



REVISED

**MEETING of the Finance Committee of the
Clean Power Alliance of Southern California
Wednesday, August 26, 2020**

10:45 a.m.

Listen to the Finance Committee meeting (Audio Only):

Call: (415) 930-5321 Conference Code: 978-732-862

All Participants must press “#” to join the meeting.

SPECIAL NOTICE REGARDING PUBLIC COMMENT: Pursuant to Paragraph 11 of Executive Order N-29-20, executed by the Governor of California on March 17, 2020, and as a response to mitigating the spread of Coronavirus known as COVID-19, the Finance Committee will allow members of the public to participate and address Committee Members during the meeting via teleconference only. Below are the ways to participate:

- Members of the public are encouraged to submit written comments on any agenda item to clerk@cleanpoweralliance.org up to four hours before the meeting.
- If you desire to provide public comment during the meeting, you must contact staff at (213) 713-5995 at the beginning of the meeting but no later than immediately before the agenda item is called.
 - You will be asked to provide a phone number to call you during the meeting. You will also be asked for your name (or other identifying information) similar to filling out a speaker card so that you can be called when it is your turn to speak.
 - You will be called during the comment section for the agenda item on which you wish to speak.
 - You may be put on hold until your name is called by CPA staff.
 - You will be able to speak to the Committee for the allotted amount of time. Please be advised that all public comments must otherwise comply with our Public Comment Policy.
 - Once you have spoken, or the allotted time has run out, the phone call will be discontinued.

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 the Clerk of the Board at clerk@cleanpoweralliance.org or (213) 713-5995. 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.

Clean Power Alliance Finance Committee
August 26, 2020

PUBLIC COMMENT POLICY: *The General Public Comment 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 Consent Agenda and Regular Agenda shall be heard at the time the matter is called. Comments on items on the Consent Agenda are consolidated into one public comment period.*

Each speaker is customarily limited to two (2) minutes (in whole minute increments) per agenda item with a cumulative total of five (5) minutes to be allocated between the General Public Comment, the entire Consent Agenda, or individual items in the Regular Agenda. Please refer to Clean Power Alliance Policy No. 8 – Public Comments for more information.

CALL TO ORDER & ROLL CALL

GENERAL PUBLIC COMMENT

CONSENT AGENDA

1. [Approve Minutes from the July 22, 2020 Finance Committee Meeting](#)
2. [Receive and File June and July 2020 Risk Management Team Report](#)
3. [Receive and File July CPA Investment Report](#)

REGULAR AGENDA

4. [Report from the Chief Financial Officer](#)
5. [Review and Recommend to the Board of Directors the Establishment of a Fiscal Stabilization Fund and Approval of a Fiscal Stabilization Policy](#)

COMMITTEE MEMBER COMMENTS

ADJOURN – NEXT MEETING SEPTEMBER 23, 2020

Public Records: *Public records that relate to any item on the open session agenda for a Committee 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, or a majority of, the members of the Committee. Public records are available for inspection online at www.cleanpoweralliance.org/agendas.*

[Return to Agenda](#)

MEETING of the Finance Committee of the
Clean Power Alliance of Southern California
Wednesday, July 22, 2020, 11:00 a.m.

MINUTES

The Finance Committee conducted this meeting in accordance with California Governor Newsom's Executive Order N-29-20 and COVID-19 pandemic protocols.

WELCOME & ROLL CALL

Chair Julian Gold called the meeting to order at 11:02 a.m. and Clerk of the Board, Gabriela Monzon, conducted roll call.

Roll Call			
Beverly Hills	Julian Gold	Committee Chair	Remote
Carson	Reata Kulcsar	Committee Member	Remote
Claremont	Corey Calaycay	Committee Member	Remote
Rolling Hills Estates	Steve Zuckerman	Committee Member	Remote
Santa Monica	Pam O'Connor	Committee Member	Remote

All votes are unanimous unless otherwise stated.

GENERAL PUBLIC COMMENT

There was no public comment.

CONSENT AGENDA

1. Approve Minutes from the May 27, 2020 Finance Committee Meeting
2. Receive and File May 2020 Monthly Financial Dashboard
3. Receive and File May 2020 Risk Management Team Report
4. Receive and File Audit Planning Letter from Baker Tilly

Motion: Committee Member Zuckerman, Rolling Hills Estates

Second: Committee Member Kulcsar, Carson

Vote: The consent agenda was approved by a roll call vote.

REGULAR AGENDA

5. Report from the Chief Financial Officer
David McNeil, Chief Financial Officer, provided an update on the organization's May financial performance touched on year to date results, and discussed the higher than expected load due to seasonal heat waves, emphasizing the relationship between revenues and warmer weather. Mr. McNeil also reported on treasury operations and cashflow, remittances, and accounts receivable aging; and briefly reviewed the Local

Agency Investment Fund (LAIF) report, adding that CPA was diversifying where reserves were held.

In response to Committee Member's questions, Mr. McNeil noted that Southern California Edison (SCE) had benchmarks for 90-day receivables that staff used as a standard for comparison.

6. Review and Provide Input on Proposed Enhancements to Financial Reporting

Mr. McNeil discussed the proposed changes to the financial reporting, emphasizing that it was intended to support Committee Members and similarly, Board Members, in their oversight role. Mr. Bardacke added that CPA is building the staffing resources to provide this type of detailed reporting.

Committee Members expressed satisfaction with the content of the proposed financial reporting.

In response to Chair Gold's question regarding the inclusion of information on the aging of accounts receivable, Mr. McNeil noted that it might be premature to include it but asked for more time to consider the implications of doing so. Mr. Bardacke added that the select financial indicators on page 22 were intended to provide some of that aging accounts receivable information. In response to Committee Member Zuckerman's question, Mr. McNeil noted that CPA could potentially receive a credit rating in 2-3 years.

COMMITTEE MEMBER COMMENTS

None.

ADJOURN

Committee Chair Gold adjourned the meeting at 12:02 p.m.

Staff Report – Agenda Item 2

To: Clean Power Alliance (CPA) Finance Committee

From: Matthew Langer, Chief Operating Officer

Approved by: Ted Bardacke, Executive Director

Subject: Risk Management Team Report

Date: August 26, 2020

JUNE 2020 RMT REPORT

Key Actions

- Reviewed CPA internally generated load forecast, including the effect of Shelter in Place on residential and commercial load, particularly during heat events. Discussed new data systems that allow CPA to access more historical data than in previously developed forecasts.
- Reviewed short-term energy position for balance of month July through December and approved energy hedge solicitations.
- Reviewed long-term energy position and approved energy hedge solicitations for 2021 – 2023.
- Reviewed renewable energy and carbon free positions and approved a solicitation for PCC1 and PCC2 renewable energy products for 2020-2022.
- Reviewed Resource Adequacy (RA) position and approved an RA solicitation for 2021-2023 system and flex RA.
- Discussed implications of CPUC’s import RA decision on CPA’s RA portfolio.

Policy Compliance

No new policy compliance issues to report for June.

JULY 2020 RMT REPORT

Key Actions

- Reviewed short-term energy position for September through December and approved energy hedge solicitations.
- Reviewed long-term energy position and approved energy hedge solicitations for 2021– 2022.

- Reviewed scenarios related to long-term contracts planned for 2023 and impacts to hedging targets.
- Reviewed renewable energy and carbon free positions and approved a potential PCC1 transaction.
- Reviewed RA position and approved an RA solicitation for CPA's year-ahead compliance.

Policy Compliance

No new policy compliance issues to report for July.

ATTACHMENT

None.

Staff Report – Agenda Item 3

To: Clean Power Alliance (CPA) Finance Committee
From: David McNeil, Chief Financial Officer
Approved by: Ted Bardacke, Executive Director
Subject: CPA Investment Report
Date: August 26, 2020

RECOMMENDATION

Receive and File.

ATTACHMENT

- 1) [July Investment Report](#)

**Clean Power Alliance
Investment Report
July 2020**

Fund Name: Local Agency Investment Fund

Beginning Balance	2,500,000
Interest Paid (1)	2,207
Deposits	-
Withdrawals	-
Ending Balance	2,502,207
Interest Earned (2)	1,956
Ending Balance	2,502,207
Average Monthly Effective Yield	0.92%

1. Interest is paid quarterly effective 15 days following the end of the quarter

2. Interest earned is based on daily compounding, account balances and monthly effective yields published by LAIF



Staff Report – Agenda Item 4

To: Clean Power Alliance (CPA) Finance Committee
From: David McNeil, Chief Financial Officer
Subject: Report from the Chief Financial Officer
Date: August 26, 2020

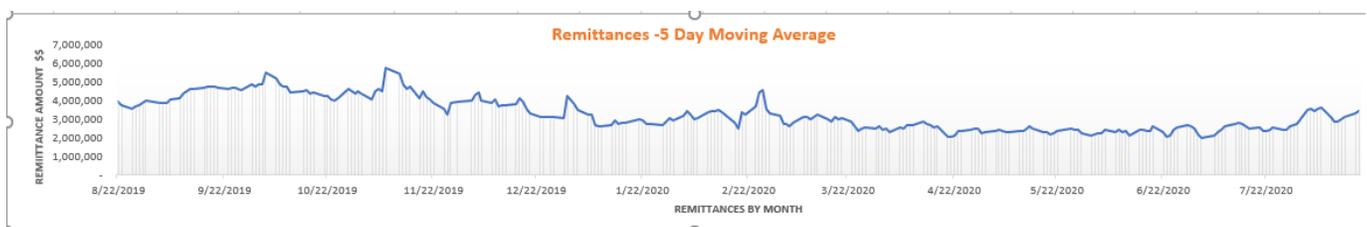
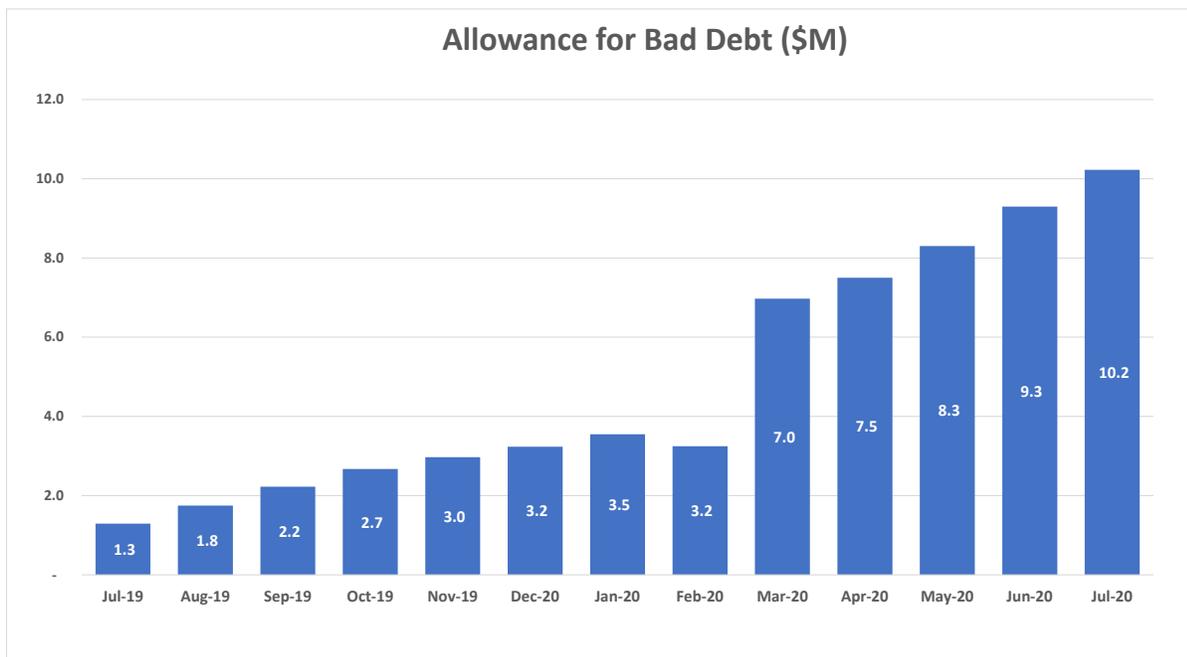
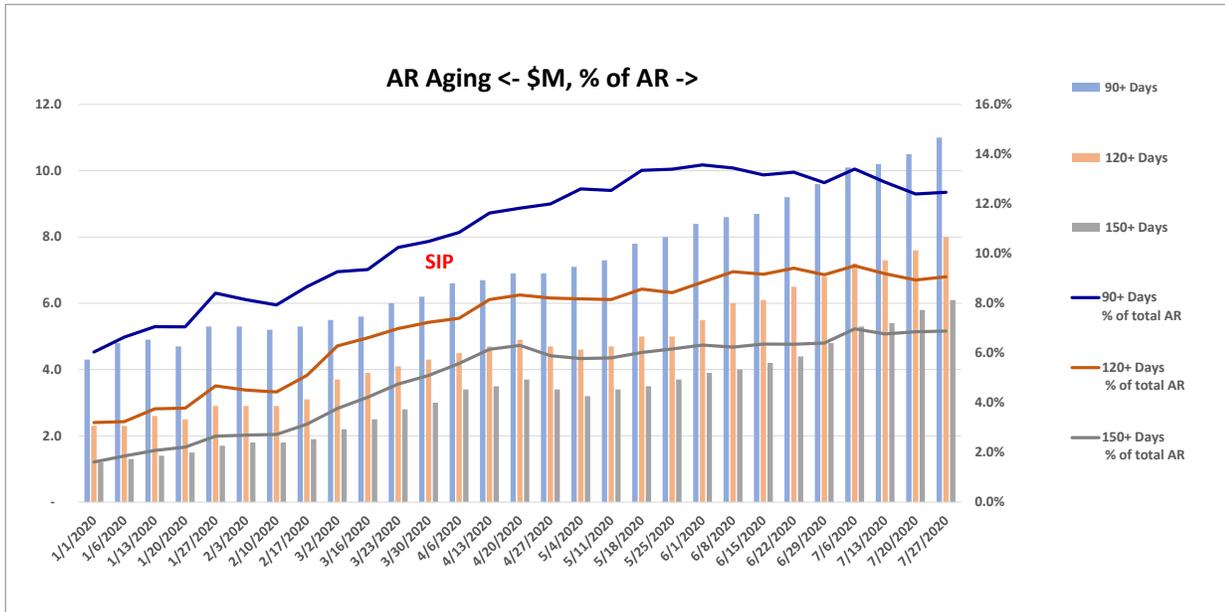
The Chief Financial Officer will provide an oral report on the following items:

- Preliminary FY 2019/2020 results
- Audit Update
- Fiscal impacts of August 2020 heat wave
- Borrowing and treasury operations
- Customer payments and accounts receivable aging

ATTACHMENT

- 1) [July 2020 Customer Payment Dashboard](#)

Clean Power Alliance
 Customer Payment Dashboard
 Updated 7/28/2020





Staff Report – Agenda Item 5

To: Clean Power Alliance (CPA) Finance Committee
From: David McNeil, Chief Financial Officer
Approved by: Ted Bardacke, Executive Director
Subject: Fiscal Stabilization Fund Policy
Date: August 26, 2020

RECOMMENDATION

Recommend to the Board of Directors the establishment of a Fiscal Stabilization Fund and approval of a Fiscal Stabilization Policy.

DISCUSSION

Staff proposes that the Board establish a Fiscal Stabilization Fund (“Fund”). The Fund would allow CPA to defer revenue in years when financial results are strong and apply deferred revenue in years when financial results are negatively impacted. Examples of events that may negatively impact financial results are customer delinquencies and write offs arising from the 2020 recession, reduced electricity demand due to Shelter in Place, sudden shocks in energy markets due to wildfires or disruption of grid assets and increases in the PCIA. Deferring revenue in “good” years would allow CPA to apply these funds in “bad” years, equipping CPA with a tool to minimize rate shocks, to maintain compliance with financial covenants, and to achieve annual budget objectives.

The Fund would be governed by the Fiscal Stabilization Policy (“Policy”) as described in Attachment 2.

Key features of the Policy include:

- The Fund would be accounted for under Government Accounting Standards Board (GASB) Statement 62 and GASB Statement 63.

- Deferral of current revenue and a transfer into the Fund would reduce revenue and the change to the net position in that year by the same amount. Transfers from the Fund would increase revenues and change in net position in the year of the transfer.
- The Fund balance would be recorded on the Statement of Net Position. Changes in fund balance would be recorded on the Statements of Revenues, Expenses and Changes in Net Positions.
- The Executive Director is authorized to make transfers in accordance with the objectives and conditions outlined in the Policy.
- The Policy does not authorize the expenditure of funds. The Fund balance is capped at 10% of annual revenue.

If the Policy is adopted, CPA plans to transfer funds to the Fund as of June 30, 2020 and prior to the close of its June 30, 2020 fiscal year end. Funds maintained within the Fiscal Stabilization Fund would be subject to CPA's Investment Policy.

CPA's auditor, Baker Tilly, has reviewed the proposed Policy and is satisfied that it meets conditions required by GASB Statements 62 and 63. Staff has discussed stabilization funds with a major US rating agency and with other CCAs that have investment grade rating and believe that stabilization funds are viewed as credit positive by rating agencies.

FISCAL IMPACT

The proposed Policy does not authorize the expenditure of funds or inflows and outflows of cash to or from CPA.

ATTACHMENTS

- 1) [Stabilization Fund Presentation](#)
- 2) [Proposed Policy No. 16 Fiscal Stabilization Fund](#)



Item 5

Fiscal Stabilization Fund

August 26, 2020

Summary

- Staff seek Finance Committee input and support for the establishment of a Fiscal Stabilization Fund (“Fund”)
- The establishment of the Fund would:
 - Allow CPA to defer revenue in years when financial results are strong and apply those revenues to years in which revenues would otherwise fall short of organizational objectives
 - Serve as a tool to help mitigate potential economic, climatic, regulatory, energy market and other shocks that would otherwise compromise CPA’s financial performance
- Establishment of the Fund requires approval of a Fiscal Stabilization Policy (attachment 2) by CPA’s Board.
- Staff plans to defer revenues into the Fund that would otherwise be recorded in the year ending June 30, 2020. This requires Board action at its September 2020 meeting.

Stabilization Funds – Background

- Stabilization funds are commonly used by state and local governments, and local government agencies including CCAs and public electric utilities
- Government Accounting Standards Board guidance on stabilization fund accounting is well established
- Banks, credit rating agencies and investors in municipal debt are very familiar with stabilization funds and view them positively from a credit perspective
- CPA's auditor, Baker Tilly, has reviewed the proposed Fiscal Stabilization Fund policy framework and is comfortable with CPA's proposed approach from an accounting and control perspective
- Stabilization funds are used by agencies like CPA to help ensure compliance with credit covenants and to meet other financial and organizational objectives
- Stabilization funds are consistent with sound financial management

Fiscal Stabilization Fund Policy – Key Features

- The Fund balance is accounted for as “Deferred Resources” on CPA’s balance sheet and represents a quasi liability. Transfers to and from the fund are recorded as increases or decreases in operating revenues during a particular fiscal year.
- Executive Director is authorized to make transfers to and from the Fund provided certain conditions are met:
 - Increase in the net position would fall below or exceed 4% of revenues in the absence of a transfer
 - The Fund balance must be positive in order to transfer amounts to revenues
 - Fund balance does not exceed 10% of CPA revenues
- All transfers and fund balances are reported in CPA’s quarterly and annual financial statements
- The Policy does not authorize the expenditure of funds. Expenditures continue to be governed by the budgeting process.

Fiscal Stabilization Fund Policy – Mechanics

Transfer to the Fund

Deferral of current revenue and a transfer into the Fund reduces revenue and the change in net position in that year by the same amount.

Example 1:

A	Annual revenues:	\$750 million
B=Ax4%	4% increase to net position:	\$30 million
C	Actual increase in net position before transfer:	\$32 million
D=C-B	Eligible to transfer to the Fund:	\$2 million
E	Operating Revenues: Increase in Fund Balance (1)	(\$2 million)
F	Deferred Resources: Fund Balance (2)	\$2 million
G	Increase in net position	\$30 million

(1) Income Statement – () represents negative revenue
(2) Balance Sheet Liability – assuming opening Fund balance is \$0

Fiscal Stabilization Fund Policy – Mechanics

Transfer from the Fund

Transfer from the Fund and recognition of revenue increases revenue and the change in net position and reduces the Fund balance.

Example 2:

A	Annual revenues:	\$750 million
$B = A \times 4\%$	4% increase in net position:	\$30 million
C	Actual increase in net position before transfer:	\$28 million
D	Fund balance before transfer:	\$2 million
$E = C - B$	Eligible to transfer from the Fund:	\$2 million
F	Operating Revenues: Reduction in Fund Balance (1)	\$2 million
G	Deferred Resources: Fund Balance (2)	\$0
H	Increase in net position	\$30 million
	(1) Income Statement = increase in revenue	
	(2) Balance Sheet Liability – assumes opening Fund balance is \$2 million	

Fiscal Stabilization Fund in Practice - Transfers to the Fund

- CPA has not closed its FY 2019/20 statements and final results are not yet available
- FY 2019/20 increase in net position will exceed CPA's budget target
- Results were favorably impacted by factors including lower than budgeted opt outs, settlements with SCE, the sale of CRRs in the November 2019 auction, a small rate increase in September 2019, low energy market prices, strong Q4 demand for electricity during shelter in place
- Strong results in FY 19/20 create an opportunity for CPA to defer FY 2019/20 revenues into a stabilization fund and still meet its 4% target

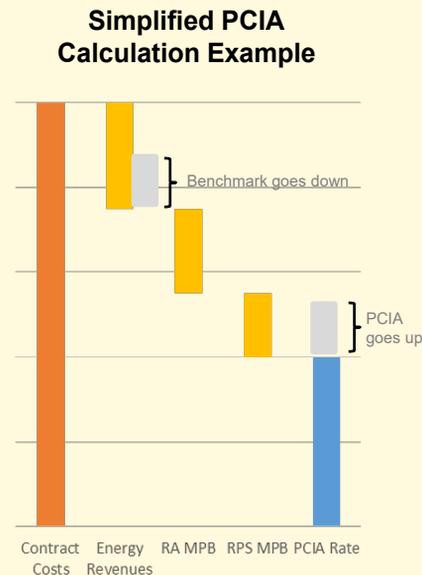
Fiscal Stabilization Fund in Practice – Transfers from the Fund

- Once a fund balance is established, CPA could use Fund to mitigate potential adverse impacts on CPA financial performance arising from the following risks including but not limited to the following:
- **Bad Debt:** The scale of the current recession is significant and CPUC action prohibiting customer disconnections and late payments fees is unprecedented. The impact of these events on CPA bad debt is difficult to predict and may give rise to unexpected losses should customers default at higher rates than expected.
- **Energy Markets and CPA's Cost of Energy:** The current heat wave and exposure to the spot market is negatively impacting CPA financial performance. While the impact appears manageable, volatile weather can have a significant negative impact on CPA financial performance.

Fiscal Stabilization Fund in Practice – Transfers from the Fund

- Energy Markets and Rate Competitiveness:

- Falling energy market prices allow CPA to acquire energy less expensively and potentially pass on these savings to customers.
- Falling prices can also increase the PCIA charge paid by CPA customers because it lowers Market Price Benchmarks. (see chart to right)
- When Brown Power prices are low or renewables or RA are inexpensive, PCIA rate goes up to offset SCE's revenue shortfall.
- The increase in the PCIA may exceed the positive impact low prices have on CPA's cost of energy and reduce CPA rate competitiveness.



Fiscal Stabilization Fund in Practice – Transfers from the Fund

- 2020 PCIA Undercollection and Rate Competitiveness:
 - PCIA rates are expected to rise in 2021 due, in part, to an undercollection in the PCIA in 2020
 - The undercollection is due to the impact of capped PCIA rates and may total as much as \$80 million in charges to CPA customers that would have to be amortized over future years.
 - CPA could use transfers from the Fund to increase revenue and help maintain rate competitiveness by reducing rates to offset some or all of the PCIA increase
- CPA operates in dynamic markets. The proposed Fiscal Stabilization Fund is intended to provide another “tool in the toolbox” CPA can use to prudently manage risk

Thank You! Questions?



[Return to Staff Report](#)

Policy Title	Fiscal Stabilization Fund		
Policy Number	16	Effective:	

Proposed

This Fiscal Stabilization Fund Policy (Policy) establishes guidelines for the management and administration of the Fiscal Stabilization Fund (Fund) at Clean Power Alliance of Southern California (CPA).

I. Objectives

The Fund allows CPA to defer revenue in years when financial results are strong and to apply deferred revenue in years when financial results are negatively impacted by uncontrollable events. Deferring revenue in years when financial results are strong will allow CPA to apply these funds in years when financial results are less robust, providing CPA with a tool to minimize rate shocks, maintain compliance with financial covenants, and achieve annual budget objectives.

Transfers to or from the Fund are expenditure neutral and no authority to expend funds is provided under this Policy.

II. Accounting

A. Government Accounting Standards Board Standard

The Fund is accounted for under Government Accounting Standards Board (GASB) Statement 62 and GASB Statement 63. GASB Statement 63 codifies and standardizes “the presentation of deferred outflows of resources and deferred inflows of resources and their effects on [state and local government’s] net position.”

B. Accounting of Fund Transfer

Deferral of current revenue and a transfer into the Fund reduces revenue and the change in net position in that year by the same amount. Transfers from the Fund increase revenues and the change in net position in the year of the transfer. Net

position is the difference between assets and liabilities as reported in CPA's financial statements.

III. Reporting

The Fund balance is recorded on the statement of net position in a separate section following liabilities entitled Deferred Inflows of Resources. Transfers to and from the Fund are recorded in the Statements of Revenues, Expenses and Changes in Net Position under Operating Revenues.

The Treasurer shall report all transfers to and from the Fund to the Finance Committee and the Board of Directors in the Quarterly or Annual Financial Statements for the applicable time period in which the transfer occurred.

IV. Authorized Transfers

The Executive Director is authorized to exercise discretion and make transfers to and from the Fund consistent with the Policy objectives and under the following two conditions:

- A. Transfers when increases in the Net Position would exceed 4% in the absence of a transfer: Transfers to the Fund may occur when increases to the net position would exceed 4% of revenues in the absence of a transfer, provided the transfer does not result in a contribution to the net position that is less than 4% of revenues.ⁱ

- B. Transfers when increases in the Net Position would fall below 4% of revenues in the absence of a transfer from the Fund: Transfers from the Fund may occur when funds are available in the Fund and actual or anticipated increase in the net position would fall below the 4% of revenues in the absence of a transfer from the Fund.ⁱⁱ

V. Maximum Fund Balance

The fund balance is capped at 10% of CPA annual revenues.

VI. Fund Holdings and Investments

Fund balances are not required to be held in a separate account and may be commingled with other funds held by CPA. All fund balances are subject to CPA's Investment Policy.

VII. Policy Administration

The Treasurer is the officer in charge of the administration of this Policy.

ⁱ Example 1:

A	Annual revenues:	\$750 million
B=Ax4%	4% increase to net position:	\$30 million
C	Actual increase in net position before transfer:	\$32 million
D=C-B	Eligible to transfer to the Fund:	\$2 million

In the above example the actual increase to the net position is \$32 million and the Executive Director is authorized to transfer up to \$2 million to Fund.

ⁱⁱ Example 2:

A	Annual revenues:	\$750 million
B=Ax4%	4% increase in net position:	\$30 million
C	Actual increase in net position before transfer:	\$28 million
D	Fund balance before transfer:	\$2 million
E=C-B	Eligible to transfer from the Fund:	\$2 million

In the above example the actual increase in the net position before transfers is \$28 million, the Fund balance before transfer is \$2 million and the Executive Director is authorized to transfer the \$2 million from the Fund to operating revenues.