive, Beverly Hills, CA 90210  

Camarillo City Hall  
601 Carmen Drive, Camarillo, CA 93010  

Carson City Hall  
Executive Conference Room  
701 E. Carson Street, Carson, CA 90745  

Rolling Hills Estates City Hall  
4045 Palos Verdes Drive N., Rolling Hills Estates, CA 90274
I. WELCOME & ROLL CALL

II. PUBLIC COMMENT

This item is reserved for persons wishing to address the Committee on any Clean Power Alliance-related matters not on today’s agenda. Public comments on matters on today’s agenda shall be heard at the time the matter is called. As with all public comment, members of the public who wish to address the Committee are requested to complete a speaker’s slip. If you have anything that you wish to be distributed to the Committee and included in the official record, please hand it to a member of the staff who will distribute the information to the Committee members and staff. Speakers are customarily limited to three minutes, but is at the discretion of the Committee Chair.

III. REGULAR AGENDA

1. Approve Minutes from December 5, 2018 Finance Committee Meeting
2. Staff Report on Fiscal Year 2017-2018 Audit
3. Staff Report on November & December 2018 Monthly Financial Dashboards
4. Staff Report on December 2018 and January 2019 Risk Management Team
5. Discuss and Provide Input on Financial Reserve Policy

IV. COMMITTEE MEMBER COMMENTS

V. ADJOURN

Public records that relate to any item on the open session agenda for a regular Meeting are available for public inspection. Those records that are distributed less than 72 hours prior to the meeting are available for public inspection at the same time they are distributed to all members, or a majority of, the members of the Committee. The Board of Directors has designated Clean Power Alliance, 555 W. 5th Street, 35th Floor, Los Angeles, CA 90013, for making those public records available for inspection. The documents are also available online at www.cleanpoweralliance.org.
REGULAR MEETING of the Finance Committee of the
Clean Power Alliance of Southern California
Wednesday, December 5, 2018, 11:00 a.m.

555 W. 5th Street, 35th Floor
Los Angeles, CA 90013

Beverly Hills City Hall
4th Floor, Conference Rm 4B
455 N. Rexford Drive
Beverly Hills, CA 90210

Carson City Hall
Executive Conference Room
701 E. Carson Street
Carson, CA 90745 - CLOSED

Camarillo City Hall
601 Carmen Drive
Camarillo, CA 93010

Rolling Hills Estates City Hall
4045 Palos Verdes Drive N.
Rolling Hills Estates, CA 90274

MINUTES

I. WELCOME & ROLL CALL

Committee Chair Julian Gold called the meeting to order. Community Outreach Manager Christian Cruz conducted roll call.

<table>
<thead>
<tr>
<th>Roll Call</th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Beverly Hills</td>
<td>Julian Gold</td>
<td>Committee Chair</td>
</tr>
<tr>
<td>2</td>
<td>Camarillo</td>
<td>Tony Trembley</td>
<td>Committee Member</td>
</tr>
<tr>
<td>3</td>
<td>Carson</td>
<td></td>
<td>Absent</td>
</tr>
<tr>
<td>4</td>
<td>Rolling Hills Estates</td>
<td>Steve Zuckerman</td>
<td>Committee Member</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Remote</td>
</tr>
</tbody>
</table>

II. PUBLIC COMMENT

There were no public comments.
III. REGULAR AGENDA

1. Approved Minutes from October 24, 2018 Finance Committee Meeting:

Motion: Camarillo, Committee Member Trembley. Second: Rolling Hills Estates, Committee Member Zuckerman. Vote: Item 1 was approved by unanimous roll call vote.

2. October 2018 Monthly Financial Dashboard

David McNeil, Chief Financial Officer, provided a report on the Monthly Financial Dashboard. He highlighted that SCE has been experiencing glitches as they upgrade some of their systems, which has caused a delay in payments from SCE to the CPA. Committee Member Trembly asked whether there is a threshold when the glitches reported could become a major problem. Staff reported that these could become an issue, as it pertains to cash flow from SCE, if deposits from SCE continue to be short over a long period of time, but is not an issue in the short-term. Ted Bardacke, Executive Director, also indicated that there is an escalation process with SCE to fix the issues should this persist and cause cash flows issues.

This item was for informational purposes only.

3. November 2018 Risk Management Team Reports

Matt Langer, Chief Operating Officer, provided a report on the activities of the Risk Management Team (RMT) from November. Mr. Langer highlighted that the RMT discussed the timing considerations for deliveries of RPS and Carbon Free deliveries for 2019. The issue is that given the ramp up in customers and revenues, if CPA were to take an even number of RPS and carbon free deliveries throughout the year it would affect the cash reserves in the first half of the year. However, the remedy would be to shift those deliveries to the second half of the year once new customers have been enrolled and a better cash flow is established.

This item was for informational purposes only.
4. **New Rates and Financial Projections**

Ted Bardacke, Executive Director, provided a brief presentation on the new rates. Mr. Bardacke reminded the Committee that a decision on the ERRA/PCIA has been delayed, which means that new 2019 rates for the PCIA will not go into effect until March or April of 2019. Mr. Bardacke also clarified how the first quarter will be affected by this delay. David McNeil, Chief Financial Officer, also clarified that the financial impact of this delay to the CPA will be modest.

This item was for informational purposes only.

IV. **COMMITTEE MEMBER COMMENTS**

No Committee member comments.

V. **ADJOURN**

Chair Gold adjourned the meeting.
SUMMARY

On June 30, 2018 CPA ended its first fiscal year (FY) of operations. CPA’s annual financial statements were prepared by the County of Los Angeles in cooperation with CPA staff. The County of Los Angeles selected the independent auditing firm BCA Watson Rice to audit CPA’s financial results. BCA Watson Rice is an accredited auditing firm. BCA Watson Rice completed its audit in December 2018. The auditor’s report is included in the CPA’s Audited FY 2017/2018 financial statements.

The auditor’s opinion is that CPA’s FY 17/18 financial statements:

Present fairly, in all material respects, the financial position of CPA as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

This is a positive outcome and generally considered a “clean” audit opinion. The letter from BCA Watson Rice to the CPA Board of Directors outlines its auditing methodology and provides additional information concerning its work.
The FY 17/18 financial statements present revenues, expenditures and cash flows that occurred during the 12 months ending June 30, 2018 and assets, liabilities and net position as of June 30, 2018. The FY 17/18 financial statements also contain a management discussion and analysis of the financial results and notes to the financial statements.

CPA began serving customers in February 2018 and began earning revenues at that time. During the year CPA recorded revenues of $3.4 million, expense of $6 million and a loss of $2.6 million. As of June 30, 2018, assets totaled $9.6 million, liabilities $12.3 million and the net position was negative $2.7 million. CPA financed its operations with customer revenues and a loan from the County of Los Angeles.

CPA’s FY 17/18 financial results reflect the start-up nature of CPA operations and are in-line with expectations.

Attachments: 1) CPA Audited Fiscal Year 2017/18 Financial Statements
2) Auditor letter to CPA Board of Directors
CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

Basic Financial Statements
with Independent Auditor’s Report

For the Fiscal Year Ended June 30, 2018
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INDEPENDENT AUDITOR’S REPORT

To the Board of Directors of the
Clean Power Alliance of Southern California

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the Clean Power Alliance of Southern California (CPA) as of and for the fiscal year ended June 30, 2018, and the related notes to the basic financial statements, which collectively comprise CPA’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Basic Financial Statements

CPA’s management is responsible for the preparation and fair presentation of these basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the basic 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 the entity’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 basic financial statements.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of CPA as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 6 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2018 on our consideration of CPA’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering CPA’s internal control over financial reporting and compliance.

BCA Watson Rice, LLP

Torrance, California
December 20, 2018
The Management’s Discussion and Analysis provides an overview of the Clean Power Alliance of Southern California’s (CPA) financial activities as of and for the year ended June 30, 2018. The information presented here should be considered in conjunction with the audited financial statements.

Contents of this report

This report is divided into the following sections:

- Management’s discussion and analysis, which provides an overview of operations.

- The basic financial statements, which offer information on CPA’s financial status:
  - The Statement of Net Position includes all of CPA’s assets, liabilities, and net position using the accrual basis of accounting. The Statement of Net Position provides information about the nature and amount of resources and obligations at a specific point in time. Over time, an increase or decrease in net position may serve as a useful indicator of CPA’s financial position.
  - The Statement of Revenues, Expenses, and Changes in Net Position reports all of CPA’s revenue and expenses for the years shown. All changes in fund net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing or related cash flows. Thus, revenue and expenses are reported in this statement for some items that will result in cash flows in future periods.
  - The Statement of Cash Flows reports the cash provided and used by operating activities, as well as other sources and uses, such as capital asset acquisitions. Consequently, only transactions that affect CPA’s cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the Statement of Cash Flows to assist in the understanding of the difference between cash flows from operating activities and operating income or loss.
  - Notes to the basic financial statements, which provide additional details and information related to the basic financial statements.

NATURE OF OPERATIONS

CPA was formed pursuant to California Assembly Bill 117 which enables communities to purchase power on behalf of their residents and businesses and creates retail choice for electric generation services.

CPA, formerly Los Angeles Community Choice Energy (LACCE), was created as a California Joint Powers Authority on June 27, 2017. CPA was established to study, promote, develop, conduct, operate, and manage energy programs in Southern California. Governed by an appointed board of directors (Board), CPA has the authority to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. CPA acquires electricity from commercial suppliers and delivers it through existing physical infrastructure and equipment managed by the California Independent System Operator (CAISO) and Southern California Edison (SCE).
The parties to CPA’s Joint Powers Agreement consist of local governments whose governing bodies elect to join CPA. Pursuant to the Public Utilities Code, when new parties join CPA, all electricity customers in its jurisdiction automatically become default customers of CPA for electric generation, provided that customers are given the option to “opt out”.

CPA’s goal is to provide customers with competitively priced and affordable electricity with high renewable energy content and low greenhouse gas emissions. CPA offers its customers three electricity services to choose from: Lean Power, Clean Power, and 100% Green Power. Lean Power provides 36% renewable energy content, Clean Power provides 50% renewable energy support, and 100% Green Power provides 100% renewable energy content.

CPA began operations in February 2018 by serving approximately 1,800 municipal accounts.

Financial Reporting

CPA presents its financial statements in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds, as prescribed by the Governmental Accounting Standards Board (GASB).

FINANCIAL HIGHLIGHTS

The following table is a summary of CPA’s assets, liabilities, and net position as of June 30:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$ 9,621,793</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>7,250</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 9,629,043</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>2,470,275</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>9,835,608</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>12,305,883</td>
</tr>
<tr>
<td>Net position</td>
<td></td>
</tr>
<tr>
<td>Unrestricted (deficit)</td>
<td>(2,676,840)</td>
</tr>
<tr>
<td>Total net position</td>
<td>$ (2,676,840)</td>
</tr>
</tbody>
</table>

Current Assets

Current assets totaled $9,622,000 as of June 30, 2018. Current assets are mostly comprised of the following items: $3,296,000 in cash and restricted cash in a depository account, $2,702,000 invested in the Los Angeles County Investment Pool, $741,000 in accounts receivable and other receivables, $908,000 in accrued revenue, and $1,950,000 in security deposits.

Current Liabilities

Current liabilities totaled $2,470,000 as of June 30, 2018 and consist primarily of $1,513,000 of electricity delivered to customers that is not yet due to be paid by CPA and $940,000 in accounts payable.
for service providers and other operating expenses. CPA is required to collect and remit taxes on certain customer sales and had a current liability of $17,000 for these taxes as of June 30, 2018.

Noncurrent Liabilities

Noncurrent liabilities consist entirely of a $9,836,000 loan payable to the County of Los Angeles. This non-interest bearing loan supported CPA’s start up and continuing operating costs. The loan is due for repayment on September 30, 2020.

The following table is a summary of CPA’s results of operations:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>$3,382,705</td>
</tr>
<tr>
<td>Interest income</td>
<td>7,126</td>
</tr>
<tr>
<td>Total income</td>
<td>3,389,831</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>6,066,671</td>
</tr>
<tr>
<td>Decrease in net position</td>
<td>$ (2,676,840)</td>
</tr>
</tbody>
</table>

Operating Revenues

Operating revenues for the year consist of electricity sales to customers. CPA began providing service to customers beginning in February 2018.

Operating Expenses

The major operating cost incurred during the fiscal year was $3,299,000 in energy purchases to support customer sales. Other operating expenses include costs for the start-up and implementation of the agency, costs associated with the enrollment of new customers, as well as costs to support ongoing operations. Prior to receiving payments from its customers, operating expenses were financed by a loan from the County of Los Angeles.

Change in Net Position

The change in net position represents the difference between revenues and expenses. CPA’s expenses exceeded its revenues resulting in a negative change in net position. The negative change in net position was consistent with its implementation plan. The negative net position was financed by accounts payable and debt.

PURCHASE COMMITMENTS AND ECONOMIC OUTLOOK

During the normal course of business, CPA enters into various agreements, including renewable energy agreements and other power purchase agreements to purchase power and electricity capacity. CPA enters into power purchase agreements in order to comply with state law and voluntary targets for renewable and greenhouse gas (GHG) free products. California law established a Renewable Portfolio Standard (RPS) that requires load-serving entities, such as CPA, to gradually increase the amount of renewable energy they deliver to their customers. In October 2015, the California Governor signed Senate Bill (SB) 350,
the Clean Energy and Pollution Reduction Act of 2015 into law. SB 350 became effective January 1, 2016, and increases the amount of renewable energy that must be delivered by most load-serving entities, including CPA, to their customers from 33% of their total annual retail sales by the end of the 2017-2020 compliance period, to 50% of their total annual retail sales by the end of the 2028-2030 compliance period, and in each three-year compliance period thereafter. SB100, signed into law by the California Governor in September 2018, increased this 2030 target by 60% of total annual retail sales.

SB 350 provides compliance flexibility and waiver mechanisms, including increased flexibility to apply excess renewable energy procurement in one compliance period to future compliance periods. Beginning January 1, 2021, at least 65% of the procurement a retail seller, such as CPA, counts toward the renewables portfolio standard requirement of each compliance period shall be from its contracts of ten years or more in duration. CPA manages risks associated with these commitments by aligning purchase commitments with expected demand for electricity and assuring diversity of technologies, geographical locations, and suppliers.

Commitments under power purchase agreements totaled approximately $225 million as of June 30, 2018.

Management intends to continue its conservative use of financial resources and expects to generate operating surpluses in future years.

CONTACTING CPA’S FINANCIAL MANAGEMENT

This financial report is designed to provide CPA’s customers, creditors, and other interested parties with a general overview of the Organization’s finances and to demonstrate CPA’s accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to Chief Financial Officer, Clean Power Alliance, 555 W. 5th Street, 35th Floor, Los Angeles, CA 90013.
BASIC FINANCIAL STATEMENTS
## CLEA POWER ALLIANCE OF SOUTHERN CALIFORNIA

**Statement of Net Position**  
*June 30, 2018*

### ASSETS

**Current assets**
- Cash and cash equivalents (Note 4) $2,546,067
- Investment in Los Angeles County Investment Pool (Note 4) 2,701,780
- Accounts receivable, net of allowance for doubtful accounts (Note 5) 660,508
- Other receivables 75,800
- Interest receivables 5,092
- Accrued revenue 907,546
- Prepaid expenses 25,000
- Deposits (Note 2) 1,950,000
- Restricted cash 750,000

**Total current assets** 9,621,793

**Noncurrent assets**
- Rent security deposits 7,250

**Total assets** 9,629,043

### LIABILITIES

**Current liabilities**
- Accounts payable 940,351
- Accrued cost of electricity 1,512,698
- User taxes and energy surcharges due to other governments (Note 2) 17,226

**Total current liabilities** 2,470,275

**Noncurrent liabilities**
- Loan payables to County of Los Angeles (Note 6) 9,835,608

**Total liabilities** 12,305,883

### NET POSITION

- Unrestricted (deficit) $(2,676,840)

See accompanying notes to the basic financial statements.
CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA  
Statement of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Year Ended June 30, 2018

<table>
<thead>
<tr>
<th>Operating Revenues</th>
<th>$ 3,343,365</th>
<th>Miscellaneous income</th>
<th>$ 39,340</th>
<th>Total operating revenues</th>
<th>$ 3,382,705</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity sales, net</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff compensation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultants and other professional fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total operating expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ 6,066,671</td>
</tr>
<tr>
<td>Operating loss</td>
<td></td>
<td></td>
<td></td>
<td>(2,683,966)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nonoperating Revenues (Expenses)</th>
<th>$ 7,126</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in Net Position</th>
<th>(2,676,840)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net position at beginning of year</td>
<td></td>
</tr>
<tr>
<td>Net position at end of year</td>
<td>$ (2,676,840)</td>
</tr>
</tbody>
</table>

See accompanying notes to the basic financial statements.
## Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

### Cash Flows From Operating Activities
- Receipts from electricity sales: $2,155,770
- Payments to suppliers for goods and services: $(3,309,957)
- Deposits and collateral paid: $(1,950,000)
  - Net cash used by operating activities: $(3,104,187)

### Cash Flows From Non-Capital Financing Activities
- Loan proceeds: 9,100,000
  - Net cash provided by non-capital financing activities: 9,100,000

### Cash Flows From Investing Activities
- Interest income: 2,034
  - Net cash provided by investing activities: 2,034

- Net change in cash and cash equivalents: 5,997,847
- Cash and cash equivalents at beginning of year: -
- Cash and cash equivalents at end of year: $5,997,847

### Reconciliation to the Statement of Net Position
- Cash and cash equivalents: $2,546,067
- Investment in Los Angeles County Investment Pool: 2,701,780
- Restricted cash: 750,000
  - Cash and cash equivalents: $5,997,847

See accompanying notes to the basic financial statements.
Reconciliation of Operating Loss to Net Cash Used by Operating Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating loss</td>
<td>$(2,683,966)</td>
</tr>
<tr>
<td>Adjustment to reconcile operating loss to net cash used by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Increase in accounts receivable</td>
<td>$(660,508)</td>
</tr>
<tr>
<td>Increase in other receivable</td>
<td>$(75,800)</td>
</tr>
<tr>
<td>Increase in accrued revenue</td>
<td>$(907,546)</td>
</tr>
<tr>
<td>Increase in prepaid expenses</td>
<td>$(25,000)</td>
</tr>
<tr>
<td>Increase in deposits</td>
<td>$(1,950,000)</td>
</tr>
<tr>
<td>Increase in rent security deposits</td>
<td>$(7,250)</td>
</tr>
<tr>
<td>Increase in accounts payable</td>
<td>$940,351</td>
</tr>
<tr>
<td>Increase in accrued cost of electricity</td>
<td>$1,512,698</td>
</tr>
<tr>
<td>Increase in user taxes and energy surcharges due to other governments</td>
<td>$17,226</td>
</tr>
<tr>
<td>Increase in loans payable</td>
<td>$735,608</td>
</tr>
<tr>
<td>Net cash used by operating activities</td>
<td>$(3,104,187)</td>
</tr>
</tbody>
</table>

See accompanying notes to the basic financial statements.
1. REPORTING ENTITY

The Clean Power Alliance of Southern California (CPA) is a joint powers authority created on June 27, 2017. As of June 30, 2018, participating communities consist of the following local governments:

- Unincorporated Los Angeles County
- Moorpark
- Unincorporated Ventura County
- Ojai
- Agoura Hills
- Oxnard
- Alhambra
- Paramount
- Arcadia
- Redondo Beach
- Beverly Hills
- Rolling Hills Estates
- Calabasas
- Santa Monica
- Camarillo
- Sierra Madre
- Claremont
- Simi Valley
- Carson
- South Pasadena
- Culver City
- Temple City
- Downey
- Thousand Oaks
- Hawaiian Gardens
- Ventura
- Hawthorne
- West Hollywood
- Malibu
- Whittier
- Manhattan Beach

CPA is separate from and has no right to receive financial support from its members. CPA is governed by a Board of Directors whose membership is composed of elected officials representing each one of its member communities.

CPA was established as a Community Choice Aggregation Program under California Public Utilities Code Section 366.2 to study, promote, develop, conduct, operate, and manage energy programs in Southern California, and to exercise all other powers necessary and incidental to accomplishing these objectives. A key objective of CPA is to provide electric service that includes the use of renewable sources and reduces greenhouse gas emissions.

CPA began providing electricity to customers in February 2018. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by the CAISO and SCE.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

CPA’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. CPA’s operations are accounted for as a governmental enterprise fund and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned and expenses are recognized.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF ACCOUNTING (Continued)

at the time liabilities are incurred. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

CPA’s financial statements are presented in accordance with the provisions of GASB No. 34 Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted.

These classifications are defined as follows:

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and is reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of June 30, 2018, CPA had $0 net investment in capital assets.

Restricted net position – This component of net position represents restricted assets net of liabilities that relate to those specific restricted assets. A restricted asset is an asset for which constraints have been placed on the asset’s use by creditors, contributors, laws, or regulations of other governments, or as a consequence of a restriction established by the reporting entity’s own governing body at the time a particular fee, charge, levy, or assessment was approved. These restrictions must be narrower than the general purposes for which the reporting government can use its resources. As of June 30, 2018, CPA had $0 restricted net position.

Unrestricted net position – When both restricted and unrestricted net position are available, restricted resources are depleted first before the unrestricted resources are used. As of June 30, 2018, CPA had $2.68 million in unrestricted net deficit.

SECURITY DEPOSITS

Various energy contracts entered into by CPA require CPA to provide the supplier with a security deposit. The deposits are generally held for the term of the contract. Deposits with energy suppliers are classified as current or noncurrent assets depending on the length of the time the deposits will be held. Other components of deposits include those for regulatory and other operating purposes.

CAPITAL ASSETS

As of June 30, 2018, CPA did not have capital assets or an accounting policy governing capital assets. During the current fiscal year, CPA adopted a new policy and will report capital assets based on this policy for future years.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION

CPA recognizes revenue on the accrual basis. This includes invoices issued to customers during the period and electricity estimated to have been delivered but not yet billed. Revenues are recorded when earned, regardless of the timing of the related cash flows.

ELECTRICAL POWER PURCHASED

During the normal course of business CPA purchases electric power from numerous suppliers. Electricity costs include the cost of energy and capacity arising from bilateral contracts with energy suppliers as well as generation credits, and load and other charges arising from CPA’s participation in the CAISO centralized market. These costs are recognized as “Cost of electricity” in the Statement of Revenues, Expenses and Changes in Net Position.

To comply with the State of California’s Renewable Portfolio Standards (RPS) and voluntary targets, CPA acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System (WREGIS). CPA obtains Certificates with the intent to retire them. An expense is recognized at the point that the cost of the RPS eligible energy is due and payable to the supplier. CPA purchases capacity commitments from qualifying generators to comply with the California Energy Commission’s Resource Adequacy Program. The goals of the Resource Adequacy Program are to provide sufficient resources to the CAISO to ensure the safe and reliable operation of the grid in real time and to provide appropriate incentives for the siting and construction of new resources needed for reliability in the future.

STAFFING COSTS

CPA pays employees semi-monthly and fully pays its obligation for benefits each month. CPA does not provide pension, post-employment healthcare or other fringe benefits and, accordingly, no related liability is recorded in these financial statements.

INCOME TAXES

CPA is a Joint Powers Authority under the provision of the California Government Code and is not subject to federal or state income or franchise taxes.

USER TAXES AND ENERGY SURCHARGES DUE TO OTHER GOVERNMENTS

CPA is required by governmental authorities to collect and remit taxes on certain customer sales. These taxes do not represent revenues or expenses to CPA.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
3. PRONOUNCEMENTS ISSUED AND IMPLEMENTED DURING THE YEAR

In June 2015, GASB issued Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions.” This Statement is to improve accounting and financial reporting by governments for postemployment benefits other than pensions (other postemployment benefits or OPEB) and improves information about financial support that is provided by other entities for making decisions, assessing accountability, and creating additional transparency. This Statement replaces Statements No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, as amended, and No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”. As of June 30, 2018, CPA did not have a postemployment benefit plan in place and this Statement did not have an impact to the financial statements.

In March 2016, GASB issued Statement No. 81, “Irrevocable Split Interest Agreements.” This Statement is to improve accounting and financing reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement are effective for financial statements for reporting periods beginning after December 15, 2016. As of June 30, 2018, CPA did not have irrevocable split interest agreements in place and this Statement did not have an impact to the financial statements.

In March 2017, GASB issued Statement No. 85, “Omnibus 2017.” This Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). This Statement includes requirements for the timing and measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus, and simplification of certain aspects of the alternative measurement method for OPEB. The provisions of Statement No. 85 are effective for financial statements for reporting periods beginning after June 15, 2017. Implementation of this Statement did not have an impact on the CPA’s financial statements for the fiscal year ended June 30, 2018.

In May 2017, GASB issued Statement No. 86, “Certain Debt Extinguishment Issues.” This Statement is to improve consistency in accounting and financing reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The provisions of Statement No. 86 are effective for financial statements for reporting periods beginning after June 15, 2017. Implementation of GASB Statement No. 86 did not have an impact on CPA’s financial statements for the fiscal year ended June 30, 2018.
4. CASH AND INVESTMENTS

Pooled Cash and Investments

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

<table>
<thead>
<tr>
<th>Statement of Net Position:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$2,546,067</td>
</tr>
<tr>
<td>Investment in the County Treasury Pool</td>
<td>2,701,780</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>750,000</td>
</tr>
<tr>
<td><strong>Total cash and investments</strong></td>
<td><strong>$5,997,847</strong></td>
</tr>
</tbody>
</table>

Cash and investments as of June 30, 2018 consist of the following:

| Equity in Los Angeles County investment pool                  | $2,701,780 |
| Cash deposits                                                 | 3,296,067  |
| **Total cash and investments**                                | **$5,997,847** |

Cash Deposits

CPA maintains its cash in a bank demand deposit and restricted non-interest bearing depository account, which at times may exceed federally insured limits. As of June 30, 2018, CPA had deposits of $2,546,067 in available cash and $750,000 in restricted cash within a non-interest bearing depository account.

Although the demand and restricted deposits with a financial institution were in excess of federal depository insurance limits, management believes that CPA is not exposed to any significant credit risk or losses related to cash in bank.

Equity in the Cash and Investment Pool of the County of Los Angeles

CPA has investments in the Los Angeles County Treasury Pool. CPA is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Los Angeles County Treasurer and Tax Collector.

CPA has not adopted an investment policy separate from that of the County. The fair value of CPA’s investment in this pool is reported in the accompanying financial statements at amounts based upon CPAs pro-rata share of the fair value calculated by the County for the entire County portfolio. The balance available for withdrawal is based on the accounting records maintained by the Los Angeles County Auditor-Controller, which are recorded on an amortized cost basis.

Investments are stated at fair value and are valued on a monthly basis. The Treasurer categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Securities classified in Level 2 of the fair value hierarchy are valued using other observable inputs such as matrix pricing techniques or based on quoted prices for assets in markets that are not active. Matrix Pricing is used to value securities based on the securities’ relationship.
4. CASH AND INVESTMENTS (Continued)

Equity in the Cash and Investment Pool of the County of Los Angeles (Continued)

to benchmark quoted prices. Level 3 inputs are significant unobservable inputs. Securities classified in Level 3 are valued using the income approach such as discounted cash flow techniques. Investment in an external government investment pool is not subject to reporting within the level hierarchy.

Investments Authorized by Debt Agreements

Investment of debt proceeds is governed by provisions of debt agreements, rather than the general provisions of the California Government Code or the County’s investment policy. The table below identifies the investment types that are authorized. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<table>
<thead>
<tr>
<th>Authorized Investment Type</th>
<th>Maximum Maturity</th>
<th>Maximum Percentage of Portfolio</th>
<th>Maximum Investment in One Issuer</th>
<th>Minimum Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury Notes, Bills and Bonds</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>U.S. Agency Securities</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Local Agency Obligations</td>
<td>5 years</td>
<td>10%</td>
<td>10%</td>
<td>None</td>
</tr>
<tr>
<td>Asset-Backed Securities</td>
<td>5 years</td>
<td>20%</td>
<td>$750 million</td>
<td>AA</td>
</tr>
<tr>
<td>Bankers’ Acceptances</td>
<td>180 days</td>
<td>40%</td>
<td>$750 million</td>
<td>A-1/P-1/F1</td>
</tr>
<tr>
<td>Negotiable Certificate of Deposits</td>
<td>3 years</td>
<td>30%</td>
<td>$750 million</td>
<td>P-1/A</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>270 days</td>
<td>40%</td>
<td>$1.5 billion</td>
<td>A-1/P-1/F1</td>
</tr>
<tr>
<td>Corporate and Medium-Term Notes</td>
<td>3 years</td>
<td>30%</td>
<td>$750 million</td>
<td>A-1/P-1/F1</td>
</tr>
<tr>
<td>Local Agency Investment Fund</td>
<td>N/A</td>
<td>$65 million</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>N/A</td>
<td>15%</td>
<td>10%</td>
<td>AAA</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>30 days</td>
<td>$1 billion</td>
<td>$500 million</td>
<td>None</td>
</tr>
<tr>
<td>Reverse Repurchase Agreements</td>
<td>92 days</td>
<td>$500 million</td>
<td>$250 million</td>
<td>None</td>
</tr>
<tr>
<td>Forwards, Futures, and Options</td>
<td>90 days</td>
<td>$100 million</td>
<td>$50 million</td>
<td>A</td>
</tr>
<tr>
<td>Interest Rate Swaps</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>A</td>
</tr>
<tr>
<td>Securities Lending Agreements</td>
<td>92 days</td>
<td>20%</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Supranationals</td>
<td>5 years</td>
<td>30%</td>
<td>None</td>
<td>AA</td>
</tr>
</tbody>
</table>

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The County’s Investment Policy limits most investment maturities to less than five years, with the exception of U. S. Treasury Notes, Bills, and Bonds and U.S Agency Securities which may have maturities beyond five years. The County Treasurer manages the Pool and mitigates exposure to declines in fair value by generally investing in short-term investments with maturities of six months or less and by holding all investments to maturity.

Information about CPAs exposure to interest rate risk as a result of its equity in the cash and investment pool of the County is provided by disclosures in the notes to the basic financial statements of the County that shows the distribution of the County’s investments by maturity.
Disclosures Relating to Interest Rate Risk (Continued)

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Totals</th>
<th>12 Months Or Less</th>
<th>13 to 24 Months</th>
<th>More Than 24 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>LA County Treasury Pool</td>
<td>$2,701,780</td>
<td>$2,701,780</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>$2,701,780</td>
<td>$2,701,780</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the County’s investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type. The County investment policy establishes minimum acceptable credit ratings for investments from any two nationally recognized statistical rating organizations. These guidelines are summarized in the notes to the basic financial statements of the County.

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Totals</th>
<th>Minimum Legal Rating</th>
<th>Exempt From Disclosure</th>
<th>Rating as of Fiscal Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>LA County Treasury Pool</td>
<td>$2,701,780</td>
<td>None</td>
<td>$</td>
<td>$2,701,780</td>
</tr>
<tr>
<td></td>
<td>$2,701,780</td>
<td>$</td>
<td>$</td>
<td>$2,701,780</td>
</tr>
</tbody>
</table>

Concentration of Credit Risk

There are no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. All investments of CPA are in an investment pool. Although CPA has no limitations on the amount that can be invested in any one issuer beyond those stipulated by the California Government Code, all investments are in the Los Angeles County Treasury Pool which is subject to the County investment policy limitations on the amount of pooled funds that may be invested in any one issuer.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. CPA does not have significant separate certificates of deposit or demand accounts with fiscal agents that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).
4. CASH AND INVESTMENTS (Continued)

Custodial Credit Risk (Continued)

CPA does not have direct investments in securities subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

GASB Statement No. 3 exempts participating entities from classifying their pool investments in categories of credit risk; however, GASB Statement No. 40 requires disclosures of common deposit and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk. Information on common deposit and investment risks for the entire County Treasury Pool is presented in Note 5 to the County of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018.

5. ACCOUNTS RECEIVABLE

The majority of account collections occur within the first few months following customer invoicing. CPA records reserves for its estimated uncollectible accounts as a reduction to the related operating revenue in the Statements of Revenues, Expenses and Changes in Net Position. Charges to the reserve for uncollectible accounts for fiscal year 2017-18 were $0.

6. LOANS PAYABLE

In August 2017, CPA and the County of Los Angeles executed a Memorandum of Understanding (MOU) to provide a non-interest bearing loan to CPA in an amount not to exceed $10 million to be repaid June 30, 2018. In April 2018, the County’s Board of Supervisors approved an extension of the repayment term of the loan to June 30, 2019. In August 2018, the County’s Board of Supervisors approved a further extension of repayment of the loan to September 30, 2020. The purpose of the loan was to investigate the feasibility of implementing a community choice aggregation program as well as to provide for other working capital needs.

During the fiscal year 2017-18, CPA received $9,100,000 of cash loan proceeds and $735,608 noncash loan proceeds from the County of Los Angeles.

7. RISK MANAGEMENT

CPA is exposed to various insurable risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions; employment practices; and other risks. CPA purchases general liability and other insurance from various commercial carriers with policy terms continuing to May 2019.

8. COMMITMENTS

As of June 30, 2018, CPA had outstanding non-cancelable commitments of approximately $225 million for energy and capacity that has not yet been provided under purchase agreements that continue to December 2020.

CPA had outstanding non-cancelable commitments to professional service providers for services yet to be performed of $296,097 under agreements that continue to June 2019.
9. SUBSEQUENT EVENTS

On July 12, 2018 CPA’s Board adopted the Energy Risk Management Policy (ERMP). The ERMP establishes CPA’s Energy Risk Program and applies to all power procurement and related business activities that may impact the risk profile of CPA. The ERMP documents the framework by which CPA staff and consultants will identify and quantify risk, develop and execute procurement strategies, develop controls and oversight and monitor, and measure and report on the effectiveness of the ERMP. Risks covered by the ERMP include market price risk, credit risk, volumetric risk, operational risk, opt-out risk, legislative and regulatory risk, and other risks arising from operating as a Community Choice Aggregation and participating in California energy markets.

On August 7, 2018 CPA entered into a Revolving Credit Agreement with River City Bank. The Agreement includes a $20 million line of credit that can be used to support the issuance of letters of credit and to provide working capital.

In September 2018, new legislation was passed in the California legislature that expands direct access for commercial customers throughout the State. It is unknown what the impact of this will be on CPA or how much commercial load might be eligible under this direct access expansion.

On October 5, 2018, CPA elected to no longer participate in the Los Angeles County Investment Pool and withdrew its funds from the pool. The funds were transferred to River City Bank.

On October 11, 2018, the California Public Utilities Commission (CPUC) issued a decision revising the calculation methodology of the Power Charge Indifference Adjustment (PCIA) charge. The PCIA is an exit fee charged by investor-owned utilities, including SCE, to customers that switch to another provider of electricity generation service, including CPA. The fee is designed to cover above-market costs from contracts that the utilities entered into but no longer need and cannot sell in the market for the price they paid. In November 2018, SCE requested that the CPUC permit an increase in the PCIA to allow SCE to recoup costs incurred in 2018. This request is under review by the CPUC. CPA is monitoring the implementation of the CPUC’s October decision and SCE’s November request and the possible impact to its customers.
December 20, 2018

To the Board of Directors of the
Clean Power Alliance of Southern California

We have audited the basic financial statements of Clean Power Alliance of Southern California (CPA) as of and for the year ended June 30, 2018, and have issued our report thereon dated December 20, 2018. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

Our responsibility, as described by professional standards, is to form and express an opinion about whether the basic financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of CPA solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team and our firm have complied with all relevant ethical requirements regarding independence.
Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by CPA is included in Note 2 to the basic financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2018. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management’s current judgments. There were no sensitive accounting estimates affecting the basic financial statements.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. There were no sensitive disclosure affecting the basic financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no uncorrected financial statement misstatements.
In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no material, corrected financial statement misstatements.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to CPA’s basic financial statements or the auditor’s report. No such disagreements arose during the course of the audit.

**Representations Requested from Management**

We have requested certain written representations from management, which are included in the management representation letter dated December 20, 2018.

**Management’s Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with CPA, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as CPA’s auditors.

This report is intended solely for the information and use of the Board of Directors, management and others within CPA and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

BCA Watson Rice, LLP
November Revenue of $4.5M accounted for 131 GWh in net retail consumption. This comes in on track with budget, but due to SCE billing issues, the final meter read adjustments may vary more that usual.

Margins dropped this month as winter rates went into effect. Note that for the YTD, Margin is still favorable primarily due to delayed timing of REC deliveries.

The chart to the right shows volume comparison to budgeted volume.

The charts below display cumulative revenue and margin $ vs budget.

YTD Revenue $2.9M (6%) below budget. YTD Margin Dollars exceeding budget by $5.6M.

Data Definitions:
CUSTOMERS: Invoiced: Unique Account Numbers billed during Calendar Month. Total and Opt-out from Calpine Exec Summary, includes opt out and ~2,800 unoccupied.
REVENUE: Total Company Total Revenue net of bad debt, excluding interest income.
SALES VOLUME: Total Electricity Usage from estimated meter reads, net of meter adjustments to prior periods invoiced in the current month.
ELECTRICITY SALES: Electricity Sales, excludes Interest and Other Income.
COST OF ELECTRICITY: Direct Energy Expenses, excludes Scheduling Coordinator, includes Wholesale sales as reduction in cost.
MARGIN $: Electricity Sales less Cost of Electricity.
CASH & CASH EQUIV: Total Checking / Savings, including cash held by county, less restricted cash in lockbox.

Recognized: see sales volume above
T55/T12: Best available estimate of Meter usage data, as submitted to CAISO.
DECEMBER 2018 RMT REPORT

Key Actions

- Established a voting protocol for the Risk Management Team (RMT) to approve/reject potential transactions that fall within RMT approval authority per the Energy Risk Management Policy (ERMP). To approve a transaction, a majority of RMT members, including the Executive Director, must provide an affirmative vote. The Executive Director retains discretion to execute transactions under his authority pursuant to the limits defined in the ERMP.

- Reviewed 2018 year-end compliance with hedge targets by product. Deviations summarized below.

- Reviewed open positions and approved the following:
  - Purchase of energy hedges covering May through November 2019
Policy Compliance

<table>
<thead>
<tr>
<th>Policy Deviation</th>
<th>Required Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPA is short of procurement targets for PCC1 and PCC2 energy in 2020 and 2021. CPA ran a 2019-2023 clean energy RFO and has purchased enough PCC1 and PCC2 to meet 2019 targets but did not receive sufficient bids to meet 2020 and 2021 targets.</td>
<td>CPA will issue another short-term clean energy RFO in the beginning of 2019. CPA is also engaging in bilateral discussions with counterparties.</td>
</tr>
<tr>
<td>CPA is short of target for RA procurement in 2021.</td>
<td>CPA will issue an RA RFO in the beginning of 2019 for needs in 2021 and beyond; however, some regulatory uncertainty exists related to pending CPUC actions on RA procurement.</td>
</tr>
</tbody>
</table>

JANUARY 2019 RMT REPORT

Key Actions

- Discussed market fundamentals noting that energy prices have fallen over the last month due to mild weather throughout the US
- Reviewed monthly and annual hedging targets for energy for 2019-2022 and approved targets within the parameters specified in the ERMP
- Reviewed annual hedge targets for PCC1, PCC2 and carbon free for 2020-2024 and approved targets within the parameters specified in the ERMP
- Reviewed and approved a tentative 2019 procurement schedule consistent with the established hedge targets

Policy Compliance

No new policy compliance issues to report.
To: Clean Power Alliance (CPA) Finance Committee
From: David McNeil, Chief Financial Officer
Approved By: Ted Bardacke, Executive Director
Subject: Financial Reserve Policy
Date: January 23, 2019

SUMMARY
Staff will present a Draft Financial Reserve Policy (attached) to the Finance Committee to solicit its review and input. Staff plans to present the Draft Reserve Policy to the Board on February 7, 2019 for discussion, and present a final proposed Reserve Policy for consideration at the following Board meeting.

At CPA’s Board retreat in June 2018, Board members discussed a future Reserve Policy and received research regarding how other CCAs designed their reserve policies. This Draft Reserve Policy incorporates an assessment of CPA’s financial needs, expectations of stakeholders and energy market participants, best practices incorporated in reserve policies of other CCAs, as well as input from the Board at the June 2018 retreat.

Were it to be approved, the Draft Reserve Policy would have an indirect fiscal impact by providing a policy framework for adding to and maintaining Reserves as part of CPA’s annual budget and rate setting processes.
The Reserve calculation methodology appears in Table A below for information and illustrative purposes and is intended to be read in conjunction with the Draft Reserve Policy.

<table>
<thead>
<tr>
<th>Table A</th>
<th>FY 2017/18</th>
<th>FY 2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reserve Projections</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A Reserve target minimum (% of G)</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>B Reserve target maximum (% of G)</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>C=AxG Reserve target minimum ($)</td>
<td>74,768,000</td>
<td>259,931,000</td>
</tr>
<tr>
<td>D=BxG Reserve target maximum ($)</td>
<td>124,614,000</td>
<td>433,218,000</td>
</tr>
<tr>
<td>E Actual &amp; Estimated Reserves ($)</td>
<td>(2,677,000)</td>
<td>30,323,000</td>
</tr>
<tr>
<td>F=E/G Reserve %</td>
<td>N/A</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

**Annual Expenses**

<table>
<thead>
<tr>
<th>FY 2018/19</th>
<th>FY 2019/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated annual operating expenses and cost of energy for the upcoming fiscal year</td>
<td>249,228,000</td>
</tr>
</tbody>
</table>

Attachment: 1) Draft Reserve Policy
Financial Reserve Policy

DRAFT

1. PURPOSE

Adequate reserves will enable CPA to satisfy working capital requirements, procure energy at competitive rates, adhere to contractual covenants, obtain and maintain an investment grade credit rating, cover unanticipated expenditures, and support rate stability.

The Reserve Policy outlines the appropriate target levels (minimum and maximum) of reserves. Reserves are defined as the Net Position which represents the difference between CPA’s assets and liabilities as defined by the Government Accounting Standards Board and consistent with generally accepted accounting principles.

2. POLICY

Reserve Target Levels
CPA shall grow reserves to maintain a minimum reserve target equal to 30% of total operating budget expenditures, with a goal of increasing the reserve to a maximum reserve target of 50% of total operating budget expenditures. Reserves shall not exceed 75% of total operating budget expenditures.

Operating budget expenditures consist of operating expenses and the cost of energy. Reserve percentages and target percentages represent reserves divided by the following years’ total operating budget expenditures.

Funding the Target Amount
Funding reserves will come from an excess of revenues over expenditures. The contribution to reserves is determined through CPA’s budgeting and rate setting processes and events impacting revenues and expenditures that occur during the year.

Excess Reserves
If reserve funds exceed the maximum level, CPA will consider enhancing programs expenditures, capital improvements, paying down debt, and reducing rates.

Periodic Review of Targets
If CPA’s risks decline or new risk factors emerge as a result of changes in the industry, legislation, or economic conditions, the reserve target will be reviewed, and the funding level may be adjusted accordingly.

Reporting
Reserve levels will be monitored during the fiscal year and reported in CPA’s annual audited financial statements.