MINUTES

MEETING of the Finance Committee of the

Clean Power Alliance of Southern California

Wednesday, March 24, 2021, 11:00 a.m.

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

CALL TO ORDER & ROLL CALL

Chair Julian Gold called the meeting to order at 11:00 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 February 24, 2021 Finance Committee Meeting
2. Receive and File February 2021 Risk Management Team Report
3. Receive and File February 2021 CPA Investment Report
4. Receive and File January 2021 Financial Dashboard

Motion: Committee Member Zuckerman, Rolling Hills Estates
Second: Committee Member Calaycay, Claremont
Vote: The consent agenda was approved by a roll call vote.

REGULAR AGENDA

This item was presented out of order.

6. Review River City Bank (RCB) Proposed Terms and Recommend Approval of an Amended and Restated Credit Agreement to the Board of Directors

Mr. McNeil provided a summary of the item, noting that CPA's two-year, $37 million Credit Agreement with River City Bank (RCB) expires on March 31, 2021. Mr. McNeil explained the proposed terms and staff recommendation, noting that the terms yield an estimated annual cost savings of about $60,000.

In response to Committee Member Zuckerman's question regarding the non-utilization fee, Mr. McNeil clarified that it is to be applied to the difference between $37 million and the amount outstanding in letters of credit. Chair Gold asked if credit covenants would change substantially and commented that CPA should consider other banking relationships as the organization grows. Mr. McNeil responded that covenants would change in a beneficial direction, to focus on tangible net worth, effectively combining the value of the net position and the amount in the fiscal stabilization fund, thereby providing flexibility in reducing the fund and not impacting CPA's credit standing.

Committee Member Calaycay expressed support for broadening CPA's banking partners.

Motion: Committee Member Calaycay, Claremont
Second: Committee Member Kulcsar, Carson
Vote: Item 6 was approved by a roll call vote.

5. Report from the Chief Financial Officer

David McNeil, Chief Financial Officer, provided a summary of CPA's year-to-date financial results, and stated that CPA recorded a $4.6 million loss in January 2021, $500,000 below budget for the month. CPA expects losses in fiscal year (FY) Quarter 3 (Q3) totaling $14 million consistent with its budget projections. Mr. McNeil stated that full year net income is expected to come in below budget due primarily to rising energy costs, however, CPA should continue to build reserves to maintain the confidence of stakeholders and investors in long-term renewable energy projects. Mr. McNeil concluded with an overview of CPA's 2021 budget and rate setting process and timelines, including presentations on rate setting options and budget priorities.

7. Review FY 2021/22 Outlook and Cost Drivers

Mr. McNeil explained that some factors which have placed upward pressure on CPA's costs include Resource Adequacy (RA) and energy market prices, bad debt expense, and congestion revenue rights (CRR) market values. RA is a regulatory compliance product, which CPA meets by contracting with generators that make capacity available to the grid at a specific megawatt capacity at specific times of the year. Mr. McNeil described energy market dynamics which have impacted cost, including increasing frequency of heat events; the anticipated retirement of generating assets tightening capacity; and 2020's summer extreme heat events that caused brownouts and extreme market prices. Mr. McNeil described increasing weather volatility trends and frequency of extreme heat events over the last 35 years; reviewed "on-peak" pricing; and discussed forward pricing, noting that the market is particularly concerned with this summer. The Energy Risk Management Policy (ERMP) has reduced CPA's exposure to extreme price volatility; CPA is not perfectly hedged due to load and resource variability, resulting in some exposure to spot market prices during peak hours. Together, net energy costs are expected to be $187 million higher than net energy costs included in the FY 2020/21 budget. RA costs have sharply increased in 2021, 72% higher than costs in FY 20/21, due to tight supply, specifically in the Pacific Northwest, exacerbated by more restrictive regulations by the California Public Utilities Commission (CPUC). Mr. McNeil added that RA supply will be negatively strained through 2025, with the remaining once-through cooling gas fleet and the Diablo Canyon nuclear facility expected to retire by 2024 and 2026, respectively. Storage additions are not expected to outpace retirements until the latter half of the decade. Mr. McNeil explained that CRRs allow CPA to lower congestion risk, however, CRR net revenues are expected to decline due to lower allocations by the California Independent System Operator (CAISO), leading to increased cost to procure CRRs to hedge congestion. Bad debt expense has increased sharply by $9.25 million, due to COVID-related economic impacts and the suspension of disconnections. CPA will encourage customers to participate in the CPUC-directed Arrearage Management Plan (AMP) administered by SCE, that may positively impact FY 21/22.

In response to Committee Member Kulcsar's question regarding SCE's ability to collect on bad debt as they would undercollections, Mr. McNeil clarified that SCE's bad debt is not recoverable through the PCIA or otherwise; however, SCE is able to make up for that loss through rates, but CPA's mechanism and ability to do so is somewhat different. Committee Member Calaycay expressed significant concern over the State's handling of retiring facilities before establishing adequate replacement resources; stated that the advancement of clean energy should be conducted in a balanced way as increases in rates negatively impact communities, especially low-income families; and asked if the lack of transparency in CAISO's handling of CRRs leaves room for unethical behavior. Matt Langer, Chief Operating Officer, explained that factors affecting the CRR outcome remain unknown and agreed that the State's handling of retiring facilities has been subpar, and the unfortunate lack of preparation is evident. Committee Member Zuckerman asked how the increasing projected costs in Q3 will affect rate increases and inquired as to the Community Advisory Committee's (CAC) feedback on rate increases; Mr. McNeil clarified that a large driver of projected rate increases are the Q3 energy cost projections and Mr. Langer stated that CAC members were most interested in the customer communication and education strategy. Committee Member O'Connor echoed concerns for the negative impact on ratepayers. Chair Gold asked why the legacy resources, which CPA customers pay for through the Power Charge Indifference Adjustment (PCIA) to Southern California Edison (SCE), are not considered RA resources for CPA. Mr. Langer explained that when units covered by the PCIA generate energy to the CAISO market, CPA does receive credits under the PCIA; but although its customers pay the above market costs for those contracts, CPA does not get anything in return. This inequity is what Senate Bill 612 is designed to address.

Committee Member Kulcsar asked if RA suppliers can overleverage their resources and if CPA also pays energy costs when using RA. Staff explained that RA suppliers undergo a triple verification process; and the extra 15% of expected capacity that CPA has, does not translate into the delivery of energy to CPA, but rather it is the right to count the capacity; Committee Member Zuckerman followed-up, asking if CPA must pay spot market prices when using RA. Staff confirmed it does, to the extent that it is not hedged. Responding to Committee Member Kulcsar's questions regarding strategies for controlling spot market prices, such as price gouging during state emergencies, Chair Gold noted that the regulatory bodies have more control over that and requested that staff bring back a discussion item to address the broader energy market. Mr. Langer added that the energy market price is part of CPA's hedges, essentially pre-paying at a known price.

COMMITTEE MEMBER COMMENTS

None.

ADJOURN

Committee Chair Gold adjourned the meeting at 12:21 p.m.