



Redwood Coast Energy Authority

633 3<sup>rd</sup> Street, Eureka, CA 95501

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## **BOARD OF DIRECTORS MEETING AGENDA**

**Humboldt Bay Municipal Water District Office**  
**828 7<sup>th</sup> Street, Eureka, CA 95501**

**December 17, 2018**  
**Monday, 3:15 p.m.**

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In compliance with the Americans with Disabilities Act, if you need assistance to participate in this meeting, please contact the Clerk of the Board at the phone number, email or physical address listed above at least 72 hours in advance.

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Pursuant to Government Code section 54957.5, all writings or documents relating to any item on this agenda which have been provided to a majority of the Board of Directors, including those received less than 72 hours prior to the RCEA Board meeting, will be made available to the public in the agenda binder located in the RCEA lobby during normal business hours, and at [www.redwoodenergy.org](http://www.redwoodenergy.org).

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PLEASE NOTE: Speakers wishing to distribute materials to the Board at the meeting are asked to provide 12 copies to the Clerk of the Board.

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### **OPEN SESSION** Call to Order

#### **1. REPORTS FROM MEMBER ENTITIES**

#### **2. ORAL COMMUNICATIONS**

This time is provided for people to address the Board or submit written communications on matters not on the agenda. At the conclusion of all oral and written communications, the Board may respond to statements. Any request that requires Board action will be set by the Board for a future agenda or referred to staff.

#### **3. CONSENT CALENDAR**

All matters on the Consent Calendar are considered to be routine by the Board and are enacted on one motion. There is no separate discussion of any of these items. If discussion is required, that item is removed from the Consent Calendar and considered separately. At the end of the reading of the Consent Calendar, Board members or members of the public can request that an item be removed for separate discussion.

**3.1** Approve Minutes of the November 19, 2018, Regular Board Meeting.

**3.2** Approve Disbursements Report.

**3.3** Accept Financial Reports.

#### **4. REMOVED FROM CONSENT CALENDAR ITEMS**

Items removed from the Consent Calendar will be heard under this section.

#### **5. OLD BUSINESS**

**5.1** RCEA Staffing Reorganization

Approve updated organizational chart and the associated elimination of the Director of Finance & Human Resources position and revision of the Director of Business Development and Planning position to the Director of Business Planning and Finance position.

## **6. NEW BUSINESS**

### **6.1 FY 16-17 Fiscal Audit**

Accept and approve Fiscal Year 2016-17 Independent Fiscal Audit Report.

## **COMMUNITY CHOICE ENERGY (CCE) BUSINESS (Confirm CCE Quorum)**

Items under this section of the agenda relate to CCE-specific business matters that fall under RCEA's CCE voting provisions, with only CCE-participating jurisdictions voting on these matters with weighted voting as established in the RCEA joint powers agreement.

## **7. OLD CCE BUSINESS**

### **7.1. Humboldt Sawmill Company Power Purchase Agreement**

Authorize the Executive Director to develop and execute, after review and approval of RCEA General Counsel, an amendment to the power purchase agreement with Humboldt Sawmill Company with the following contract adjustments:

- Extend contract end date to 2029.
- \$61/MWh unit price for the period March 1, 2019-December 31, 2019, thereafter increasing to a price of \$63/MWh, subject to an annual consumer price index adjustment beginning on the anniversary of the contract amendment in 2021.
- Increase in annual volume from 13.25 to 19.5 MW average (170,820 MWh/year) in September 2019.

### **7.2. Offshore Wind Project**

Approve Memorandum of Understanding with the Humboldt Bay Harbor, Recreation and Conservation District and authorize the Executive Director to execute all associated documents pending final review and approval of any revisions by RCEA Legal Counsel.

Authorize the Board Offshore Wind Subcommittee to approve RCEA comments for submission to the Bureau of Ocean Energy Management's call for information and nominations.

## **8. NEW CCE BUSINESS**

### **8.1 Energy Risk Management Policy**

Adopt resolution 2018-8 of the Redwood Coast Energy Authority adopting updates to the Energy Risk Management Policy.

### **8.2 2019-2021 Hydropower Procurement**

Authorize the Executive Director to approve hydropower purchases with 36-month contract terms with Morgan Stanley Capital Group and Tenaska.

## **END OF COMMUNITY CHOICE ENERGY (CCE) BUSINESS**

## **9. STAFF REPORTS**

## **10. FUTURE AGENDA ITEMS**

## **11. CLOSED SESSION**

**11.1** Public Employee Performance Evaluation, pursuant to Government Code Section 54957(b)(1): Executive Director

**11.2** Conference with labor negotiator pursuant to Government Code Section 54957.6:  
RCEA representative: Chair.  
Unrepresented employee: Executive Director

## **12. RECONVENE TO OPEN SESSION**

## **13. REPORT FROM CLOSED SESSION**

## **14. ADJOURNMENT**

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### **NEXT REGULAR MEETING**

Monday, January 28, 2019, 3:15 p.m.  
Humboldt Bay Municipal Water District Office  
828 7<sup>th</sup> Street, Eureka, CA 95501

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## **DRAFT BOARD OF DIRECTORS MEETING MINUTES**

**Humboldt Bay Municipal Water District Office  
828 7<sup>th</sup> Street, Eureka, CA 95501**

**November 19, 2018  
Monday, 3:15 p.m.**

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Chair Sheri Woo called a regular meeting of the Board of Directors of the Redwood Coast Energy Authority to order on the above date at 3:15 p.m. Notice of this meeting was posted on November 15, 2018. PRESENT: Austin Allison, Summer Daugherty (left at 5:35 p.m.), Estelle Fennell, Dean Glaser, Dwight Miller, Alternate Director Paul Pitino, Michael Sweeney, Frank Wilson, Chair Sheri Woo. ABSENT: Vice Chair Michael Winkler. STAFF PRESENT: Director of Business Development & Planning Lori Biondini, Power Resource Manager Allison Campbell, General Counsel Nancy Diamond, Director of Power Resources Richard Engel, The Energy Authority Consultant Jeff Fuller, Director of Demand-Side Management Lou Jacobson, Executive Director Matthew Marshall, Account Services Manager Mahayla Slackerelli, Clerk of the Board Lori Taketa, Attorney-at-Law Cyndy Day-Wilson.

### **REPORTS FROM MEMBER ENTITIES**

Director Miller stated that as the Trinidad City Council election results will not be final until December 6, this may be his last meeting.

### **CLOSED SESSION**

Chair Woo invited public comment on closed session item 2.1, "Closed session pursuant to Government Code section 54957: Public employee discipline/dismissal/release." No one came forward to speak. Chair Woo closed public comment.

The Redwood Coast Energy Authority Board of Directors retired to closed session at 3:17 p.m. to consider agenda item number 2.1.

The Board re-entered open session at 3:43 p.m. Chair Woo stated there was nothing to report from the closed session.

### **ORAL COMMUNICATIONS**

Jeff Hunnerlach of Operating Engineers Local 3 and Humboldt-Del Norte Counties Building and Construction Trades Council stressed the need for local apprenticeships and local hiring in RCEA's upcoming projects.

Chair Woo closed public comment.

## CONSENT CALENDAR

- 4.1 Approve Minutes of October 15, 2018, Board Meeting.
- 4.2 Approve Disbursements Report.
- 4.3 Accept Financial Reports.

Chair Woo invited public comment. No one came forward to speak. Chair Woo closed public comment.

**M/S: Wilson, Fennell: Approve consent calendar items.**

**The motion passed on a unanimous voice vote. Ayes: Allison, Daugherty, Fennell, Glaser, Miller, Pitino, Sweeney, Wilson, Woo. Noes: None. Absent: None. Abstentions: None.**

## OLD BUSINESS

### 6.1 Board Meeting Calendar Revision

The Board agreed to meet on the fourth Thursday of each month at 3:30 p.m. starting on February 28, 2019. The proposed meeting calendar will be on the January 28, 2019, agenda for adoption.

### 6.2 FY 2018-2019 1<sup>st</sup> Quarter Budget Summary (Information only, no action)

Executive Director Marshall gave the budget staff report and stated that the annual procurement was settled in September. That one-time, large expense will be spread out over the year. Mr. Marshall reported that the independent auditors completed the FY 2016-17 audit which will be presented at the December Board meeting. The Finance Subcommittee will meet prior to that meeting to review the audit.

Chair Woo invited public comment. Member of the public Ellen Golla inquired about what was included in RCEA's zero carbon purchases. It was clarified that zero carbon purchases were for out-of-state, large hydro and wind, and not biomass. Chair Woo closed public comment.

## NEW BUSINESS

### 7.1 PG&E Energy Watch 2019 Contract Work Authorization

Executive Director Marshall stated the contract work authorization was for an extension of RCEA's energy efficiency contract with PG&E into 2019, and that while the budget for these contracts statewide have decreased, there will be no disruption in programs in 2019 due to prior planning efforts.

Chair Woo invited public comment. No one came forward to speak. Chair Woo closed public comment.

**M/S: Miller, Pitino: Approve PG&E Energy Watch Contract Work Authorization and authorize the Executive Director to execute the agreement and any associated**

**documents contingent on final review and approval of any revisions by RCEA legal counsel.**

**The motion passed on a unanimous voice vote. Ayes: Allison, Daugherty, Fennell, Glaser, Miller, Pitino, Sweeney, Wilson, Woo. Noes: None. Absent: None. Abstentions: None.**

## **7.2 Airport Microgrid Project - Schweitzer Engineering Laboratories Proposal and Agreement**

Executive Director Marshall explained that this purchase agreement was with the supplier for the airport microgrid project's control system. RCEA will be reimbursed through California Energy Commission grant funds for this purchase. Construction will begin in 2020.

Chair Woo invited public comment. No one came forward to speak. Chair Woo closed public comment.

**M/S: Fennell, Glaser: Accept the Schweitzer Engineering Laboratories Proposal for Redwood Coast Energy Authority Arcata-Eureka Airport – Microgrid Project Rev. 1a and authorize the Executive Director to execute the agreement and all associated documents.**

**The motion passed on a unanimous voice vote. Ayes: Allison, Daugherty, Fennell, Glaser, Miller, Pitino, Sweeney, Wilson, Woo. Noes: None. Absent: None. Abstentions: None.**

## **7.3 RCEA Staff Reorganization**

Executive Director Marshall described the proposed Manager of Human Resources and Workforce Development position which would report directly to the Executive Director. The combination of the two areas of responsibility fit well for the organization's size and work.

The directors discussed hiring a consultant for these functions, funding for the position, and whether adding the ongoing cost of a full-time employee is prudent given the financial impacts of the PCIA decision. The directors requested a more complete picture of RCEA's proposed reorganization, and the proposed redistribution of the Finance and Human Resources Director position's responsibilities.

Chair Woo invited public comment. DG Fairhaven's Bob Marino, who spoke as a member of the public, supported RCEA having a human resource staff member familiar with current personnel trends. Chair Woo closed public comment.

**M/S: Pitino, Sweeney: Approve creation of a Manager of Human Resources and Workforce Development position.**

**The motion passed. Ayes: Allison, Miller, Pitino, Sweeney, Woo. Noes: None. Absent: None. Abstentions: Daugherty, Fennell, Glaser, Wilson.**

## COMMUNITY CHOICE ENERGY (CCE) BUSINESS

Chair Woo determined a CCE quorum was present.

### OLD CCE BUSINESS

#### 8.1. CCE-Funded Customer Program Process

Executive Director Marshall presented the Community Advisory Committee (CAC) Programs Subcommittee's customer program timeline and abstract process to the Board. Mr. Marshall reported that the subcommittee decided to aim limited outreach and proposal solicitation efforts for the 2019 funding cycle to the Board, the CAC and RCEA staff as a pilot project, and to increase solicitation efforts to the broader community for the 2020 funding cycle.

The directors expressed concern about limiting solicitation efforts and spoke in favor of the public bringing ideas to community representatives on the Board of Directors or Community Advisory Committee in order to participate in the process.

Chair Woo invited public comment. No one came forward to speak. Chair Woo closed public comment.

**M/S: Sweeney, Glaser: Adopt the Community Advisory Committee's recommended proposed timeline and high-level, two-step solicitation process for fiscal year 2019-2020 and 2020-2021 CCE-funded customer programs.**

**The motion passed on a unanimous voice vote. Ayes: Allison, Daugherty, Fennell, Glaser, Miller, Pitino, Sweeney, Wilson, Woo. Noes: None. Absent: None. Abstentions: None.**

### NEW CCE BUSINESS

#### 9.1 Energy Risk Management Plan Quarterly Report

Jeff Fuller of The Energy Authority (TEA) spoke on the CCE program's financial outlook. The decision to raise the Power Charge Indifference Adjustment (PCIA) or exit fee will negatively impact RCEA revenues unless program goal changes are made. Mr. Fuller spoke of the Bay Area CCE program MCE achieving an investment grade credit rating early this year and recommended that CCEs have 40-50% of annual operating costs in reserves. The positive market scenario goal of setting aside \$35 million in reserves by the fifth year of operation positively affects the program's borrowing ability.

The Directors discussed suspicion on the part of some community members that customers are being enrolled as RCEA customers only to be charged higher prices, and of the need for an incentive for people to participate in the CCE program.

Mr. Fuller and Staff Director Engel presented different scenarios and their impact on the program's ability to add to reserves.



The Directors expressed concerned about whether recent fire costs would be transferred to ratepayers.

Chair Woo invited public comment. Member of the public Bob Marino inquired about the likelihood of more Community Choice Aggregators affecting the exit fee in the future. Member of the public Ellen Golla requested information on how RCEA defines “greenhouse gas free,” and stated comparing costs based on U.S. and international data is not meaningful as power rates are regional. Staff stated they would supply Ms. Golla with more information if needed and that RCEA’s exit fee would not be affected. Chair Woo closed public comment.

**M/S: Miller, Pitino: Accept Energy Risk Management Plan quarterly report.**

**The motion passed on a unanimous voice vote. Ayes: Allison, Daugherty, Fennell, Glaser, Miller, Pitino, Sweeney, Wilson, Woo. Noes: None. Absent: None. Abstentions: None.**

**9.2 CCE Program Launch Period Guidelines Review and Discussion (no action)**

Staff Director Engel reviewed the Board’s CCE program launch period guidelines and the measures available to the Board to maintain a positive program cash flow:

- \$2 million customer rate savings goal
- Charging 3% less for electricity generation than PG&E’s charges
- Building RCEA’s financial reserves to \$35 million in the first 5 years under positive market conditions, or to \$10 million under adverse market conditions. RCEA’s reserves are currently below the straight-line trajectory needed to attain the adverse scenario goal.
- Bettering PG&E’s renewable power as a percentage of the power mix by 5%. RCEA has overperformed on its local biomass procurement goal. It costs \$3 million above market rates annually to purchase power from two biomass providers.

There was discussion about whether biomass could be considered a carbon-free power source.

Chair Woo invited public comment. Member of the public Ellen Golla inquired how RCEA determined its portfolio is comprised of 80% carbon free resources. Staff responded that RCEA’s current portfolio is comprised of 40% renewable portfolio standard and 40% non-renewable portfolio standard fossil fuel-free power. The 80% total includes local biomass power. Chair Woo closed public comment.

**9.3 Biomass Procurement Discussion**

At 5:22 p.m. Chair Woo recused herself from the biomass procurement and local renewable power solicitation discussions (agenda items 9.3 and 9.5). Chair Woo’s conflict arises from her employment at SHN Engineers and Geologists (SHN), which performs work for Humboldt Redwood Company and with Terra Gen. Chair Woo is also a SHN shareholder. Chair Woo does not supervise any employees working on the HRC or Terra Gen contracts and her interest in the HSC purchase agreement is remote. Director Wilson recused himself because he is a Humboldt Sawmill Company (HSC) employee at 5:25 p.m. Director Fennell volunteered to serve as Vice Chair Pro Tem.

The material change clause in RCEA's contract with HSC has been triggered by the California Public Utility Commission's (CPUC's) PCIA ruling. Staff's intent is to ask for a reduced price/MWh.

The Directors inquired whether the HSC contract would interfere with RCEA's ability to procure wind energy, stated their support of locally-sourced energy and a preference for longer-term contracts from cleaner sources. Staff was requested to develop different contract length options and provide a comparison of 5- and 10-year renegotiated contract benefits for RCEA.

Director Daugherty left at 5:35 p.m.

Director Fennell invited public comment. Members of the public commented that: paying prices higher than the true market price for biomass was a subsidy for the timber industry; that lumber demand determines biomass greenhouse gas emissions occurring somewhere on earth; that timber waste is the timber industry's responsibility and should be reflected in lumber prices; that biomass energy is not cleaner and greener; and that biomass is part of both RCEA's and PG&E's energy portfolios. Director Fennell closed public comment.

The Board discussed how local biomass energy production utilizes material left over after all commercially useful material has been removed, how other uses for this residual material need to be found, and how local biomass generates up to 30% of local power needs, creates jobs and is beneficial for fire safety.

**M/S: Pitino, Miller: Authorize staff to enter into negotiations to amend the power purchase agreement with Humboldt Sawmill Company pursuant to the terms of that agreement's Material Change clause.**

**The motion passed on a unanimous voice vote. Ayes: Allison, Fennell, Glaser, Miller, Pitino, Sweeney. Noes: None. Absent: Daugherty, Wilson, Woo. Abstentions: None.**

## **9.5 Local Renewable Power Solicitation**

Director Wilson returned to the dais at 5:45 p.m. Chair Woo continued to recuse herself from this discussion due to a conflict of interest as an SHN employee and shareholder. SHN is under contract to perform work for the Terra Gen wind project. Chair Woo does not, however, oversee staff work on the Terra Gen project.

Director of Power Resources Engel reported that due to the new SB 350 requirement, RCEA is required to enter into long term power procurement contracts. In order to procure local renewable energy, RCEA needs long term contracts and a competitive procurement process. Staff Director Engel presented a proposed solicitation for solar wind and small hydropower energy which reflected a preference for Humboldt County projects. Staff will bring a solicitation schedule to the Board at the next Board meeting.

Director Fennell invited public comment. No one came forward to speak. Director Fennell closed public comment.

**M/S: Wilson, Allison: Authorize staff to develop all solicitation materials for Board review and approval.**

**The motion passed on a unanimous voice vote. Ayes: Allison, Fennell, Glaser, Miller, Pitino, Sweeney, Wilson. Noes: None. Absent: Daugherty, Woo. Abstentions: None.**

**9.4 2019 Customer Rate Setting and Notification Process (Information only, no action)**

Chair Woo returned to the dais at 5:55 p.m.

Director of Power Resources Engel presented proposed electricity rates for 2019. RCEA is required to give customers 60 days to consider the proposed rates before they go into effect. Mr. Engel stated the rate change implementation date may change depending on when PG&E changes their rates. The proposed rates reflect a continued 3% discount on PG&E rates for RCEA customers as RCEA's rates, plus the PCIA or exit fee, need to be competitive with the PG&E rate.

**9.6 Feed-In Tariff Concept Presentation**

Power Resources Account Services Manager Mahayla Slackerelli presented a proposal for a feed-in tariff program to procure local, renewable energy from larger-than-residential but smaller-than-utility projects. Maximum total purchase would be for 6 MW at between \$80-100/MWh, with individual projects limited to 1 MW. The Board discussed zoning, eligible participants, and that other CCAs currently operate feed-in tariff programs. Staff will draft project implementation materials for Board approval.

Chair Woo invited public comment. No one came forward to speak. Chair Woo closed public comment.

**END OF COMMUNITY CHOICE ENERGY (CCE) BUSINESS**

**FUTURE AGENDA ITEMS**

Executive Director Marshall's annual employment agreement review will be discussed during the December meeting.

**ADJOURNMENT**

Chair Woo adjourned the meeting at 6:21 p.m.

Respectfully Submitted,

Lori Taketa  
Clerk of the Board

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**Redwood Coast Energy Authority**  
**Disbursements Report**  
**As of October 31, 2018**

Type	Date	Num	Name	Memo	Amount
Check	10/01/2018	ACH	CoPower	Premium #20181001	-346.50
Bill Pmt -Check	10/10/2018	8857	Kiwanis Club of Henderson Center	Women in Business Luncheon Sponsorship	-350.00
Bill Pmt -Check	10/10/2018	8858	ABC Office Equipment	September print charges/service contract.	-196.41
Bill Pmt -Check	10/10/2018	8859	Advanced Display & Signs	21 x 41 Poster	-107.78
Bill Pmt -Check	10/10/2018	8860	Bicoastal Media, LLC	Community Outreach Advertising	-495.00
Bill Pmt -Check	10/10/2018	8861	Bishop, M.	September mileage reimbursement	-36.63
Bill Pmt -Check	10/10/2018	8862	Bithell, M.	September mileage reimbursement	-23.70
Bill Pmt -Check	10/10/2018	8863	Boudreau, D.	Purchase reimbursement - Facilities	-54.24
Bill Pmt -Check	10/10/2018	8864	Braun Blaising Smith Wynne	Legal Services - Regulatory	-1,865.50
Bill Pmt -Check	10/10/2018	8865	Central Office	Miscellaneous printing services	-210.40
Bill Pmt -Check	10/10/2018	8866	Chapman, R.	September mileage reimbursement	-15.36
Bill Pmt -Check	10/10/2018	8867	City of Arcata	Utility Taxes	-10,692.90
Bill Pmt -Check	10/10/2018	8868	City of Blue Lake	August Utility User Tax	-830.68
Bill Pmt -Check	10/10/2018	8869	City of Eureka-Water	Water service, 07/24/18-08/25/18	-167.69
Bill Pmt -Check	10/10/2018	8870	Cutten School District	Cutten Elementary self-install rebate/Audit 4400	-919.28
Bill Pmt -Check	10/10/2018	8871	Daynard Electric	Rebates	-4,146.46
Bill Pmt -Check	10/10/2018	8872	Donald Dame	Professional Services	-306.25
Bill Pmt -Check	10/10/2018	8873	Engel, R.	October travel reimbursement	-43.99
Bill Pmt -Check	10/10/2018	8875	FedEx	Offshore Wind Materials	-100.60
Bill Pmt -Check	10/10/2018	8876	Fortuna Union HSD	Fortuna High School self-install rebate/Audit 548	-16,465.49
Bill Pmt -Check	10/10/2018	8877	HCOE	Business Card Printing - N. Stephenson	-21.00
Bill Pmt -Check	10/10/2018	8878	Hilson, D.	September mileage reimbursement	-41.04
Bill Pmt -Check	10/10/2018	8879	Humboldt Builders' Exchange	PlanScan - scan plans to .pdf	-5.00
Bill Pmt -Check	10/10/2018	8880	Humboldt Lighting, LLC.	Lighting Supplies	-17,039.93
Bill Pmt -Check	10/10/2018	8881	Marshall, M.	Travel reimbursement - September	-342.41
Bill Pmt -Check	10/10/2018	8882	Mattole Unified School District	Mattole Elementary self-install rebate/Audit 3900	-1,414.05
Bill Pmt -Check	10/10/2018	8883	McMahon, J.	Mileage reimbursement	-198.38
Bill Pmt -Check	10/10/2018	8884	North Coast Cleaning	September Cleaning Service	-402.00
Bill Pmt -Check	10/10/2018	8885	North Coast Journal	12 page insert	-2,000.00
Bill Pmt -Check	10/10/2018	8886	Northern Humboldt Union HSD	McK High School Self-install Rebate / Audit 5008	-17,488.23
Bill Pmt -Check	10/10/2018	8887	PG&E EV Account	EV stations August	-542.60
Bill Pmt -Check	10/10/2018	8888	Pierson's Home Ctr	Facility maintenance	-18.99
Bill Pmt -Check	10/10/2018	8889	Platt/Rexel	Bulb purchases	-13,871.56
Bill Pmt -Check	10/10/2018	8890	Ponting, W.	Mileage reimbursement	-57.78
Bill Pmt -Check	10/10/2018	8891	Recology	Garbage service	-178.07
Bill Pmt -Check	10/10/2018	8892	Redwood Preparatory School	Redwood Prep Self-install Rebate / Audit 3454	-433.01
Bill Pmt -Check	10/10/2018	8893	SDRMA Medical	October Premium	-24,718.68
Bill Pmt -Check	10/10/2018	8894	SDRMA P&L	P&L Insurance Certificates	-190.00
Bill Pmt -Check	10/10/2018	8895	Sequoia Zoo	Sequoia Park Day at the Zoo	-4,000.00
Bill Pmt -Check	10/10/2018	8896	Shafer's Ace	Tools	-193.63
Bill Pmt -Check	10/10/2018	8897	Solomon, J.	September travel reimbursement	-98.00
Bill Pmt -Check	10/10/2018	8898	Suddenlink Communications	Internet access	-816.56

Type	Date	Num	Name	Memo	Amount
Bill Pmt -Check	10/10/2018	8899	Terry, P.	September mileage reimbursement	-29.69
Bill Pmt -Check	10/10/2018	8900	Times Printing Company	Printing services	-22,527.76
Bill Pmt -Check	10/10/2018	8901	Verizon Wireless	September tablet/cell service for field staff/mobile	-228.66
Paycheck	10/10/2018		Payroll	Payroll, 9/15-9/30/18	-53,343.92
Bill Pmt -Check	10/15/2018	ACH	The Energy Authority	TEA invoice #20181015	-3,090,396.19
Bill Pmt -Check	10/12/2018	8902	Gelinas James, Inc.	Consulting services	-5,400.00
Liability Check	10/16/2018	E-pay	EDD	499-0864-3 QB Tracking # 902567818	-3,848.67
Liability Check	10/16/2018	E-pay	Internal Revenue Service	74-3104616 QB Tracking # 902637818	-19,449.92
Liability Check	10/16/2018	E-pay	EDD	499-0864-3 QB Tracking # 902673818	-10.32
Liability Check	10/16/2018	E-pay	EDD	499-0864-3 QB Tracking # 902729818	-7.35
Liability Check	10/16/2018	E-pay	Internal Revenue Service	74-3104616 QB Tracking # 902789818	-135.36
Bill Pmt -Check	10/18/2018	ACH	VISA	September Statement 08/26/18-09/25/18	-7,999.03
Bill Pmt -Check	10/18/2018	ACH	Staples Charge Account	September Statement	-125.12
Check	10/22/2018			Service Charge	-118.75
Check	10/24/2018	ACH	Humboldt Redwood Company	HRC September 2018 Biomass	-866,036.69
Check	10/24/2018	ACH	DG Fairhaven	DGF September 2018 Biomass	-448,405.63
Check	10/24/2018	ACH	CalPine Corporation	CalPine September 2018	-72,685.75
Liability Check	10/25/2018	E-pay	EDD	499-0864-3 QB Tracking # 1812829818	-5,063.16
Liability Check	10/25/2018	E-pay	Internal Revenue Service	74-3104616 QB Tracking # 1812866818	-23,632.74
Liability Check	10/25/2018	8904	CA State Disbursement Unit	#200000001075867	-127.00
Liability Check	10/25/2018	8905	Umpqua Bank	74-3104616	-558.36
Liability Check	10/25/2018	8906	Calvert	74-3104616	-11,774.53
Bill Pmt -Check	10/25/2018	8907	Advanced Security	Monitoring and repair	-203.50
Bill Pmt -Check	10/25/2018	8908	AM Conservation	LED Stock	-713.35
Bill Pmt -Check	10/25/2018	8909	APP Imprints, LLC	Magnets for Zoo Day	-137.14
Bill Pmt -Check	10/25/2018	8910	Avcollie, M.	September mileage reimbursement.	-107.37
Bill Pmt -Check	10/25/2018	8911	Bishop, M.	Demand Response Training: 10/09-10/10/18, Sai	-90.56
Bill Pmt -Check	10/25/2018	8912	Board of Equalization	Electrical Energy Surcharge Return	-42,841.21
Bill Pmt -Check	10/25/2018	8913	Boudreau, D.	Purchase reimbursement: Sustainable Future Sp	-104.05
Bill Pmt -Check	10/25/2018	8914	Burks, K.	September mileage reimbursement	-132.04
Bill Pmt -Check	10/25/2018	8915	CalCCA	AMS Associate Member Dues	-1,377.00
Bill Pmt -Check	10/25/2018	8916	Cissna, A.	Travel reimbursements	-63.77
Bill Pmt -Check	10/25/2018	8917	City of Arcata	Utility User Taxes	-9,134.45
Bill Pmt -Check	10/25/2018	8918	City of Blue Lake	September Utility User Tax	-766.72
Bill Pmt -Check	10/25/2018	8919	Engel, R.	Purchase reimbursement	-30.00
Bill Pmt -Check	10/25/2018	8920	Enterprise Tolls	Toll Fine: Rental agreement #3D9N8G	-8.95
Bill Pmt -Check	10/25/2018	8921	Eureka Rubber Stamp	Boad meeting nameplates.	-89.40
Bill Pmt -Check	10/25/2018	8922	Forbes Cabinet	Forbes Cabinets self-install rebate/Audit 5376.	-1,087.69
Bill Pmt -Check	10/25/2018	8923	HCOE	Business Card Printing - Generic RCEA business	-105.00
Bill Pmt -Check	10/25/2018	8924	Headwaters Fund	RCEA loan September 2018 Interest 3846000 8C	-50,000.00
Bill Pmt -Check	10/25/2018	8925	Jacobson, L.	Travel reimbursement	-302.92
Bill Pmt -Check	10/25/2018	8926	Mattio, B.	Travel reimbursement	-92.96
Bill Pmt -Check	10/25/2018	8927	Mission Uniform & Linen	Oct mat service, janitorial supplies	-60.99
Bill Pmt -Check	10/25/2018	8928	Northern Humboldt Union HSD	Rebates	-3,456.78
Bill Pmt -Check	10/25/2018	8929	NYLEX.net, Inc.	On site support services	-6,400.00

<b>Type</b>	<b>Date</b>	<b>Num</b>	<b>Name</b>	<b>Memo</b>	<b>Amount</b>
Bill Pmt -Check	10/25/2018	8930	PG&E CCA	PG&E CCE Billing Charges	-43,616.16
Bill Pmt -Check	10/25/2018	8931	Platt/Rexel	Bulb purchases	-11,268.90
Bill Pmt -Check	10/25/2018	8932	Project Energy Savers	Outreach materials	-400.00
Bill Pmt -Check	10/25/2018	8933	Redwood Preparatory School	Redwood Prep Self-install Rebate / Audit 5182	-1,179.17
Bill Pmt -Check	10/25/2018	8934	SDRMA Dental	October Premium	-1,563.69
Bill Pmt -Check	10/25/2018	8935	Stephenson, Nancy	Purchase reimbursement	-37.21
Bill Pmt -Check	10/25/2018	8936	Times Printing Company	Misc. printing services	-894.98
Bill Pmt -Check	10/25/2018	8937	Winzler, John	Office Lease - November	-4,350.00
Paycheck	10/25/2018		Payroll	Payroll, 10/1-10/15/18	-58,758.19
<b>TOTAL</b>					<b><u>-4,992,724.53</u></b>

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# Balance Sheet

As of October 31, 2018

	<b>Oct 31, 18</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
<b>Checking/Savings</b>	
1010 · Petty Cash	414.35
1050 · GRANTS & DONATIONS 3840	15,204.58
1060 · Umpqua Checking-9271	-111,928.54
1070 · Umpqua Deposit Cntrl Acct 1687	5,121,876.11
1075 · Umpqua Reserve Account 2300	3,000,000.00
8413 · COUNTY TREASURY 3839	5,065.52
<b>Total Checking/Savings</b>	8,030,632.02
<b>Total Accounts Receivable</b>	466,603.45
<b>Other Current Assets</b>	
1101 · Allowance for Doubtful Accounts	-208,678.54
1103 · Accounts Receivable-Other	4,909,528.66
1120 · Inventory Asset	21,715.00
1202 · Prepaid Expenses	-20,166.96
<b>Total 1210 · Retentions Receivable</b>	48,218.53
1499 · Undeposited Funds	4,097.62
<b>Total Other Current Assets</b>	4,754,714.31
<b>Total Current Assets</b>	13,251,949.78
<b>Total Fixed Assets</b>	151,725.39
<b>Total Other Assets</b>	504,100.00
<b>TOTAL ASSETS</b>	<b>13,907,775.17</b>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
<b>Total Accounts Payable</b>	2,518,083.82
<b>Total Credit Cards</b>	-24,726.53
<b>Other Current Liabilities</b>	
2001 · Accounts Payable-Other	-865,009.71
<b>Total 2100 · Payroll Liabilities</b>	120,871.61
<b>Total 2210 · Retentions Payable</b>	4,258.76
<b>Total Other Current Liabilities</b>	-739,879.34
<b>Total Current Liabilities</b>	1,753,477.95
<b>Total Long Term Liabilities</b>	457,350.39
<b>Total Liabilities</b>	2,210,828.34
<b>Equity</b>	
2320 · Investment in Capital Assets	147,113.19
3200 · LTD - Headwaters Loan	-270,111.64
3203 · LTD - TEA Phase I & II	-187,197.31
3900 · Fund Balance	9,069,454.99
<b>Net Income</b>	2,937,687.60
<b>Total Equity</b>	11,696,946.83
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>13,907,775.17</b>

**Redwood Coast Energy Authority**  
**Profit & Loss Budget vs. Actual**  
 July through October 2018

	<b>Jul - Oct 18</b>	<b>Budget</b>	<b>% of Budget</b>
<b>Ordinary Income/Expense</b>			
<b>Income</b>			
<b>Total 4 GRANTS AND DONATIONS</b>	16,343.71		
<b>5 REVENUE EARNED</b>			
<b>Total 5000 · Revenue - government agencies</b>	23,520.69	111,600.00	21.1%
<b>Total 5100 · Revenue - program related sales</b>	4,218.74	18,000.00	23.4%
<b>Total 5400 · Revenue-nongovernment agencies</b>	480,117.37	1,210,000.00	39.7%
<b>5500 · Revenue - Electricity Sales</b>			
<b>Total 5510 · Electricity Sales</b>	16,685,142.70	51,940,000.00	32.1%
<b>5580 · Uncollectable Accounts</b>	-50,071.00	-160,000.00	31.3%
<b>Total 5500 · Revenue - Electricity Sales</b>	16,635,071.70	51,780,000.00	32.1%
<b>Total 5 REVENUE EARNED</b>	17,142,928.50	53,119,600.00	32.3%
<b>Total Income</b>	17,159,272.21	53,119,600.00	32.3%
<b>Expense</b>			
<b>Total 6 WHOLESALE POWER SUPPLY</b>	11,824,363.54	39,880,000.00	29.7%
<b>Total 7 PERSONNEL EXPENSES</b>	778,949.20	2,253,700.00	34.6%
<b>Total 8.1 FACILITIES AND OPERATIONS</b>	100,187.86	211,400.00	47.4%
<b>Total 8.2 COMMUNICATIONS AND OUTREACH</b>	48,545.42	108,200.00	44.9%
<b>Total 8.3 TRAVEL AND MEETINGS</b>	11,350.68	48,000.00	23.6%
<b>8.4 PROFESSIONAL &amp; PROGRAM SRVS</b>			
8400 · Regulatory	0.00	94,600.00	0.0%
8410 · Contracts - Program Related Ser	53,389.50	427,200.00	12.5%
8420 · Accounting	8,775.00	55,000.00	16.0%
8430 · Legal	45,227.65	85,000.00	53.2%
8450 · Wholesale Services - TEA	193,981.96	585,000.00	33.2%
8460 · Procurement Credit - TEA	219,344.11	800,000.00	27.4%
8470 · Data Management - Calpine	291,397.35	1,100,000.00	26.5%
<b>Total 8.4 PROFESSIONAL &amp; PROGRAM SRVS</b>	812,115.57	3,146,800.00	25.8%
<b>Total 8.5 PROGRAM EXPENSES</b>	224,977.49	1,268,000.00	17.7%
<b>Total 8.6 INCENTIVES &amp; REBATES</b>	209,862.89	460,000.00	45.6%
<b>Total 9 NON OPERATING COSTS</b>	211,231.96	565,800.00	37.3%
<b>Total Expense</b>	14,221,584.61	47,941,900.00	29.7%
<b>Net Ordinary Income</b>	2,937,687.60	5,177,700.00	56.7%
<b>Reserve Contributions</b>	500,000.00	3,000,000.00	16.7%
<b>Net Income</b>	<b>2,437,687.60</b>	<b>2,177,700.00</b>	<b>111.9%</b>



**STAFF REPORT**  
**Agenda Item # 5.1**

AGENDA DATE:	December 17, 2018
TO:	Board of Directors
PREPARED BY:	Matthew Marshall, Executive Director
SUBJECT:	Staffing Reorganization

**SUMMARY**

In December of 2016 the Board approved a significant staffing reorganization to provide the capacity to manage the Community Choice Aggregation (CCA) program along with RCEA's other ongoing programs. While that reorganization has overall been effective, after a year and a half of CCA operation there is a much better understanding of the specific staffing needs of the CCA program and other RCEA efforts.

To adjust organizational staff to most-effectively align with the current needs of the organization, staff proposes the attached update to the organizational chart, which includes the following:

1. Adds the Manager of Human Resources and Workforce Development position that was approved by the Board in November.
2. Eliminates the position of Director of Finance and Human Resources (which is currently vacant). The human resources functions of this role will be covered by the new HR Manager position, and the finance functions are proposed to be consolidated into an update of the Director of Business Development and Planning position's responsibilities.
3. Revises the Director of Business Development and Planning position to Director of Business Planning and Finance – revised job description attached, showing updates in track changes. The staff positions that previously reported to the Director of Finance and HR will now report to this role. The items removed from the original list of responsibilities from the old position description are generally programmatic development/support activities that can be covered by the relevant Director responsible for a given program area.

These changes better balance the number of Director-level management staff to the total number of employees, resulting in a less "top heavy" organization while still effectively covering all functions.

**FINANCIAL IMPACT**

The salary savings from the elimination of a Director level position more than covers the added cost from the new Manager of HR and Workforce Development, so the proposed update to the organization chart will result in a net reduction in personnel costs of about \$37,000 per year.

**RECOMMENDED ACTION**

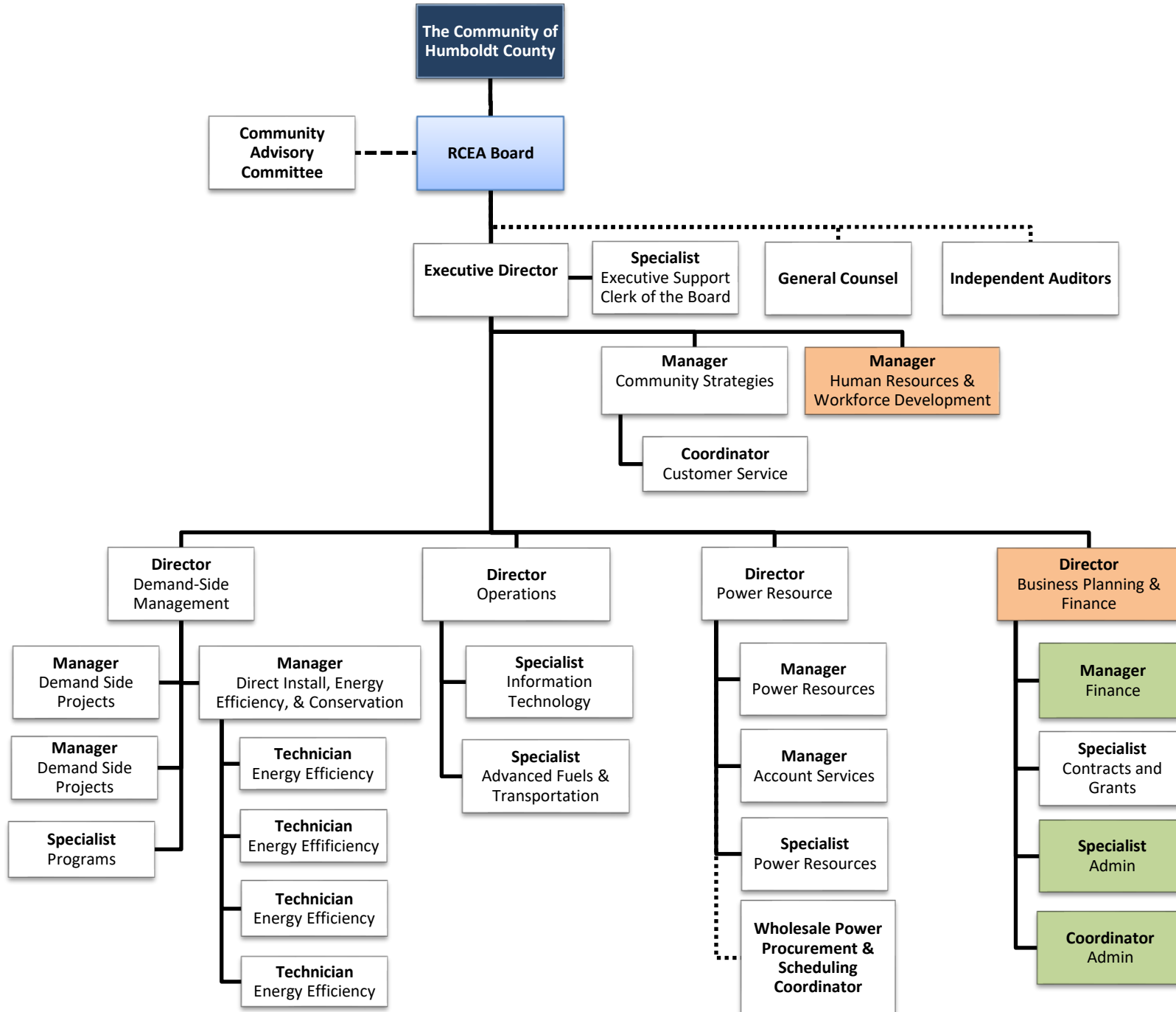
Approve updated organizational chart and the associated elimination of the Director of Finance & Human Resources position and revision of the Director of Business Development and Planning position to the Director of Business Planning and Finance position.

**ATTACHMENTS**

1. Updated RCEA Organizational Chart
2. Updated position description for Director of Planning and Finance.

# Proposed RCEA Org Chart Update 12-17-18

New/updated positions in **orange**  
Reporting/supervision adjustments in **green**





## Director – Business ~~Development and Planning~~ and Finance

**General Class Description:** Under general direction of the Executive Director a Director plans, organizes, coordinates, and directs the programs or activities of the associated department; provides expert professional assistance to staff of department; performs related work as assigned. This class has department-head level responsibility for overall policy development, program planning, fiscal management, administration and operation of the departmental functions and various support services. A Department Director is responsible for accomplishing departmental goals and objectives, supervising staff, administering the department's annual budget, and directing the day to day operations and activities of the department. A Director works with Executive Director and other Directors to ensure consistent and efficient implementation of agency operational policies and long-term operational excellence. This position class is distinguished by complex and widely scoped duties with major financial or operational impact on key business processes. This position exercises considerable discretion and independent judgment in the coordination and prioritization of duties and responsibilities assigned and in acting on behalf of the Executive Director.

### Summary

The Director of Business ~~Development and Planning~~ and Finance works under the general direction of the Executive Director and has responsibility for a wide range of matters to support RCEA's core business operations including strategic planning, organization and program development and funding, contracting, ~~programmatic~~ budget oversight, management of resource allocation, ~~and~~ implementation of organizational policies and procedures, banking oversight, accounting, finance reporting and compliance, and purchasing. The incumbent manages the planning, staffing, and oversight of RCEA's ~~b~~Business ~~Development and Planning~~ and Finance activities. The Director of Business ~~Development and Planning~~ and Finance works with the Board of Directors, the Executive Director, other Department Directors, and community stakeholders on evaluating far-reaching strategic issues facing the organization and establishing both long-term goals and direction as well as the plans and implementation strategies to realize those long-term objectives. This includes tracking and evaluating local, state, and federal policies and regulations and their potential impacts on the organization. The position requires knowledge of relevant funding and business development opportunities, public agency and program-specific operations, finance, vendor and contract management, and budget and resource management for an organization of ~~20-30~~ 35 people.

### Essential Functions and Responsibilities

Duties are illustrative and may vary. Other duties may be assigned.

- Implement strategic and innovative operational planning that anticipates future consequences and maintains RCEA's position at the forefront of the energy sector.
- Coordinate with senior staff to forecast current and future costs, revenue, and resource requirements associated with organizational programs and contracts.
- Oversee and supervise implementation of agency financial policies and procedures, including accounts payable and accounts receivables, payroll, contract claims processing and tracking, purchasing, state and federal reporting, audits, and maintenance of financial records.
- ~~Lead and coordinate business development activities and grant writing efforts.~~
- ~~Lead the evaluation and development of new programs and renewable energy generation projects.~~

- Collaborate and interact with grantors, foundations and other funding sources to secure relevant funds and resources for the organization.
- Serve a central role in the leadership and oversight for RCEA programs to ensure a customer service-oriented management philosophy which transcends all levels of the organization.
- ~~Shape and lead processes, procedures, and goals that support effective implementation of RCEA's programs and projects.~~
- ~~Support departmental fiscal oversight, budget tracking, and performance management.~~
- ~~Assist the Executive Director with RCEA's budgeting and planning processes as well as efforts to secure the resources necessary to fulfill RCEA's mission.~~
- Assist the Executive Director with Support the development and management of RCEA's budget, and coordinate the lead the development and management of department, program, and project budgets.
- Support all levels of fiscal oversight and budget tracking.
- Manage and coordinate relationships with key contractors, service providers, and program partners.
- Manage compliance with relevant regulatory requirements.
- Ensure compliance with all grant and contract terms, conditions, and reporting requirements.
- Build, lead, and motivate high-performing teams to be accountable; support multiple concurrent and complex projects; and achieve challenging goals.
- ~~Lead key resource tasks including evaluating staffing needs, coordinating staffing assignments, and coordinating the development of annual staff work plans.~~
- Stimulate and actively initiate positive change in the organization while carefully considering implications and impacts of decisions across time and on others.
- Update and implement all necessary finance/business policies and support ongoing improvement to overall management all organizational policies and procedures.
- Collaborate on process and/or program re-engineering and change management initiatives that lead to continuous service improvements.
- 

## Minimum Qualifications

### Experience/Education:

Any combination of training and experience that would provide the required knowledge, skills, and abilities is qualifying. A typical way to obtain the required qualifications would be:

- Education or experience equal to a bachelor's or master's degree/greater in relevant field.
- A minimum of eight (8) years of progressively responsible experience in planning, business administration, public administration, finance, or energy program management (public sector experience is strongly desired).

### Knowledge of:

- CA Public Utilities Commission, CA Energy Commission, and Community Choice Aggregation programs and program administration.
- Energy technologies, energy program design principles, relevant public policy and legislation, and energy-sector business trends.
- General business principles and practices, including finance, program management, business development, strategic planning, and human resources.
- Public finance and accounting principles including grant and contract management, and knowledge of various credit facilities.
- Principles and methods of reporting and auditing for a division or significant program area.
- Tools and systems that enable energy-related services and programs.

- Fundamental drivers of agency and business customers and partners to make wise decisions in the pursuit of long-term value.
- How to build and maintain new relationships.

Ability to:

- Work with diverse stakeholders and communities.
- Assess opportunities and pathways forward while understanding trade-offs and risks both for stand-alone and an overall portfolio of programs.
- Navigate through an organization, identify decision-makers, and demonstrate value.
- Network and facilitate partnerships, contracts, grants, initiatives, and related business transactions.
- Develop effective tools for ~~the~~ complex financial analysis of business functions, including energy projects and programs.
- Handle multiple projects simultaneously within stringent time constraints.
- ~~Effectively manage providers to ensure services and products are received within contracted time, quality, quantity and cost requirements.~~
- Monitor, evaluate, and assure compliance with administrative and financial goals, policies and procedures.
- ~~Exercise discretion and independent judgment.~~
- Maintain a good working relationship with co-workers, stakeholders and clients.
- Possession of excellent communication, management, and personal skills.
- ~~Facilitate or assist with a collaborative program development and design process, including needs assessments, project design, proposals, marketing tools, evaluation, and reporting.~~
- Learn, interpret, and apply policies, procedures, and regulations; and to provide program-based guidance and interpretation for staff and the public.
- Plan, schedule, budget and allocate program resources.
- Prepare program budgets to meet regulatory requirements.
- Assist with administration of project budgets, including control and monitoring of expenditures.
- Prepare accurate, comprehensive, timely, credible project reports as required by RCEA, funding agencies and other relevant parties.
- Work accurately and swiftly under pressure.
- Be thorough and detail-oriented.
- Demonstrate patience, tact, teamwork and commitment to superior service and performance.

## Working Conditions and Essential Requirements

The physical demands described here are representative of those required for the position. Position requires sitting, walking, standing, bending, and twisting in the performance of daily activities. The position requires hand manipulation and repetitive hand movement and fine coordination in using a computer keyboard and other office equipment. The position requires near and far vision in reading reports and use of a computer. Acute hearing is required in supporting meetings and providing phone and in-person customer service. The position occasionally requires lifting and/or moving objects. RCEA will make reasonable accommodation of the known physical or mental limitations of a qualified applicant with a disability upon request. Possession and continued maintenance of a valid class C California driver's license or the ability to provide alternate transportation and a safe driving record.

## Preferred Qualifications

- Master's degree in a relevant field.
- Knowledge of RCEA programs.
- Knowledge of local, state, federal, and tribal energy programs.
- Prior experience supervising one or more staff members.

- Prior experience managing service providers and suppliers.
- Prior experience working with public agencies.
- Experience working with organizations involved with projects and programs in the areas of environmental and economic development.
- Experience working in an entrepreneurial context.
- Knowledge of standard accounting practices and procedures and proficiency with Quickbooks.

THE REDWOOD COAST ENERGY AUTHORITY IS COMMITTED TO A DIVERSE WORKFORCE AND IS AN EQUAL OPPORTUNITY EMPLOYER. RCEA MAINTAINS AND PROMOTES A POLICY OF NONDISCRIMINATION AND NONHARASSMENT ON THE BASIS OF RACE, RELIGION, COLOR, SEX, AGE, HANDICAP, MARITAL STATUS, SEXUAL ORIENTATION, AND NATIONAL ORIGIN OR GENETIC CHARACTERISTIC.





# REDWOOD COAST EnergyAuthority

## STAFF REPORT Agenda Item # 6.1

AGENDA DATE:	December 17, 2018
TO:	Board of Directors
PREPARED BY:	Matthew Marshall, Executive Director
SUBJECT:	Fiscal Year 2016-17 Independent Fiscal Audit

### SUMMARY

David L. Moonie & Company, RCEA's independent fiscal auditors, have completed the audit of the 2016-17 fiscal year. Their audit report is attached.

Matt Hague, David L. Moonie & Company's lead auditor for RCEA, provided a report to the RCEA Board Finance Subcommittee on December 12, 2018. Matt Hague is not available to present the report to the Board in person at the December 17 meeting, but is available to make a presentation to the full Board at the January meeting, if the Board so desires.

Staff is preparing materials for the Fiscal Year 2017-18 audit so the process can move forward expeditiously and RCEA can be up-to-date in time for the current year audit to begin on-schedule and be completed in a timely fashion.

### RECOMMENDED ACTION

Accept and approve FY 16-17 Independent Fiscal Audit Report.

### ATTACHMENT

FY2016-17 Independent Auditor's Report.

**REDWOOD COAST ENERGY AUTHORITY**  
**County of Humboldt**

**FINANCIAL STATEMENTS**

**Year Ended June 30, 2017**

**With**

**INDEPENDENT AUDITOR'S REPORT**

# REDWOOD COAST ENERGY AUTHORITY

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June 30, 2017

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John R. Goff, CPA  
Mark G. Wetzel, CPA  
Michael R. Cline, CPA



DAVID L. MOONIE & CO., LLP  
*Certified Public Accountants*

Kenneth X. Stringer, CPA  
Aaron S. Weiss, CPA  
Joshua S. Miller, CPA  
Matthew J. Hague, CPA

REDWOOD COAST ENERGY AUTHORITY  
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Board of Directors  
Redwood Coast Energy Authority  
633 3<sup>rd</sup> Street  
Eureka, California 95501

We have audited the accompanying financial statements of the Redwood Coast Energy Authority ("RCEA") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise RCEA's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

REDWOOD COAST ENERGY AUTHORITY  
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS -  
CONTINUED

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 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 financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RCEA as of June 30, 2017, and the changes in financial position and cash flows thereof 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 4a through 4d 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.

REDWOOD COAST ENERGY AUTHORITY  
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS -  
CONTINUED

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise RCEA's basic financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Organization schedule included in supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018, on our consideration of RCEA'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 RCEA's internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS  
Eureka, California  
December 7, 2018

**Year Ending June 30, 2017**

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Redwood Coast Energy Authority (RCEA) was formed in 2003 as a Joint Powers Authority (JPA) of the seven incorporated cities of Humboldt County, California (the Cities of Arcata, Blue Lake, Eureka, Ferndale, Fortuna, Trinidad and Rio Dell), and the County of Humboldt, with the subsequent addition of Humboldt Bay Municipal Water District. As a JPA, RCEA is governed by a nine member board representing each jurisdiction.

The mission of RCEA is to develop and implement sustainable energy initiatives that reduce energy demand, increase energy efficiency, and advance the use of clean, efficient and renewable resources available in the region.

To accomplish this mission, during the year ending June 30, 2017 RCEA employed twenty-two full-time staff. RCEA also employed numerous part-time interns and serves as a placement site for AmeriCorps members.

Historically, all of RCEA's funding has comes from contracts and grants, generally bringing resources to Humboldt County that would not otherwise be available. The operating budget for the year ending June 30, 2017 was approximately \$7 million. Major funding sources during the year included:

- The launch of a Community Choice Aggregation (CCA) program, which in May 2017 began providing electricity generation service to customers in partnership with Pacific Gas & Electric Company (PG&E).
- A contract with PG&E to promote energy efficiency through a local government partnership known as the Redwood Coast Energy Watch.
- Contracts with local educational agencies to help plan and implement energy efficiency and clean energy projects using Proposition 39 funding.
- Contracts with the California Energy Commission for regional alternative fuels planning and electric vehicle charging infrastructure.

The assets of RCEA exceeded its liabilities by \$1,128,352 at June 30, 2017. Of this amount, \$981,240 is unrestricted and may be used to meet RCEA ongoing program needs.

RCEA's total net position increased by \$322,319 during the year ending June 30, 2017. The increase is the result of program revenues exceeding program expenditures.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the RCEA's basic financial statements. RCEA's basic financial statements are comprised of four components: 1) Statement of Net Position, 2) Statements of Revenues, Expenses, and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the basic financial statements. This report also contains other supplementary information in addition to the financial statements.

**Year Ending June 30, 2017**

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The *Statement of Net Position* presents information on all of RCEA's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of RCEA is improving or deteriorating.

The *Statements of Revenue, Expenses, and Changes in Net Position* presents information showing how RCEA's net position changed during the year presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* reports the cash provided and used by operating activities, as well as other sources and uses, such as debt financing.

#### **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.



**Redwood Coast Energy Authority  
Management's Discussion and Analysis**

**Year Ending June 30, 2017**

*Condensed Statement of Net Position*

June 30,	2017	2016
<b>Assets</b>		
Current assets	\$ 9,021,962	\$ 838,589
Capital assets, net of accumulated depreciation	151,725	173,772
<b>Total Assets</b>	9,173,687	1,012,361
<b>Liabilities</b>		
Current liabilities	7,270,240	199,806
Long term liabilities	<u>775,095</u>	<u>6,522</u>
<b>Total Liabilities</b>	8,045,335	206,328
<b>Total net position</b>	\$ 1,128,352	\$ 806,033

*Changes in Net Position*

Year ended June 30,	2017	2016
<b>Revenues</b>		
Program revenues:		
Contract	\$ 1,651,443	\$ 1,999,194
Electricity Sales, net	11,415,845	0
Other income	20,709	18,783
General revenues- investment income	1,025	1,005
<b>Total revenues</b>	13,089,022	2,018,982
<b>Expenses</b>		
Salaries and employee benefits	1,568,108	1,110,609
Services and supplies	11,176,548	881,854
Net depreciation	22,047	24,938
Interest expense	0	0
<b>Total expenses</b>	12,766,703	2,017,401
Increase in net position	322,319	1,581
<b>Net position – beginning of year</b>	806,033	804,452
<b>Net position – end of year</b>	\$ 1,128,352	\$ 806,033

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**Year Ending June 30, 2017**

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RCEA revenues are primarily received on a reimbursement basis. The increase in revenue from the year ending June 30, 2016 to the year ending June 30, 2017 was the result of an increase in program activities, specifically the launch of the CCA program. Similarly, the increase in expenses for the year ending in June 30, 2017 is due primarily to an increase in program activities, most significantly the CCA program.

### **Economic Factors and Subsequent Year's Budget and Rates**

For the year ended June 30, 2018 the following factors affect RCEA's finances:

- The continuing operation of RCEA's Community Choice Aggregation Program.
- The continuing implementation of the Energy Watch program and the Proposition 39 program.
- Continuing activities related to alternative fuels and electric vehicle charging infrastructure funded by the California Energy Commission.

These factors were considered in preparing RCEA's budget for the year ending June 30, 2018.

### **Requests for Information**

This financial report is designed to provide a general overview of RCEA's finances for those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Redwood Coast Energy Authority, 633 Third Street, Eureka, California 95501.

# REDWOOD COAST ENERGY AUTHORITY

## STATEMENT OF NET POSITION

June 30, 2017

### ASSETS

#### Current assets

Cash	\$ 3,030,627
Accounts receivable (net of allowance of \$0)	446,617
Energy settlements receivable (net of allowance of \$24,949)	5,016,606
Prepaid expenses	2,297
Inventory	21,715
Security deposit	504,100
Total current assets	<u>9,021,962</u>

#### Noncurrent assets

Capital assets, net of depreciation	<u>151,725</u>
Total noncurrent assets	<u>151,725</u>

Total assets	<u><u>\$ 9,173,687</u></u>
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### LIABILITIES

#### Current liabilities

Accounts payable	\$ 887,469
Accrued cost of electricity	5,640,247
Accrued wages payable	65,114
Accrued payroll liabilities	482
Accrued vacation payable	54,473
Accrued workers compensation payable	4,605
Security deposit payable	500,000
Retentions payable	1,135
Current portion of notes payable	116,715
Total current liabilities	<u>7,270,240</u>

#### Noncurrent liabilities

Notes payable	<u>775,095</u>
Total liabilities	<u>8,045,335</u>

### NET POSITION

Net investment in capital assets	147,112
Unrestricted	<u>981,240</u>
Total Net Position	<u><u>\$ 1,128,352</u></u>

The accompanying notes are an integral part of this statement.

REDWOOD COAST ENERGY AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
NET POSITION

For The Year Ended June 30, 2017

Operating Revenues:	
Contract revenue	\$ 1,651,443
Other income	20,709
Electricity Sales, net	11,415,845
Total Revenues	<u>13,087,997</u>
Operating Expenses:	
Program expenses:	
Direct install subcontractor labor	176,478
Direct install hardware and materials	72,986
Direct incentive and rebate payments	8,208
Salaries and employee benefits	929,129
Energy expenses	9,436,719
Program related services	<u>1,126,064</u>
Total Program Expenses	<u>11,749,584</u>
Administrative expenses:	
Salaries and employee benefits	638,979
Professional services	111,046
Travel and training	16,759
Bank charges	9,994
Office supplies and expense	81,220
Rent	53,792
Janitorial	6,197
Facility expense	12,829
Utilities	12,485
Meeting expense	8,426
Depreciation expense	22,047
Insurance	11,516
Dues and membership	4,936
Advertising	<u>20,893</u>
Total Administration Expenses	<u>1,011,119</u>
Total Operating Expenses	<u>12,760,703</u>
Operating Income (Loss)	<u>327,294</u>
Non-Operating Revenue (Expense)	
Investment income	1,025
Interest expense	<u>(6,000)</u>
Total Non-Operating Revenue (Expenses)	<u>(4,975)</u>
Change in Net Position	<u>322,319</u>
Net Position at Beginning of Year	<u>806,033</u>
Net Position at End of Year	<u><u>\$ 1,128,352</u></u>

The accompanying notes are an integral part of this statement.

Redwood Coast Energy Authority  
STATEMENT OF CASH FLOWS  
For The Year Ended June 30, 2017

Cash Flows From Operating Activities:

Cash Received From:

Contract revenue	\$1,770,875
Electricity sales	6,399,236
Other Income	20,709
Total Cash Received	<u>8,190,820</u>

Cash Disbursed To:

Contract services	129,343
Electricity	3,149,804
Program related rebates, incentives & services	237,244
Staff compensation	884,283
General and administrative	1,841,253
Total Cash Disbursed	<u>6,241,927</u>

Net Cash Provided (Used) by Operating Activities	<u>1,948,893</u>
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Cash Flows From Noncapital Financing Activities:

Proceeds from long-term debt	887,197
Principal payments on long-term debt	(1,908)
Interest expense	(6,000)

Net Cash Provided (Used) by Noncapital Financing Activities	<u>879,289</u>
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Cash Flows From Investing Activities:

Interest received	1,025
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Net Cash Provided (Used) by Investing Activities	<u>1,025</u>
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Net Increase (Decrease) In Cash and Cash Equivalents	2,829,207
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Cash and Cash Equivalents at Beginning of Year	<u>201,420</u>
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Cash and Cash Equivalents at End of Year	<u><u>\$3,030,627</u></u>
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The accompanying notes are an integral part of this statement.

Redwood Coast Energy Authority  
STATEMENT OF CASH FLOWS (CONTINUED)  
For The Year Ended June 30, 2017

Reconciliation of Change in Operating Income to Net Cash Provided  
(Used) by Operating Activities:

Operating income (loss)	\$ 327,294
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation	22,047
Decrease / (Increase) in:	
Accounts Receivable	(4,931,233)
Inventory	34,056
Deposits	(500,000)
Prepaid Expenses	43,010
Increase / (Decrease) in:	
Accounts Payable	6,407,035
Deposits payable	500,000
Payroll Liabilities	46,684
Net Cash Provided (Used) by Operating Activities	<u><u>\$1,948,893</u></u>

The accompanying notes are an integral part of this statement.

REDWOOD COAST ENERGY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

1. Summary of Significant Accounting Policies

A. Reporting Entity and Nature of Activities

The Redwood Coast Energy Authority ("RCEA") is a joint powers authority formed in 2003 under Health and Safety Code Section 6500 to develop and implement sustainable energy initiatives that reduce energy demand, increase energy efficiency, and advance the use of clean, efficient and renewable resources available in the Humboldt County region of California. The member agencies of RCEA are the County of Humboldt, the Humboldt Bay Municipal Water District, the cities of Arcata, Blue Lake, Eureka, Ferndale, Fortuna, Rio Dell, and Trinidad. RCEA is governed by a Board of Directors comprised of representatives of the member agencies.

The California Public Utilities Commission ("CPUC") and the Local Government Commission ("LGC"), a California not-for-profit membership organization, have undertaken a pilot project to encourage the formation of regional organizations such as RCEA to promote energy efficiency, conservation and increased local self-reliance. The CPUC has made funds available to the LGC to help local governments establish and operate agencies such as RCEA. Funds are collected from rate payers by Pacific Gas and Electric ("PG&E") and distributed to RCEA in accordance with the objectives of this project.

RCEA began the delivery of electricity in May 2017. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by the California Independent System Operator and Pacific Gas and Electric Company.

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

The financial statements required by GASB Statement No.34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments (GASB No. 34), as amended by GASB Statement No. 63, include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

REDWOOD COAST ENERGY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2017

RCEA utilizes an enterprise fund, which is a proprietary fund type. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds account for goods or services that are provided to outside parties. RCEA has elected to use the reporting model for special-purpose governments engaged only in business-type activities. In accordance with the business-type activities reporting model, the District prepares its statement of cash flows using the direct method.

2. Measurement Focus, Basis of Accounting

Measurement focus refers to what is being measured. Basis of accounting refers to the timing of the recognition of revenues and expenses in the accounts and their reporting in the financial statements. Proprietary fund types are accounted for on an economic resources measurement focus using the accrual basis of accounting in which revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

RCEA considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenses are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include contracts and grants from the California Energy Commission, the County of Humboldt, Ecology Action, and Pacific Gas and Electric Company.

Unearned revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue.

Deferred Inflows and Outflows of Resources:

Deferred outflows of resources represent a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expenses) until that future period.

Deferred inflows of resources, represents an acquisition of net position or



REDWOOD COAST ENERGY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2017

fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that future period.

Expenses:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred.

When RCEA incurs an expense for which both restricted and unrestricted resources may be used, it is RCEA's policy to use restricted resources first, then unrestricted resources.

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity

1. Cash and Cash Equivalents

RCEA maintains 1 percent of its cash in the Humboldt County Treasury. The County pools these funds with those of other governmental entities in the County and invests the cash. These pooled funds are carried at cost which approximates market value.

Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The Humboldt County Treasury had no investments in derivatives. RCEA does not have a specific policy which relates to interest rate risk.

For purposes of the statement of cash flows, RCEA has defined cash and cash equivalents to include cash on hand, demand deposits and short-term investments with an original maturity of three months or less.

2. Prepaid Expenses

RCEA has the option of reporting an expense for prepaid items either when purchased or during the benefiting period. RCEA has chosen to report the expenses when incurred.

REDWOOD COAST ENERGY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2017

3. Program Revenues and Accounts Receivable

Operating revenues consists of revenue from the sale of electricity to customers. Program revenues include contract revenue and operating grants earned from other governmental agencies and not-for-profits.

Accounts receivable represent program revenues which have been earned for which the related cash has not been received. This includes invoices issued to customers during the reporting period and electricity estimated to have been delivered by not yet billed. Management estimates that a portion of the billed amounts will not be collected. Management has determined and recorded an allowance for uncollectible accounts in the amount of \$24,949 as of June 30, 2017.

4. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. RCEA's policy is to capitalize assets with an initial cost of more than \$2,000 and an estimated useful life in excess of two years. Capital assets are depreciated using the straight-line method over estimated useful lives between 5 to 20 years.

5. Deferred Inflows and Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expenses) until that future period. RCEA had no items that qualified for reporting in this category as of June 30, 2017.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that future period.

REDWOOD COAST ENERGY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2017

RCEA had no items that qualified for reporting in this category as of June 30, 2017.

6. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of RCEA. The current portion of the liabilities is recognized at year-end. Accumulated sick leave benefits are not recognized as liabilities of RCEA. RCEA's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable.

7. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by RCEA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. RCEA first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REDWOOD COAST ENERGY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2017

2. Cash and Investments

All cash held by the financial institutions is fully insured or collateralized. Cash in banks at June 30, 2017 consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Umpqua Bank	3,009,140	\$ 3,072,300
Chase Bank	135	6,613
Total	<u>\$ 3,009,275</u>	<u>\$ 3,078,913</u>

The bank balance is the balance prior to adjustment for items that had not yet cleared the bank as of June 30, 2017.

Fair Value Measurements

RCEA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The three levels of the fair value hierarchy under generally accepted accounting principles are as follows:

Level 1 - inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 - inputs include:

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical assets or liabilities in inactive markets;
- c) Inputs other than quoted prices that are observable for the asset or liability;
- d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - inputs are significant unobservable inputs.

As of June 30, 2017, RCEA held no individual investments. RCEA's fair value measurements were as follows at June 30, 2017:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level</u>
Pooled Cash in County Treasury	<u>\$ 20,271</u>	<u>2</u>

REDWOOD COAST ENERGY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2017

RCEA has not recorded fair value adjustments in the basic financial statements as they were determined to be immaterial to RCEA.

Credit Risk - Investments

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.

The County Treasurer's investments consist of 83.72 percent federal agencies, 10.22 percent money markets, 0.58 percent municipal bonds, 4.33 percent treasury coupons, and 1.46 percent certificates of deposit. The S & P credit ratings for these investments include AAA, AA, A+, and A-, and non-rated for certificates of deposit and the California State Treasurer's local agency investment fund.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, RCEA 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 a failure of the counter party (e.g., broker-dealer) to a transaction, RCEA will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Neither the California Government Code nor the County's investment policy contains legal or policy requirements that would limit RCEA's exposure to custodial credit risk for deposits or investments, except that the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2017, none of RCEA's deposits were exposed to custodial credit risk.

Interest Rate Risk – Investments

Interest rate risk is the measurement of how changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the more sensitive to changes in market interest rates of its fair value. One of

REDWOOD COAST ENERGY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2017

the ways the Humboldt County Treasurer manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so a portion of its portfolio is maturing or coming close to maturity to ensure the cash flow and liquidity of operations. The weighted average maturity of the Humboldt County Treasurer's investments is 953 days.

Concentration of Credit Risk

The investment policy of RCEA contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represented 5 percent or more of total County investments at June 30, 2017.

3. Receivables

Receivables at June 30, 2017 consisted of the following:

California Energy Commission	\$ 103,789
EUC Assessment	500
Local Government Commission	6,088
Pacific Gas and Electric Company	214,243
Retentions	62,821
Proposition 39 School Districts	59,176
Total	<u><u>\$ 446,617</u></u>

Retentions are due upon completion of the projects. RCEA expects to collect all retentions.

REDWOOD COAST ENERGY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2017

4. Capital Assets

Capital asset activity for the period ended June 30, 2017 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets being depreciated</i>				
Leasehold Improvements	\$ 27,937			\$ 27,937
Equipment	<u>208,753</u>			<u>208,753</u>
Total capital assets being depreciated	<u>236,690</u>	<u>-</u>	<u>-</u>	<u>236,690</u>
Less: Accumulated depreciation for:				
Leasehold Improvements	(4,658)	\$ (1,397)		(6,055)
Equipment	<u>(58,260)</u>	<u>(20,650)</u>		<u>(78,910)</u>
Total accumulated depreciation	<u>(62,918)</u>	<u>(22,047)</u>	<u>-</u>	<u>(84,965)</u>
Capital assets being depreciated, net	<u>173,772</u>	<u>(22,047)</u>	<u>-</u>	<u>151,725</u>
Governmental activities capital assets, net	<u><u>\$ 173,772</u></u>	<u><u>\$ (22,047)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 151,725</u></u>

For the year ended June 30, 2017, depreciation expense was \$22,047.

5. Risk Management

RCEA is covered for general business, liability, automobile, and errors and omissions through the Special Districts Risk Management Authority ("SDRMA"), a public entity risk pool. As a member of a public entity risk pool, RCEA is responsible for appointing an employee as a liaison between RCEA and SDRMA, implementing all policies of the SDRMA, and promptly paying all contributions. SDRMA is responsible for providing insurance coverage as agreed upon, assisting RCEA with implementation, providing claims adjusting, and defending any civil action brought against an officer of RCEA.

6. Retirement Plan

RCEA has established a Savings Incentive Match Plan for employees (a "Simple IRA") where RCEA and employees make contributions to individual retirement accounts ("IRAs"). Under the Simple IRA, RCEA must make contributions matching participating employee contributions, up to a maximum of 3 percent of an employee's gross salary per

REDWOOD COAST ENERGY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2017

year. Employees may contribute up to the maximum federally allowed amount. All regular employees of RCEA are eligible to participate in the Simple IRA plan. Plan contributions by RCEA for the year ended June 30, 2017 were \$27,057.

7. Loans Payable

RCEA obtained a loan with PG&E in January 2014 for energy upgrades in the amount of \$10,974 at 0 percent interest for 69 months.

In January 2017, RCEA also obtained a loan from the County of Humboldt, Headwaters Fund for working capital in the amount of \$700,000 at 0 percent interest for 12 months. Following the first 12 months, the loan became fully amortized with principal and interest payments for 60 months at 5 percent interest. Total interest paid on this loan for the year ended June 30, 2017 was \$6,000

Beginning in July 2016, RCEA incurred startup costs associated with the CCA program with The Energy Authority, "TEA", for Phase I and Phase II of the project totaling \$187,197 prior to the launch of the program in May 2017. Payment for these costs was deferred until Phase III of the project and will be amortized over 48 months at 5%. No interest was paid for this loan during the year ended June 3, 2017.

Future payments obligations are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 116,715	\$ 42,589	\$ 159,304
2019	177,930	37,346	215,276
2020	185,824	28,341	214,165
2021	185,333	18,893	204,226
2022	147,852	10,667	158,519
2023-2027	132,629	3,242	135,871
Total	<u>\$ 946,283</u>	<u>\$ 141,078</u>	<u>\$ 1,087,361</u>



REDWOOD COAST ENERGY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2017

8. Noncurrent Obligations

Noncurrent obligations include debt and other long-term obligations. Changes in noncurrent obligations for the period ended June 30, 2017 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental Activities:</u>					
PG&E Loan	\$ 6,521		\$ 1,908	\$ 4,613	\$ 1,908
Compensated absences	36,473	\$ 18,000		54,473	54,473
TEA Phase I & II		187,197		187,197	42,578
Headwaters Loan		700,000		700,000	17,756
Total governmental activities	<u>\$ 42,994</u>	<u>\$ 905,197</u>	<u>\$ 1,908</u>	<u>\$ 946,283</u>	<u>\$ 116,715</u>

9. Line of Credit

RCEA maintains an unsecured line of credit through Umpqua Bank with a credit limit of \$75,000 and an interest rate of 5 percent. As of June 30, 2017, this line of credit had a zero balance.

10. Purchase Commitments

In the ordinary course of business, RCEA enters into various power purchase agreements in order to acquire renewable and other energy and electric capacity. The price and volume of purchased power may be fixed or variable. Variable pricing is generally based on the market price of either natural gas or electricity at the date of delivery. Variable volume is generally associated with contracts to purchase energy from as-available resources such as solar, wind and hydro-electric facilities.

RCEA enters into power purchase agreements in order to comply with state law and voluntary targets for renewable and greenhouse gas (GHG) free products and to ensure stable and competitive electric rates for its customers.

REDWOOD COAST ENERGY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2017

The following table represents the expected, undiscounted, contractual obligations outstanding as of June 30, 2017:

Year Ended	
<u>June 30,</u>	<u>Total</u>
2017	\$ 12,659,163

11. Lease of Real Property

RCEA entered into a 23 month lease for its facility as of May 1, 2013, with monthly payments of \$4,100. The lease was renewed in 2016/17 for an additional 12 months, with monthly payments of \$4,100. Total rent expense was \$53,792 for the year ended June 30, 2017. Future lease commitments are \$51,057 for the year ending June 30, 2018.

12. Community Choice Aggregation

Beginning May 2017, RCEA launched the Community Choice Aggregation program. This program allows RCEA to bundle the electricity needs of the community and purchase power on its behalf. RCEA has partnered with PG&E for this program. RCEA purchases the power for participating customers and feeds it into the power grid. PG&E continues to deliver the electricity, maintains the power lines, and handles all of the customer billing.

13. Concentrations and Contingencies

The most significant funding of RCEA is from the CCA program. For the year ended June 30, 2017, such funding totaled \$5,878,160.

14. Subsequent Events

Management has evaluated subsequent events through December 6, 2018, the date on which the financial statements were available to be issued.

## SUPPLEMENTARY INFORMATION

REDWOOD COAST ENERGY AUTHORITY  
ORGANIZATION  
June 30, 2017

Redwood Coast Energy Authority is a Joint Powers Authority formed in 2003, representing seven municipalities, the County of Humboldt, and the Humboldt Bay Municipal Water District.

The Board of Trustees for the fiscal year ended June 30, 2017 was composed of the following:

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Jurisdiction</u>
Sheri Woo	Chairperson	Humboldt Bay Municipal Water District
Michael Winkler	Vice Chairperson	Arcata
Austin Allison	Member	Eureka
Michael Sweeney	Member	Ferndale
Bobbi Ricca	Member	Blue Lake
Dean Glaser	Member	Fortuna
Frank Wilson	Member	Rio Dell
Dwight Miller	Member	Trinidad
Estelle Fennel	Member	County of Humboldt

ADMINISTRATION

Matthew Marshall  
Executive Director

John R. Goff, CPA  
Mark G. Wetzel, CPA  
Michael R. Cline, CPA



DAVID L. MOONIE & CO., LLP  
Certified Public Accountants

Kenneth X. Stringer, CPA  
Aaron S. Weiss, CPA  
Joshua S. Miller, CPA  
Matthew J. Haguc, CPA

## REDWOOD COAST ENERGY AUTHORITY

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Redwood Coast Energy Authority  
633 Third Street  
Eureka, California 95501

We have audited, in accordance with the 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, the financial statements of Redwood Coast Energy Authority ("RCEA"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise RCEA's basic financial statements, and have issued our report thereon dated December 7, 2018.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered RCEA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RCEA's internal control. Accordingly, we do not express an opinion on the effectiveness of RCEA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## REDWOOD COAST ENERGY AUTHORITY

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS - CONTINUED

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations as Findings 2017-1 through 2017-6, which we consider to be significant deficiencies.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether RCEA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Redwood Coast Energy Authority's Response to Findings**

RCEA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. RCEA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

Eureka, California

December 7, 2018

# REDWOOD COAST ENERGY AUTHORITY

## FINDINGS AND RECOMMENDATIONS

June 30, 2017

### 2017-1: GENERAL ACCOUNTING POLICIES AND PROCEDURES

#### Criteria

Good internal controls include maintaining current written accounting policies and procedures.

#### Condition

During our consideration of internal controls over financial reporting to determine the audit procedures that are appropriate for the purpose of expressing our opinion on the financial statements, we noted that the written accounting policies and procedures in place are out of date and not specific to RCEA.

#### Effect

Not having current written accounting policies and procedures increases the risk that misappropriations and errors will occur.

#### Cause

RCEA did not update its written accounting policies and procedures.

#### Recommendation

We recommend that RCEA establish and document current accounting policies and procedures which cater to the needs of the organization. We further recommend that these policies be read at board meetings and approved by formal board action.

#### Views of Responsible Officials and Planned Corrective Actions

RCEA agrees to the recommendation and will adhere to the corrective action plan described in the "RCEA's Corrective Action Plan" section immediately following this section of the audit report.

REDWOOD COAST ENERGY AUTHORITY

FINDINGS AND RECOMMENDATIONS - CONTINUED

June 30, 2017

2017-2: INTERNAL CONTROLS OVER EXPENSES

Criteria

Good internal controls over expenses include obtaining and documenting the required support, authorization, and approval prior to issuing the disbursement.

Condition

During our testing of expenses, in which we tested 51 percent of all operating expenses, we noted 2 instances totaling \$11,231 where the original documentation supporting the expense was not readily available. We also noted three instances totaling \$131,714.75 of expense checks over \$10,000 not being signed by a board member.

Effect

The lack of documentation supporting the disbursements and proper approval could result in errors or inappropriate expenses being incurred.

Cause

RCEA did not retain the documentation supporting the expense. RCEA did not ask a board member signer to approve the expenses over the set limit.

Recommendation

We recommend that RCEA retain all documentation supporting expenses and obtain board signatures for expenses over the set limit.

Views of Responsible Officials and Planned Corrective Actions

RCEA agrees to the recommendation and will adhere to the corrective action plan described in the "RCEA's Corrective Action Plan" section immediately following this section of the audit report.



REDWOOD COAST ENERGY AUTHORITY

FINDINGS AND RECOMMENDATIONS - CONTINUED

June 30, 2017

2017-3: PREPARATION OF BANK RECONCILIATIONS

Criteria

Good internal controls over cash include preparation of monthly bank reconciliations by a custodian of the bank account in a timely manner.

Condition

RCEA maintains a checking account with Umpqua Bank for general operations, a deposit control account for payroll expenses and a reserve account. RCEA also maintains an account with Chase Bank for payroll expenses and a trust fund account with the county of Humboldt. The custodian of the funds did not prepare monthly bank reconciliations for the Umpqua accounts and the Chase account in a timely manner. The custodian of the funds did not prepare monthly bank reconciliations for the trust fund account. Also, RCEA did not document review and approval of the bank reconciliations by someone other than the custodian of the account.

Effect

Failures to prepare bank reconciliations, and have another person review the bank reconciliations could result in future errors not being detected in a timely manner.

Cause

RCEA did not follow its policy to reconcile all bank accounts monthly in a timely manner and have another person review and initial the bank reconciliations.

Recommendation

We recommend that RCEA follow its policy to reconcile all bank accounts monthly in a timely manner and to have another person review and initial all bank reconciliations.

Views of Responsible Officials and Planned Corrective Actions

RCEA agrees to the recommendation and will adhere to the corrective action plan described in the "RCEA's Corrective Action Plan" section immediately following this section of the audit report.

REDWOOD COAST ENERGY AUTHORITY

FINDINGS AND RECOMMENDATIONS - CONTINUED

June 30, 2017

2017-4: PAYROLL INTERNAL CONTROL

Criteria

Good internal controls over payroll include supervisor review and approval of time sheets. In addition, prior to issuance of payroll bonuses, RCEA should determine if they are an allowable expense.

Condition

During our testing of payroll we noted that a board member was not approving the executive director's time sheet. We also noted annual bonuses paid to employees totaling \$9,940.

Effect

Not having a board member or supervisor sign and approve time sheets increases the chance that inappropriate or incorrect wages could be paid and not detected in a timely manner. We noted no actual inappropriate payments to the executive director for the year ended June 30, 2017. The bonuses paid may not be in compliance with government regulations.

Cause

RCEA did not have a policy regarding approval of executive director time sheets. RCEA was unaware that bonuses may not be allowable expenses.

Recommendation

We recommend that RCEA establish procedures for a board member to review and approve the executive director's time sheet. We further recommend that RCEA consult with legal counsel prior to issuing any further bonuses to determine if the bonuses were allowable payroll expenses.

Views of Responsible Officials and Planned Corrective Actions

RCEA agrees to the recommendation and will adhere to the corrective action plan described in the "RCEA's Corrective Action Plan" section immediately following this section of the audit report.

REDWOOD COAST ENERGY AUTHORITY

FINDINGS AND RECOMMENDATIONS - CONTINUED

June 30, 2017

2017-5: TIMELY CLOSING OF ACCOUNTING PERIOD

Criteria

Good internal controls include completing the annual accounting period close in a timely fashion.

Condition

RCEA closed the June 30, 2017 year end approximately 11 months after the year end.

Effect

The audit report was issued approximately 18 months after the year end.

Cause

Staffing limitations and turnover resulted in delayed closing of year end.

Recommendation

We recommend that RCEA works closely with staff or an outside firm to ensure that the year end is closed in a timely fashion.

Views of Responsible Officials and Planned Corrective Actions

RCEA agrees to the recommendation and will adhere to the corrective action plan described in the "RCEA's Corrective Action Plan" section immediately following this section of the audit report.

2017-6: INTERNAL CONTROLS - BUDGET ALLOCATIONS

Criteria

Good internal controls over budgeting include allocating program and administrative expenses as separate line items in the annual budget.

Condition

The 2016/17 budget did not allocate salaries and employee benefits between program

REDWOOD COAST ENERGY AUTHORITY

FINDINGS AND RECOMMENDATIONS - CONTINUED

June 30, 2017

expenses and administrative expenses.

Effect

Not having the allocation between program and administrative expenses in the budget increases the risk that RCEA is not able to track these expenses accurately against budgeted amounts throughout the year.

Cause

RCEA did not have a policy requiring allocation of salaries and employee benefits between program expenses and administrative expenses.

Recommendation

We recommend that RCEA establish procedures for allocating salaries employee benefits between program expenses and administrative expenses during the budgeting process.

Views of Responsible Officials and Planned Corrective Actions

RCEA agrees to the recommendation and will adhere to the corrective action plan described in the "RCEA's Corrective Action Plan" section immediately following this section of the audit report.



# REDWOOD COAST Energy Authority

County of Humboldt • Arcata • Blue Lake • Eureka • Ferndale • Fortuna • Rio Dell • Trinidad • Humboldt Bay Municipal Water District

## FINDING 2017-1: GENERAL ACCOUNTING POLICIES AND PROCEDURES

Name of contact person: Matthew Marshall, Executive Director

Corrective Action: The RCEA Board of Directors adopted a new/updated Financial Management Policy at the June 19, 2017 RCEA Board Meeting. This policy includes the provision that staff will develop internal accounting operating procedures and standards to guide day-to-day financial operations, and that these procedures will be maintained and updated based on the specific needs and requirements of RCEA. In December of 2016 the Board also adopted an Energy Risk Management Policy which governs wholesale power procurement procedures and transactions.

Proposed Completion Date: Policy adopted 6/19/18, implementation ongoing.

## FINDING 2017-2: INTERNAL CONTROLS OVER EXPENSES

Name of contact person: Matthew Marshall, Executive Director

Corrective Action: RCEA retains all documentation supporting expenses; for the two instances noted, subsequent to the auditor's testing the documentation was found to in fact be on file, it was just overlooked during the process of pulling documentation for the audit testing. RCEA has taken action to ensure that all staff with check-signing authority fully understand and comply with RCEA's policies and procedures going forward.

Proposed Completion Date: Complete.

## FINDING 2017-3: PREPARATION OF BANK RECONCILIATIONS

Name of contact person: Matthew Marshall, Executive Director

Corrective Action: Going forward RCEA will follow its policy to reconcile all bank accounts monthly in a timely manner and to have another person review and initial all bank reconciliations.

Proposed Completion Date: To be implemented effective immediately.



## FINDING 2017-4: PAYROLL INTERNAL CONTROL

Name of contact person: Matthew Marshall, Executive Director

Corrective Action: RCEA will have a Board member review and approve the Executive Director's time sheets. The year-end performance-based payroll payments ("bonuses") were part of a staff performance incentive program that was approved by the Board of Directors and was reviewed by RCEA legal counsel; regardless, RCEA has subsequently discontinued this year-end performance incentive program.

Proposed Completion Date: Completed; ongoing.

## FINDING 2017-5: TIMELY CLOSING OF ACCOUNTING PERIOD

Name of contact person: Matthew Marshall, Executive Director

Corrective Action: Going forward RCEA will work to ensure the annual accounting period close is completed in a timely fashion, with a goal of closing within 3 months of the end of the fiscal year.

Proposed Completion Date: The 2017-18 accounting period will be closed as soon as possible, and the 2018-19 period will be closed on or before 9/30/19.

## FINDING 2017-6: INTERNAL CONTROLS - BUDGET ALLOCATIONS

Name of contact person: Matthew Marshall, Executive Director

Corrective Action: The budget setting process for the 2017-18 fiscal year included allocation of costs between programmatic and administrative expenses. This was also done in the 2018-19 budgeting process, and will continue to be implemented going forward.

Proposed Completion Date: Completed.

REDWOOD COAST ENERGY AUTHORITY  
STATUS OF PRIOR YEAR FINDINGS

June 30, 2017

2016-1: GENERAL ACCOUNTING POLICIES AND PROCEDURES - REPEAT FINDING

Condition

During our consideration of internal controls over financial reporting to determine the audit procedures that are appropriate for the purpose of expressing our opinion on the financial statements, we noted that the written accounting policies and procedures in place are out of date and not specific to RCEA.

Cause

RCEA did not update its written accounting policies and procedures.

Current Status

Not implemented. See Finding 2017-1.

2016-2: INTERNAL CONTROL OVER EXPENSES

Condition

During our testing of expenses, in which we tested 58 percent of all operating expenses, we noted 3 instances totaling \$4,006 where there was no documentation supporting the expense.

Cause

RCEA did not retain the documentation supporting the expense.

Current Status

Not implemented. See Finding 2017-2.

2016-3: PREPARATION OF BANK RECONCILIATIONS

Condition

RCEA maintains a checking account with Umpqua Bank for general operations and

REDWOOD COAST ENERGY AUTHORITY  
STATUS OF PRIOR YEAR FINDINGS - CONTINUED

June 30, 2017

with Chase Bank for payroll expenses. RCEA also maintains a trust fund account with county of Humboldt. The custodian of the funds did not prepare monthly bank reconciliations for the Umpqua and Chase accounts in a timely manner from December 2015 to May 2016. The custodian of the funds did not prepare monthly bank reconciliations for the trust account.

Cause

RCEA did not follow its policy to reconcile all bank accounts monthly in a timely manner.

Current Status

Not implemented. See Finding 2017-3.

2016-4: INTERNAL CONTROL OVER REVENUES - REPEAT FINDING

Condition

During our testing of revenues, in which we tested 72 percent of all revenues, we noted 4 instances totaling \$132,270 where there no original signed documentation supporting vendor rebate reimbursements or complete documentation supporting reimbursement requests. We were able to trace the total batch reimbursement amount to an RCEA spreadsheet identifying the customer and total project cost, so, in our opinion, no revenue was received inappropriately.

Cause

RCEA did not maintain all documentation to support the invoices tested. Due to staff turnover and timing of the audit, RCEA was unable to locate the supporting documentation prior to issuance of the report.

Current Status

Implemented.

2016-5: PAYROLL INTERNAL CONTROL-REPEAT FINDING

Condition



REDWOOD COAST ENERGY AUTHORITY  
STATUS OF PRIOR YEAR FINDINGS - CONTINUED

June 30, 2017

During our testing of payroll we noted that a board member was not approving the executive director's time sheet. We also noted annual bonuses paid to employees totaling \$8,400.

Cause

RCEA did not have a policy regarding approval of executive director time sheets. RCEA was unaware that bonuses may not be allowable expenses.

Current Status

Not implemented. See Finding 2017-4.

2016-6: TIMELY CLOSING OF ACCOUNTING PERIOD - REPEAT FINDING

Condition

RCEA closed the June 30, 2016 year end approximately 16 months after the year end.

Cause

Staffing limitations and scheduling conflicts with an outside firm resulted in delayed closing of year end.

Current Status

Not implemented. See Finding 2017-5.

2016-7: INTERNAL CONTROLS – BUDGET ALLOCATIONS

Condition

The 2015/16 budget did not allocate salaries and employee benefits between program expenses and administrative expenses.

Cause

RCEA did not have a policy requiring allocation of salaries and employee benefits between program expense and administrative expenses.

REDWOOD COAST ENERGY AUTHORITY  
STATUS OF PRIOR YEAR FINDINGS - CONTINUED

June 30, 2017

Current Status

Not implemented. See Finding 2017-6.



# REDWOOD COAST Energy Authority

## STAFF REPORT Agenda Item # 7.1

AGENDA DATE:	December 17, 2018
TO:	Board of Directors
PREPARED BY:	Richard Engel, Director of Power Resources
SUBJECT:	Humboldt Sawmill Company Power Purchase Agreement

### SUMMARY

At its November 2018 meeting, the Board authorized staff to enter into negotiations to amend RCEA's power purchase agreement with Humboldt Sawmill Company (HSC) pursuant to the terms of that agreement's Material Change clause. This became necessary because of the expected financial impacts in 2019 of a) the California Public Utilities Commission's recent decision that will allow investor-owned utilities including PG&E to increase the Power Charge Indifference (PCIA) charges levied on Community Choice Energy customers, and b) PG&E's expected reduction of generation rates for bundled customers, which in turn requires RCEA to reduce its rates to remain price-competitive.

Staff met with leadership from HSC to propose an amendment that would reduce the price per MWh from the current \$83/MWh level. In exchange for this concession, HSC is interested in increasing the term length of the contract and/or the volume (MWh per year) sold to RCEA. HSC staff followed up on the meeting with a proposal for two alternative contract amendments, each with a proposed implementation date of March 1, 2019:

- A five-year term ending in 2024, continuing with the same volume (13.25 MW average, 116,070 MWh/year) as the current contract. The unit price would be set at \$65/MWh for the period March 1, 2019-December 31, 2019, thereafter increasing to a price of \$67/MWh. The 90% guaranteed energy production in the existing contract would be preserved.
- A ten-year term ending in 2029, with a 47% increase in annual volume (to 19.5 MW average, 170,820 MWh/year) through restarting of HSC's idle third generating unit. HSC expects to have the third unit restarted by September 1, 2019. The unit price would be set at \$61/MWh for the period March 1, 2019-December 31, 2019, thereafter increasing to a price of \$63/MWh. The guaranteed energy production level would be reduced to 70%, allowing HSC more flexibility as fuel supply fluctuates seasonally or with changes in the wood products market.

Under both alternatives, HSC proposes that the price would become subject to an annual consumer price index adjustment beginning on the anniversary of the contract amendment in 2021. The above prices would apply to the contract volumes; as under the existing contract, any surplus generation would be paid for at the day-ahead market price, making RCEA financially indifferent to purchasing this surplus power from HSC or the CAISO market.

As a reminder, the ten-year contract term has value for RCEA in that, in addition to lower unit pricing, it would help to meet the State's SB 350 requirement that 65% of required renewables procurement be in the form of long-term (10+ year) contracts or self-owned generation starting in 2021.

## **FINANCIAL IMPACTS**

The five-year contract alternative would reduce RCEA's procurement costs of HSC biomass power by approximately \$1.6 million during 2019, and approximately \$1.9 million per year in subsequent years, compared with the existing HSC contract price. Volume of energy procured would remain the same as under the existing contract.

The ten-year contract alternative would reduce RCEA's procurement costs of HSC biomass power by approximately \$1.0 million during 2019, compared with the existing contract, with an increase in volume of approximately 18,000 MWh. In 2020 and thereafter, expenditures under the contract would increase by approximately \$1.1 million per year compared with the existing contract, while volume of energy procured would increase by approximately 55,000 MWh per year. For reference, for the current 13.25 MW volume the reduction in price from \$83 to \$63 equates to a \$2.3 million savings per year. The increased volume would be offset by avoided purchases of energy hedge contracts, portfolio content category 1 (PCC 1) renewable energy, and resource adequacy from other sources.

The above estimates do not consider the possible impact of the consumer price index adjustment proposed for inclusion in the contract amendment.

It is important to note that the material change provision of the contract would remain in place, so should future circumstances result in the contract straining the viability of meeting other program objectives RCEA still retains the right to renegotiate the terms.

## **RECOMMENDED ACTION**

Authorize the Executive Director to develop and execute, after review and approval of RCEA General Counsel, an amendment to the power purchase agreement with Humboldt Sawmill Company with the following contract adjustments:

- Extend contract end date to 2029.
- \$61/MWh unit price for the period March 1, 2019-December 31, 2019, thereafter increasing to a price of \$63/MWh, subject to an annual consumer price index adjustment beginning on the anniversary of the contract amendment in 2021.
- Increase in annual volume from 13.25 to 19.5 MW average (170,820 MWh/year) in September 2019.

## **ATTACHMENTS**

None

# Public Comment

For December 17, 2018  
RCEA Board of Directors Meeting  
Agenda Item #7.1:  
Humboldt Sawmill Company  
Power Purchase Agreement

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Dear RCEA Board of Directors

I am writing on behalf of 350 Humboldt which, as you are aware, is a local affiliate of 350.org, an international climate action organization, to communicate our position about granting a long term (10 year) contract to Humboldt Redwood Company (HRC) for biomass energy production, as well as our position on the possibility of decreasing rate payer discounts or the percentage of renewables or GHG free energy sources from RCEA's portfolio.

To begin, we support your directing staff to renegotiate the contract with HRC to bring the price per MWh in line with market value. It has always been our position that paying above-market price for biomass impinges on RCEA's ability to meet its stated financial goal of accumulating a reserve fund of \$35 million in 5 years in favorable market conditions and a minimum of \$10 million in adverse markets. We can see from the staff report titled "Reserves Targets and Account Accumulation" that we are behind even adverse market accumulations, and it seems reasonable to conclude that this is at least partially due to paying above market price for biomass.

However, we strongly oppose the proposal to "sweeten the deal" by offering HRC a longer term contract in return for this necessary reduction in rates. While we understand the SB350 mandate to have 65% of contracts be long term by 2021, we feel that mandate would be better realized through projects like onshore and offshore wind energy, because wind energy is cheaper, will be cheaper going into the future, and is more clearly a renewable, clean and GHG-free energy source. investors in these projects are looking for long term stability, and it makes sense to reserve long

term contracts for these projects.

Finally, we strongly urge you not to consider decreasing the percentages of renewable energy and lower GHG energy as a way of responding to this financial situation, which was suggested as a possible scenario by staff. This is a critical point in time when we urgently need to move away from fossil fuel based energy and toward renewables in order to slow and finally reverse the spiral of worsening climate change that we are witnessing today.

350 Humboldt is supportive of the mission and the hard work of RCEA and we appreciate that you have taken the time to review our concerns. We are also sending for your review a copy of a letter we sent last December, which remains relevant to this topic.

Please feel free to contact me with any clarifications or questions.

Sincerely yours,  
Mary Sanger ,350 Humboldt

A black rectangular redaction box covering the signature area.




Dear RCEA Board of Directors,

As I mentioned in our earlier email, I am also sending you a copy of the letter that we sent you last year. At that time we were very concerned about rate payers paying above-market cost for biomass energy and the impact that would eventually have on RCEA's ability to achieve its financial goals.

350 Humboldt is very supportive of RCEA, we share its goals of switching away from a carbon based energy to the renewable energy of the future that is cost effective as well.

Mary Sanger, 350 Humboldt



December 18, 2017

Board of Directors  
Redwood Coast Energy Authority  
633 Third Street  
Eureka, CA 95501

**RE: Potential Contract for Additional Biomass Energy Procurement**

Dear Board Members:

I am writing to express 350 Humboldt's concerns over the prospect of a contract between the Redwood Coast Energy Authority (RCEA) and DG Fairhaven for biomass energy delivery. 350 Humboldt is a local affiliate of 350 dot Org a national and international climate activist organization. We do not currently have a public position on biomass. However, we question the need for additional biomass energy procurement to meet RCEA's established portfolio goals and believe that the opportunity cost of investing in additional biomass energy at the available price is simply too high.

The Community Choice Energy (CCE) guidelines approved by your Board in 2017 stated that 15% of the energy portfolio would come from local biomass—"contingent on price and market conditions." According to the staff report presented at the November 2017 Board of Directors meeting, RCEA's current contract with Humboldt Redwood Company is on track to provide at least 13.5% of the CCE portfolio. Clearly, another large biomass energy procurement contract is not necessary to meet the 15% portfolio goal.

Additionally, and more importantly, the increased cost of adding another biomass plant (Fairhaven) to the CCE portfolio will directly impact RCEA's ability to meet other established goals for renewable energy in the portfolio. As your staff stated clearly in the biomass procurement options update submitted at your November meeting, "a DG Fairhaven contract is not compatible with maintaining the renewable and carbon free levels in the portfolio in 2017 or a major increase in the PCIA."

A staff report from March 2017 further specifies that "each MW of DG Fairhaven capacity in 2018 would cost \$280,000 above the cost of procuring renewable energy from non local sources at market rates." Staff have not, to our knowledge, directly addressed the impact of a DG Fairhaven contract on the availability of funding for the development of other local renewable energy sources. 350 Humboldt strongly encourages RCEA to engage in prudent fiscal planning to allow investment in promising new local renewable generation, such as the offshore wind project currently being explored, rather than paying a substantial premium for additional biomass energy procurement.

Thank you for your consideration of our concerns. Please don't hesitate to contact me if you should have any questions.

Sincerely,

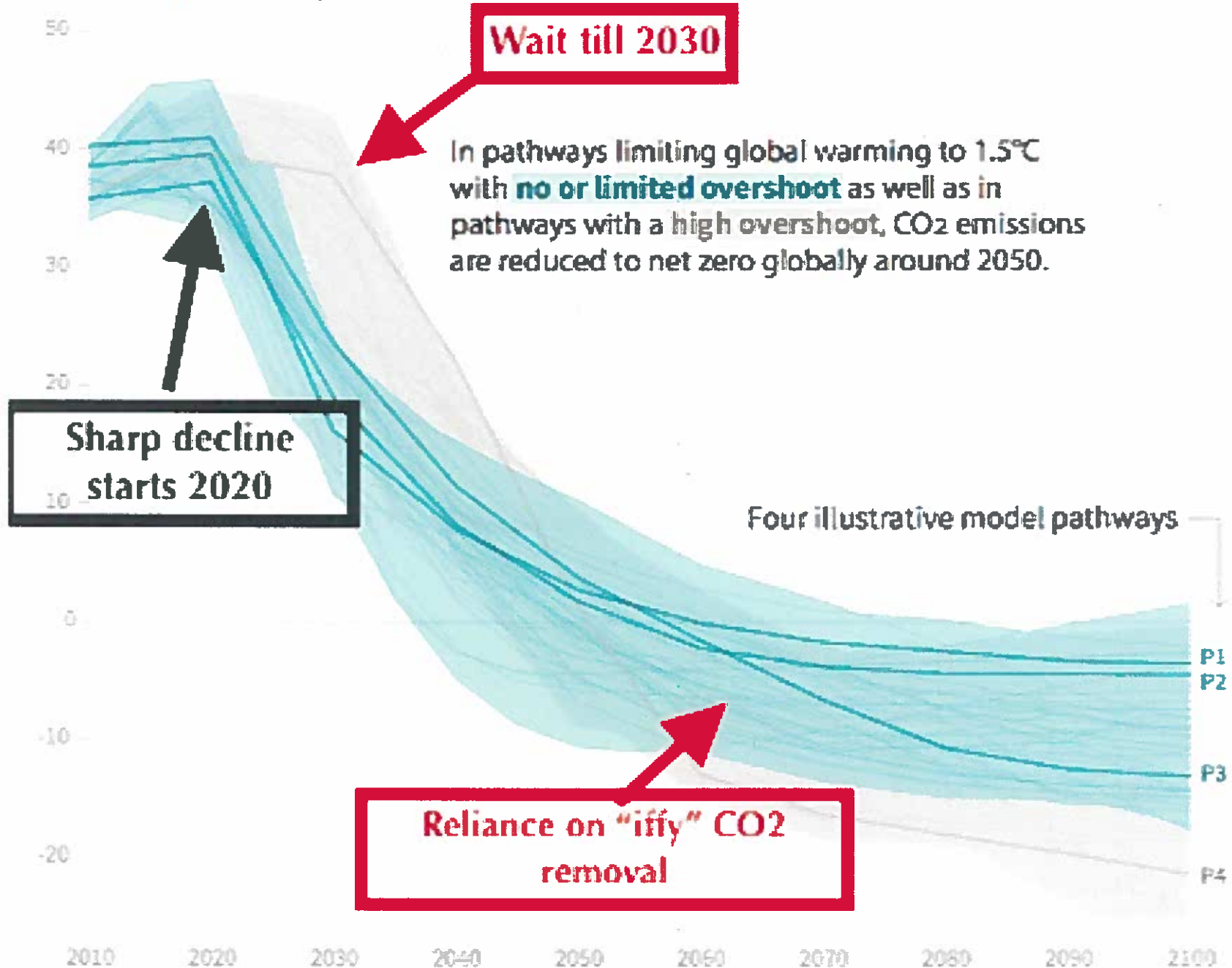
Rob DiPerna  
350 Humboldt

Materials Received  
After Packet  
Publication

# Global total net CO<sub>2</sub> emissions

12/17/18 RCEA Board Meeting agenda item #7.1  
Distributed at the meeting by Dr. Wendy Ring

Billion tonnes of CO<sub>2</sub>/yr





**STAFF REPORT**  
**Agenda Item # 7.2**

AGENDA DATE:	December 17, 2018
TO:	Board of Directors
PREPARED BY:	Matthew Marshall, Executive Director
SUBJECT:	Offshore Wind Project

Staff requests action from the Board on two items related to the offshore wind project:

**Harbor District MOU**

RCEA and its project partners are beginning to work with the Humboldt Bay Harbor District on addressing the harbor infrastructure needs of the offshore wind project. A memorandum of understanding (MOU) between RCEA, RCEA's offshore wind development partners, and the Harbor District has been proposed to establish a foundation for the initial steps of working together.

This MOU is meant to be an initial bridge document for the first phase of working together, and it is expected to be replaced with future, more detailed agreements as the project progresses.

**BOEM call for information and nominations comments**

As discussed at previous RCEA Board meetings, the Bureau of Ocean Energy Management (BOEM) has issued a "call for information and nominations" for three potential California offshore wind lease areas, including one off Humboldt County's coastline that encompasses the area of RCEA's unsolicited lease request. RCEA's lease request and information about the call are available on BOEM's website: <https://www.boem.gov/California/>.

To avoid any doubt, staff intends to work with RCEA's project partners to formally resubmit our lease request through BOEM's comment portal to ensure it is officially recorded by BOEM in their "call" process. In addition, RCEA and its partners have been discussing whether additional comments should be submitted to BOEM. The comment period closes on January 28, which is the date of the next regular RCEA Board meeting. Staff requests the Board authorize the Board's Offshore Wind Subcommittee to review and approve any additional RCEA comments to BOEM so that any potential comments may be submitted before the comment period closes.

**RECOMMENDED ACTION**

Approve Memorandum of Understanding with the Humboldt Bay Harbor, Recreation and Conservation District and authorize the Executive Director to execute all associated documents pending final review and approval of any revisions by RCEA Legal Counsel.

Authorize the Board Offshore Wind Subcommittee to approve RCEA comments for submission to the Bureau of Ocean Energy Management's call for information and nominations.

**ATTACHMENTS**

Draft Memorandum of Understanding with the Humboldt Bay Harbor, Recreation and Conservation District.

**MEMORANDUM OF UNDERSTANDING AND INTENT TO COOPERATE  
BETWEEN  
HUMBOLDT BAY HARBOR RECREATION & CONSERVATION DISTRICT  
AND  
REDWOOD COAST OFFSHORE WIND PROJECT PARTNERS**

This Memorandum is entered into this      day of November 2018 (“Effective Date”), by and among the following (each a “Party” and together the “Parties”):

1. **HUMBOLDT BAY HARBOR RECREATION & CONSERVATION DISTRICT** (“HARBOR DISTRICT”), a California public entity located in Eureka, Humboldt County California
2. **PRINCIPLE POWER, INC.** (“PPI”), a company incorporated in the state of Nevada, USA, (Entity No. E0706352007-5) having an office at 5901 Christie Ave., Suite 303, Emeryville, CA, USA 94608 that provides technology, engineering and development services for deep-water offshore wind energy projects (“PPI”).
3. **AKER SOLUTIONS INC.** (“ASI”), a company organized and existing under the laws of the State of Delaware whose principal office is at 3010 Briarpark Dr., 77042 Houston, TX.
4. **EDPR OFFSHORE NORTH AMERICA LLC** (“EDPR”), a limited liability company organized under the laws of the State of Delaware, whose principal office is at 808 Travis Street, Houston, TX 77002; and
5. **REDWOOD COAST ENERGY AUTHORITY** (“RCEA”), a California Joint Powers Authority, having an office at 633 3<sup>rd</sup> street, Eureka, CA whose members include the County of Humboldt, the Cities of Arcata, Blue Lake, Eureka, Ferndale, Fortuna, Rio Dell, and Trinidad, and the Humboldt Bay Municipal Water District; and

## **PREAMBLE**

By creating access to economically-priced renewable energy, renewable resource diversification, and enhanced economic activity in coastal areas, floating offshore wind energy development represents tremendous opportunity for the State of California. This is especially true of Humboldt County, where the wind resource offshore is particularly strong, and Humboldt Bay is endowed with characteristics that make it well-suited for investment to support the deployment of offshore wind systems. The Parties recognize these advantages and seek to identify and support development of floating offshore wind energy projects off the coast of Humboldt County.

The Port of Humboldt Bay is the only deep-water port in Northern California located in Humboldt County with substantial port facilities and upland infrastructure. The Parties made a preliminary assessment of the existing facilities through multiple site visits and recognize that the Port has a high potential to become a hub for offshore wind energy on the Northern Coast.

While upgrades of existing facilities and/or development of new facilities are required, real opportunities exist to drive investments and incrementally develop infrastructure capabilities for offshore wind structures fabrication, assembly, load-out and pre-commissioning activities. These infrastructure improvements are needed to serve the Redwood Coast Offshore Wind Project, as well as future offshore wind energy commercial developments in the region and represent a real opportunity to revitalize the Port of Humboldt Bay.

The Parties intend to collaborate with local community stakeholders to identify and address local infrastructure improvements. These investments are intended to be directed towards the broadest community benefit and will require skilled labor from the immediate and surrounding area.

## **AGREEMENT**

The Parties agree to cooperate and work together in good faith for the purpose of planning port infrastructure improvements at the Port of Humboldt Bay needed to serve the construction, installation, and operations of the Redwood Coast Offshore Wind Project (the “Project”), an

approximately 100MW to 150MW floating offshore wind energy project off the coast of Humboldt County. As part of this agreement, the Parties agree to work together:

1. To cooperate and work with other stakeholders globally, regionally, locally to identify and reasonably address local infrastructure improvements needed for the construction, deployment, operation, maintenance, and decommissioning of the Project's components;
2. To inform the HARBOR DISTRICT's future business plan, strategic planning effort, permitting and environmental review for port infrastructure developments required to serve the Project that will drive investments and spur economic activity in the region;
3. To identify and evaluate any potential needs or impacts to current port users, existing waterfront businesses, local stakeholders, and the environment associated with the Project's development, construction, operations, and decommissioning, and to take reasonable steps to meet these needs and minimize these impacts;
4. To seek out and cooperate on mutually beneficial grant or public funding opportunities that are consistent with the goals of this Memorandum;
5. To work together to negotiate the main elements of future port facility leasing, purchasing, and/or other relevant agreements for the Project's construction and deployment activities, considering the price and terms that meet the needs of the Parties, their customers, members, and investors;
6. To coordinate and cooperate with state and other relevant officials in ways that advance the Project's interests;
7. To inform all other Parties in a timely fashion of relevant developments that could affect or impact the goals of this Memorandum, and;
8. To identify and reasonably address the additional relevant needs of any Party that may arise during the Project development process.

This Memorandum does not establish a joint venture, partnership, or business unit of any kind between the Parties, nor does it necessarily create a financial obligation on behalf of either Party. Further the Memorandum does not grant or create an exclusive right to negotiate between the Parties; and either party is free to negotiate or explore similar agreements with other persons and entities.



## **CONFIDENTIALITY**

Confidentiality shall be governed specifically by Non-Disclosure Agreements between the Parties, unless such NDAs have been superseded by a subsequent confidentiality agreement in writing between the Parties, and the California Public Records Act, Government Code section 6250 et seq.

## **GOVERNING LAW**

The substantive laws of the State of California shall govern this Memorandum and any questions concerning its validity, construction or performance, without regard to the conflicts of laws provisions thereof. The Parties agree to submit to the non-exclusive jurisdiction of the courts in California in relation to any dispute arising out of or in connection with this Memorandum, whether based in contract, tort (including negligence) or otherwise.

## **TERM**

This Memorandum shall commence on the Effective Date and terminate on the first to occur of any of the following events: (a) the passage of two years from the Effective Date (b) the Parties mutually agree to terminate this Memorandum; (c) the Parties mutually agree to supersede this Memorandum with another form of legal agreement; (d) if any Party is placed into liquidation, bankruptcy, administration, receivership or any similar process; or (e) by material breach of a Party.

**IN WITNESS WHEREOF**, each Party has caused this Memorandum to be duly signed and delivered, effective as of the Effective Date.

**Humboldt Bay Harbor Recreation & Conservation District**

Date:

By: \_\_\_\_\_

Name: Larry Oetker

Title: Executive Director

**EDPR Offshore North America LLC**

Date:

By: \_\_\_\_\_

Name: Enrique Alvarez-Uria

Title: Manager

**Principle Power, Inc.**

Date:

By: \_\_\_\_\_

Name: Joao Metelo

Title: President & CEO

**Aker Solutions, Inc.**

Date:

By: \_\_\_\_\_

Name: Jonah Margulis

Title: Country Manager

**Redwood Coast Energy Authority**

Date:

By: \_\_\_\_\_

Name: Matthew Marshall

Title: Executive Director



# REDWOOD COAST Energy Authority

## STAFF REPORT Agenda Item # 8.1

AGENDA DATE:	December 17, 2018
TO:	Board of Directors
PREPARED BY:	Richard Engel, Director of Power Resources
SUBJECT:	Energy Risk Management Policy – Annual Update

### SUMMARY

Section 8 of RCEA's Energy Risk Management Policy (ERMP) directs that the risk management team review the policy at least annually and submit any proposed amendments to the Board for approval. The policy was initially adopted by the Board in December 2016 and is now due for review. The attached draft, updated collaboratively by staff, The Energy Authority (TEA), and independent Risk Management Team member Don Dame, includes the following key changes:

- An Energy Risk Hedging Strategy is added as an appendix.
- Language is added that clarifies the discretion staff and third-party service providers are permitted in order to balance value and risk in making transaction decisions.
- Director of Finance and Human Resources is deleted as a voting seat on the Risk Management Team.
- The list of authorized transaction types has been expanded.
- Definitions of some terms are added or adjusted.
- An Acknowledgment of Risk Management Policy is added, to be signed annually by all RCEA employees having risk management responsibilities related to RCEA's community choice energy program.

RCEA's Risk Management Team has reviewed the updated policy and recommends adoption by the Board.

### FINANCIAL IMPACTS

RCEA's Energy Risk Management Policy protects the organization from financial risk that could be incurred through its community choice energy program. The proposed changes are minor and do not substantially affect risk to the organization. Financial oversight responsibility that previously belonged to the Director of Finance and Human Resources has been transferred to the Director of Business Development and Planning, who continues as a voting member of the Risk Management Team.

**RECOMMENDED ACTION**

Adopt Resolution 2018-8 of the Redwood Coast Energy Authority Adopting Updates to the Energy Risk Management Policy.

**ATTACHMENT**

Resolution 2018-8, including updated Risk Management Policy with highlighted changes as Appendix A

**RESOLUTION NO. 2018-8  
OF THE REDWOOD COAST ENERGY AUTHORITY  
ADOPTING UPDATES TO THE ENERGY RISK MANAGEMENT POLICY**

**WHEREAS**, the Redwood Coast Energy Authority (RCEA) operates a community choice energy program on behalf of participating jurisdictions in Humboldt County; and

**WHEREAS**, the Board of RCEA adopted a Risk Management Policy in December 2016 with the goal to put in place strong power-procurement risk management practices and to increase the likelihood of achieving its community choice energy program goals by specifying management responsibilities, organizational structures, risk management standards, and operating controls and limits necessary to properly identify and manage RCEA's exposure to risk; and

**WHEREAS**, certain updates and amendments to the Risk Management Policy are needed to address changes that have taken place since the community choice energy program was launched.

**NOW, THEREFORE, BE IT RESOLVED**, that the Board of the Redwood Coast Energy Authority hereby adopts an updated Energy Risk Management Policy as set forth in Appendix A with deletion of language as shown by strike through and addition of language as shown by underlining, attached hereto and incorporated herein.

Adopted this \_\_\_\_ day of \_\_\_\_\_, 2018

ATTEST:

\_\_\_\_\_  
Sheri Woo, RCEA Board Chair

\_\_\_\_\_  
Clerk of the Board, RCEA

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**CLERK'S CERTIFICATE**

I hereby certify that the foregoing is a true and correct copy of Resolution No. 2018-8 passed and adopted at a regular meeting of the Redwood Coast Energy Authority, County of Humboldt, State of California, held on the \_\_\_\_ day of \_\_\_\_\_, 2018, by the following vote:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

\_\_\_\_\_  
Clerk of the Board, Redwood Coast Energy Authority

**APPENDIX A**

**REDWOOD COAST ENERGY AUTHORITY  
UPDATED ENERGY RISK MANAGEMENT POLICY**



REDWOOD COAST  
**EnergyAuthority**

**Commented [RE1]:** Add to tile page "Revised December 17, 2018, Resolution 2018-X" pending Board review and approval

# Energy Risk Management Policy

Adopted December 12, 2016, Resolution 2016-6  
Revised April 16, 2018, Resolution 2018-4

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## Section 1: POLICY OVERVIEW

### 1.1 Background and Purpose

The Redwood Coast Energy Authority (“RCEA”) is a public joint powers agency located within the geographic boundaries of Humboldt County. Member agencies of RCEA include the ~~eight (8)~~seven (7) incorporated cities located in Humboldt County, the County of Humboldt and the Humboldt Bay Municipal Water District. RCEA members desire to implement and administer a community choice aggregation (“CCA”) program for members that elect to become participants. The CCA program will give its members an opportunity to join together to procure electricity supplies and implement local programs that meet the goals of the local community. Electricity procured to serve customers will continue to be delivered over PG&E’s transmission and distribution system.

Presently, RCEA’s CCA Members include the following local government entities:

- Unincorporated Humboldt County
- City of Arcata
- City of Blue Lake
- City of Eureka
- City of Ferndale
- City of Fortuna
- City of Trinidad
- City of Rio Dell

Providing retail electric generation service to customers enrolled in the CCA program exposes RCEA to risks such as retail load uncertainty (due to weather, customer opt-out, and other factors), energy market price, counterparty credit, PG&E generation and PCIA rate competitiveness and other regulatory risks.

This Energy Risk Management Policy (“Policy”) establishes RCEA’s Energy Risk Management Program (“Program”) including risk management functions and procedures to manage the risks associated with power procurement activities.

The ultimate purpose of this Policy is to help RCEA increase the likelihood of achieving its goals by specifying management responsibilities, organizational structures, risk management standards, and operating controls and limits necessary to properly identify and manage RCEA’s exposure to risk.

The RCEA Board of Directors is responsible for approving wholesale power procurement risk related policies, including delegations of authority and limits to the Executive Director, RCEA staff and, as warranted, third party service providers. The Board understands and acknowledges that energy trading activities necessarily involve risk and a key Board objective is to quantify and balance value and risk within RCEA’s resource portfolio without engaging in speculative trading activity. Within the guidelines of this policy, the Board recognizes that while the application of expertise must be employed in managing RCEA’s resource portfolio, staff and third party service providers may exercise some reasonable discretion in making commercial trading decisions.

**Commented [RE2]:** Adapted from language proposed by Jeff Fuller (TEA), with some additional modification proposed by Don Dame (independent Risk Management Team member).

## 1.2 Scope

Unless otherwise explicitly stated in this Policy, or other policies approved by the Board, this Policy applies to all power procurement and related business activities that may impact the risk profile of RCEA. This Policy documents the framework by which management, staff and The Energy Authority (TEA) will:

- Identify and quantify risk
- Develop and execute procurement strategies
- Create a framework of controls and oversight
- Monitor, measure and report on the effectiveness of the Program

To ensure successful operation of the CCA program, RCEA has partnered with experienced contractors to provide energy-related services. Specific to power procurement, RCEA has partnered with TEA. At the outset of the CCA Program, TEA will be executing the preponderance of front- (transacting), middle- (monitoring) and back-office (settlement) related activities on RCEA's behalf. In providing these services, TEA will observe the policies outlined in this document. TEA maintains its own risk policies and procedures, following industry practices of segregation of duties, which will also govern activities executed on RCEA's behalf.

## 1.3 Energy Risk Management Objective

The objective of the Energy Risk Management Policy is to provide a framework for conducting procurement activities that maximizes the probability of RCEA meeting the goals listed in Section 2.1.

Pursuant to this Policy, RCEA will identify and measure the magnitude of the known risks to which it is exposed and that contribute to the potential for not meeting identified goals.

## 1.4 Policy Administration

This Policy document has been reviewed and approved by the RCEA Board of Directors ("Board"). The Risk Management Team ("RMT") and Board must approve amendments to this Policy, except for the appendices, which may be amended with approval of only the RMT. The RMT must give notice to the Board of any amendment it makes to an appendix or a reference policy or procedure document.

## Section 2: GOALS AND RISK EXPOSURES

---

### 2.1 Policy Goals

To help ensure long term viability for the CCA, RCEA has outlined the following Policy Goals. These goals will establish metrics used for modeling and measuring risk exposures of the CCA.

- RCEA will target to maintain competitive retail rates with PG&E after adjusting for the PCIA and Franchise Fee.
- RCEA will target during the initial years of operation to fund financial reserves with the following objectives:
  - Establish long-term business sustainability
  - Build collateral for power procurement activities
  - Establish an investment grade credit rating
  - Develop a source of funds for investment in generation and other local programs
  - Stabilize rates and dampen year-to-year variability in procurement costs

The goals outlined above are incorporated into the financial models that are used in modeling and measuring risk exposures. It is important to note that the goals listed above are not intended to be a comprehensive list of goals for the CCA. Rather, the above reflect a subset of program goals that are critical to long-term business viability for the CCA.

### 2.2 Risk Exposures

The Program faces a range of risks during launch and ongoing operation:

- Customer Opt-Out risk
- Market risk
- Regulatory risk
- Volumetric risk
- Model risk
- Operational risk
- Counterparty credit risk
- Reputation risk

#### *Customer Opt-Out Risk*

Customer opt-out risk is ~~the primary risk the CCA faces~~ a significant CCA risk. Customer opt-out risk includes any conditions or events that create uncertainty in the CCA's customer base, thereby increasing the potential for the CCA to not meet its Policy goals. A CCA faces other risks, but the ultimate concern is often how these other risks will affect customer opt-outs. This Policy addresses this paramount risk and secondary risk types listed below. These risks are not all inclusive but are identified as the risk factors driving the success of the CCA.

The most relevant measures of the success of this Policy include:

- Retail rate competitiveness with PG&E
- Financial reserve level
- Percentage of customer opt-outs by customer count and by load

For the purpose of this Policy, risk exposure is assessed on all ~~the~~ transactions (energy, environmental attributes, capacity, etc.) executed by TEA on behalf of RCEA, or by RCEA on its own behalf, as well as the risk exposure of open positions and the impacts of these uncertainties on the CCA's load obligations. The following are components of RCEA's energy risk that will be assessed, monitored and managed.

### 2.3.1 Market Risk

Market risk is the uncertainty of RCEA's financial performance due to variable commodity market prices (market price risk) and uncertain price relationships (basis risk). Variability in market prices creates uncertainty in RCEA's procurement costs and can materially impact RCEA's financial position. Market risk is managed by regular measurement, execution of approved procurement and Congestion Revenue Right strategies and the limit structure set forth in this Policy.

### 2.3.2 Regulatory Risk

CCAs remain a comparatively new legal entity in the state of California and are subject to an evolving legal and regulatory landscape. Additionally, CCA's are in direct competition with California's Investor Owned Utilities ("IOUs"), which face the risk of stranded investments in generating assets and power purchase agreements procured in the past to serve now departing CCA loads. The manner in which the stranded costs of these legacy power supplies are allocated to departing CCA loads is the subject of regulatory proceedings at the CPUC. The competitive and regulatory landscape results in retail rate competitiveness risks that are unique to CCAs. RCEA will manage regulatory risk by:

- Regular monitoring and analysis of legislative and regulatory proceedings impacting CCAs;
- Regular monitoring and reporting of actual and projected financial results including probability-based and stressed financial results assuming a range of market and retail rate scenarios (both RCEA and PG&E);
- Structuring procurement strategies with the objective function of maintaining a favorable retail rate savings relative to PG&E;
- Actively participating in and representing CCA customer interests during regulatory and legislative proceedings.

### 2.3.3 Volumetric Risk

Volumetric risk is the uncertainty of RCEA's financial performance due to variability in the quantity of retail load served by RCEA. Retail load uncertainty results from customer opt-outs, temperature deviation from normal, unforeseen adoption of behind the meter generation by RCEA customers, as well as local, state and national economic conditions. Volume risk is managed by taking steps to:

- Quantify anticipated PG&E generation and PCIA rates, and variability therein;
- Quantify variability in procurement timing and costs;
- Monitor and adjust for non-regulatory factors driving volumetric uncertainty (e.g. weather);

- Adopt a formal procurement strategy;
- Implement a key accounts program and maintain strong relationships with the local community;
- Monitor trends in customer onsite generation, economic shifts, and other factors that affect electricity customer volume and composition;
- Expand the customer base of the CCA into neighboring counties and include direct access loads.

#### 2.3.4 Model Risk

Model risk is the uncertainty of RCEA's financial performance due to potentially inaccurate or incomplete characterization of a transaction or power supply portfolio elements due to fundamental deficiencies in models and/or information systems. Model risk is managed by:

- TEA Risk Management Committee approval, and RCEA RMT ratification of, financial and risk models;
- Ongoing review of model outputs as part of controls framework;
- Ongoing RCEA and TEA staff education and participation in CCA industry forums;
- Ongoing update and improvement of models as additional information and expertise is acquired

#### 2.3.5 Operational Risk

Operational risk is the uncertainty of RCEA's financial performance due to weaknesses in the quality, scope, content, or execution of human resources, technical resources, and/or operating procedures within RCEA. Operational risk can also be exacerbated by fraudulent actions by employees or third parties or inadequate or ineffective controls. Operational risk is managed through:

- The controls set forth in this Policy
- RMT oversight of procurement activity
- Timely and effective management reporting
- Staff resources, expertise and/or training reinforcing a culture of compliance
- Ongoing and timely internal and external financial and operational audits

#### 2.3.6 Counterparty Credit Risk

Counterparty credit risk is the potential that a Counterparty will fail to perform or meet its obligations in accordance with terms agreed to under contract. RCEA's exposure to counterparty credit risk is controlled by the limit controls set forth in the Credit Policy described in Section 6.

#### 2.3.7 Reputation Risk

Reputation risk is the potential that the CCA's reputation is harmed, causing customers to opt-out of the CCA's service and migrate back to PG&E. Reputational risk is managed through:

- Implementation and adherence to this Energy Risk Management Policy
- Establishment and adherence to industry best practices including both those adopted by other CCAs, as well as those adopted by traditional municipal electric utilities.

## 2.4 Risk Measurement Methodology

A vital element in RCEA's Energy Risk Management Policy is the regular identification, measurement and communication of risk. To effectively communicate risk, all risk management activities must be monitored on a frequent basis using risk measurement methodologies that quantify the risks associated with RCEA's procurement-related business activities and performance relative to goals.

Risk measurement of RCEA's position will be performed using a method that calculates projected procurement costs on an annual basis at various probabilities and that further provides a comparison of projected RCEA retail rates to those of PG&E. The rate comparison will be adjusted for actual and projected PCIA and Franchise Fee charges. Risk measurement methodologies shall be re-evaluated on a periodic basis to ensure RCEA and TEA adjust their methods to reflect the evolving regulatory and competitive landscape. The implementation of these methods shall be overseen and validated by TEA and ratified by the RMT.

## Section 3: BUSINESS PRACTICES

### 3.1 General Conduct

It is the policy of RCEA that all personnel, including the Board, management, and agents, adhere to standards of integrity, ethics, conflicts of interest, compliance with statutory law and regulations and other applicable RCEA standards of personal conduct while employed by or affiliated with RCEA.

### 3.2 Trading for Personal Accounts

All RCEA Directors, management, employees and agents participating in any transaction or activity within the coverage of this Policy are obligated to give notice in writing to RCEA of any interest such person has in any counterparty that seeks to do business with RCEA, and to identify any real or potential conflict of interest such person has or may have with regard to any contract or transaction with RCEA. Further all persons are prohibited from personally participating in any transaction or similar activity that is within the coverage of this Policy and that is directly or indirectly related to the trading of electricity and/or environmental attributes as a commodity.

If there is any doubt as to whether a prohibited condition exists, then it is the employee's responsibility to discuss the possible prohibited condition with her/his manager or supervisor.

### 3.3 Adherence to Statutory Requirements

Compliance is required with rules promulgated by the state of California, California Public Utilities Commission, California Energy Commission, Federal Energy Regulatory Commission (FERC), Commodity Futures Trading Commission (CFTC), and other regulatory agencies.

Congress, FERC and CFTC have enacted laws, regulations and rules that prohibit, among other things, any action or course of conduct that actually or potentially operates as a fraud or deceit upon any person in connection with the purchase or sale of electric energy or transmission services. These laws also prohibit any person or entity from making any untrue statement of fact or omitting to state a material fact where the omission would make a statement misleading. Violation of these laws can lead to both civil and criminal actions against the individual involved, as well as RCEA. This Policy is intended to comply with these laws, regulations and rules and to avoid improper conduct on the part of anyone employed by RCEA. These procedures may be modified from time to time by legal requirements, auditor recommendations, RMT requests and other considerations.

In the event of an investigation or inquiry by a regulatory agency, RCEA will provide legal counsel to employees. However, RCEA will not appoint legal counsel to an employee if RCEA's General Counsel and Executive Director determine that the employee was not acting in good faith within the scope of employment.

RCEA employees are prohibited from working for another power supplier, CCA or utility in a related position while they are simultaneously employed by RCEA unless an exception is authorized by the Board. For clarity, this prohibition is not intended to prevent RCEA staff from performing non-CCA activities on behalf of RCEA in the normal course of its business.



### 3.4 Transaction Type, Regions and Markets

Authorized transaction types, regions and markets are listed in Appendix [BA](#) to this Policy. These transaction types, regions and markets are and shall continue to be focused on supporting RCEA's financial policies, including approved procurement strategies. New or non-standard transaction types may provide RCEA with additional flexibility and opportunity but may also introduce new risks. Therefore, transaction types, regions and markets not included in Appendix [BA](#), or transactions within already approved transaction types that are substantially different from any prior transaction executed by RCEA, must be approved by the RMT prior to execution using the process defined below.

When seeking approval for a new or non-standard transaction type, region, and/or market, a New Transaction Approval Form, as shown in Appendix [CB](#), should be drafted describing all known significant elements of the proposed transaction. The proposal write-up will be prepared by TEA and should, at a minimum, include:

- A description of the benefit to RCEA, including the purpose, function and expected impact on costs (i.e.; decrease costs, manage volatility, control variances, etc.)
- Identification of the in-house or external expertise that will manage and support the new or non-standard transaction type
- Assessment of the transaction's risks, including any material legal, tax or regulatory issues
- How the exposures to the risks above will be managed by the limit structure
- Proposed valuation methodology (including pricing model, where appropriate)
- Proposed reporting requirements, including any changes to existing procedures and system requirements necessary to support the new transaction type
- Proposed accounting methodology
- Proposed work flows/methodology (including systems)

It is the responsibility of TEA's Middle Office to ensure that relevant departments have reviewed the proposed transaction and that material issues are resolved prior to submittal to the RMT for approval. If approved, Appendix [BA](#) to the Policy will be updated to reflect the new transaction type.

### 3.5 Counterparty Suitability

TEA's counterparty credit limits and approval processes will govern counterparty suitability for all transactions executed by TEA on behalf of RCEA. TEA will provide a credit review and recommendation, consistent with the credit policies described in Section 6, for any counterparty with whom RCEA contracts directly.

### 3.6 System of Record

TEA's Middle Office will maintain a set of records for all transactions executed in association with RCEA procurement activities. The records will be maintained in US dollars and transactions will be separately recorded and categorized by type of transaction. This system of record shall be auditable.

### 3.7 Transaction Valuation

Transaction valuation and reporting of positions shall be based on objective, market-observed prices. Open positions should be valued (marked-to-market) daily, based on consistent valuation methods and data sources. Whenever possible, mark-to-market valuations should be based on independent, publicly available market information and data sources.

### 3.8 Stress Testing

In addition to limiting and measuring risk using the methods described herein, stress testing shall also be used to examine performance of the RCEA portfolio under adverse conditions. Stress testing is used to understand the potential variability in RCEA's projected procurement costs, and resulting retail rate impacts and competitive positioning, associated with low probability events. The TEA Middle Office will perform stress-testing of the portfolio on a monthly basis and distribute results. The Risk Management Team will provide guidance to TEA on a monthly basis regarding what parameters should be stress tested and to what degree.

### 3.9 Trading Practices

The approved scope of market participation by RCEA is limited to those activities required to capture reasonably expected value and cost stability from RCEA's resource portfolio without engaging in speculative or unauthorized trading activities. Staff and third party service providers may exercise some discretion on trade timing and volumes subject to existing conditions (such as unusual weather, load deviations and/or power system circumstances). RCEA procurement practices are intended to prohibit the acquisition of unwarranted or additional exposure to price and volume risk beyond that projected and associated within the efficient utilization and optimization of RCEA's resource portfolio. It is the expressed intent of this Policy to prohibit the acquisition of risk beyond that encountered in the efficient optimization of RCEA's generation portfolio and execution of procurement strategies. As such, speculative transactions are prohibited. In the course of developing operating plans and conducting procurement activities, RCEA recognizes that expertise must be employed by TEA staff, and it is not the intent of this Policy to restrain the legitimate application of analysis and market expertise in executing procurement strategies intended to minimize costs within the constraints of this Policy. If any questions arise as to whether a particular transaction constitutes speculation, the RMT shall review the transaction(s) to determine whether the transaction would constitute speculation and document its finding in the meeting minutes.

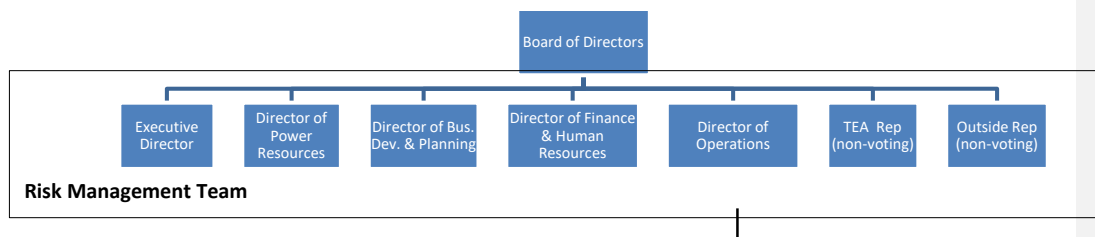
**Commented [RE3]:** Adapted from language proposed by Jeff Fuller (TEA), with some additional modification proposed by Don Dame (Independent Risk Management Team member).

## Section 4: ORGANIZATIONAL STRUCTURE AND RESPONSIBILITIES

### 4.1 Risk Management Organizational Structure

Below is a high-level organization chart describing RCEA's risk management governance.

**Commented [RE4]:** Remove Director of Finance and HR from chart; update Dir. Of Bus. Devt and Planning Job Title



### 4.2 Board of Directors

The RCEA Board of Directors has the responsibility to review and approve this Policy. With this approval, the Board assumes responsibility for understanding the risks RCEA is exposed to due to CCA Program activity and how the policies outlined in this document help RCEA manage the associated risks. The Board of Directors is also responsible to:

- Determine RCEA strategic direction
- Understand the procurement strategy employed
- Approve risk exposures beyond the RMT's authority
- Approve voting Members of the RMT

### 4.3 Risk Management Team (RMT)

The RMT is responsible for implementing, maintaining and overseeing compliance of this Policy. The voting members of the RMT shall be Board-approved RCEA staff members. Additionally, an independent outside third-party representative, and a representative from TEA, will serve as non-voting members. Each voting member will be assigned one vote. The current voting members of the RMT are:

- Executive Director
- Director of Power Resources
- Director of Operations
- Director of Business Development and Planning
- ~~Director of Finance and Human Resources~~

**Commented [RE5]:** Update job title

The primary goal of the RMT is to ensure that the procurement activities of RCEA are executed within the guidelines of this Policy and are consistent with Board directives. The RMT is also responsible to consider and propose recommendations to this Policy when conditions dictate.

Pursuant to direction from the Board of Directors and the limitations specified by this Policy, the RMT and the Executive Director maintain full authority over all procurement activities for RCEA. This authority includes, but is not limited to, taking any or all actions necessary to ensure compliance with this Policy.

The RMT is responsible for overseeing implementation of this Policy, procurement strategies, and the adoption of new product types. The RMT is also responsible for ensuring procurement strategies are consistent with RCEA's strategic objectives and for reviewing financial results. The RMT shall meet at least quarterly and record business in meeting minutes that will be approved by the RMT. No decision of the RMT is valid unless a majority of voting members has stated approval with a quorum of voting members participating in the vote, including the Executive Director. All decisions by the RMT, other than those made by common consent, shall be made by simple majority vote of the RMT members with the Executive Director having veto authority.

The RMT maintains the authority and responsibility to:

- Approve and ensure that all procurement strategies are consistent with this Policy;
- Determine if changes in procurement strategies are warranted;
- Approve new transaction types, regions, markets and delivery points;
- Understand financial and risk models used by TEA;
- Understand counterparty credit review models and methods for setting and monitoring credit limits;
- Receive and review reports as described in this Policy;
- Meet to review actual and projected financial results and potential risks;
- Escalate to the Board of Directors with any risks beyond the RMT's authority;
- Review summaries of limit violations;
- Review the effectiveness of RCEA's energy risk measurement methods;
- **Maintain this Policy;**
- Monitor regulatory and legislative activities

**Commented [RE6]:** For this and future revisions, we will present proposed changes to this policy to the Risk Management Team for review and vote before taking them to the Board.

## 4.4 Power Manager

The CCA has partnered with TEA as its Power Manager. TEA, as outlined in its Risk Policy, maintains a strong segregation of duties, also referred to as "separation of function" that is fundamental to manage and control the risks outlined in this Policy. The Power Manager will provide education to the RMT on the risk and credit models, methods and processes that it uses to fulfill its obligations under this Policy. Individuals responsible for legally binding the CCA to a transaction will not also perform confirmation, or settlement functions. With this in mind, TEA's responsibilities are divided into front-middle-back office activities, as described below.

### 4.4.1 Power Manager - Front Office

The Power Manager's Front Office has overall responsibility for (1) managing all commodity and transmission activities related to procuring and delivering resources needed to serve CCA's load, (2) the analysis of fundamentals affecting load and supply factors that determine CCA's net position, and (3) transacting within the limits of this Policy, and associated policies, to balance loads and resources, and

maximize the value of CCA's assets through the exercise of approved optimization strategies. Other duties associated with these responsibilities include:

- a. Assist in the development and analysis of risk management hedging products and strategies, and bring recommendations to the RMT
- b. Prepare each month a monthly operating plan for the prompt months that gives direction to the day-ahead and real-time trading and scheduling staff regarding the bidding and scheduling of CCA's resource portfolio in the CAISO market
- c. Develop, price and negotiate hedging products
- d. Forecast day-ahead and monitor/ forecast same-day loads
- e. Keep accurate records of all transactions they enter

#### 4.4.2 Power Manager – Middle/Back Office

The Power Manager Middle Office provides independent market and credit risk oversight. The Power Manager Middle Office is functionally and organizationally separate from the Front Office. The Power Manager Back Office provides support with a wide range of administrative activities necessary to execute and settle transactions, and to support the risk control efforts (e.g. transaction entry and/or checking, data collection, billing, etc.) consistent with this Policy. The Power Manager Back Office is functionally and organizationally separate from the Front Office.

The Power Manager's Middle and Back Offices have primary responsibility for trading ~~controls~~ and control and for ensuring agreement with counterparties regarding the terms of all trades, including forward trading. The Power Manager has the primary responsibility for:

- a. Estimating and publishing daily forward monthly power and natural gas price curves for a minimum of the balance of the current year through the next calendar year
- b. Calculating and maintaining the net forward power positions of CCA
- c. Ensuring that CCA adheres to all risk policies and procedures of both CCA and the Power Manager in letter and in intent
- d. Maintaining the overall financial security of transactions undertaken by the Power Manager on behalf of CCA
- e. Implementing and enforcing credit policies and limits
- f. Handling confirmation of all transactions and reconciling differences with the trading counterparties
- g. Reviewing trade tickets for adherence to approved limits
- h. Ensuring all trades have been entered into the appropriate system of record
- i. Ensuring that both pre-schedule and actual delivery volumes and prices are entered into the physical database
- j. Carrying out month-end checkout of all transactions each month
- k. Reviewing models and methodologies and recommending RMT approval

## Section 5: DELEGATION OF AUTHORITY

With the approval of the Policy, the RCEA Board is explicitly delegating operational control and oversight to the RMT and Power Manager, as outlined through this Policy. Specifically, to facilitate daily operations of the CCA, the Board is delegating transaction execution authorities shown in the table below.

Position	Maturity Limit	Term Limit	Volume Limit (MWh) <sup>1</sup>	ValueLimit <sup>2</sup>
Risk Management Team	30 Months	24 Months	500,000	\$2,000,000
Executive Director	24 Months	18 Months	375,000	\$1,000,000
TEA	18 months	12Months	250,000	\$500,000

<sup>1</sup>Volume limit applies only to energy purchases, including index-based renewable and carbon-free energy purchases.

<sup>2</sup>Value limits apply to non-energy product transactions (e.g., Resource Adequacy).

These authorities will be applied to wholesale power activity executed outside of the California Independent System Operator ("CAISO") markets. These limits provide both RCEA and TEA needed authorities to manage risks as they arise. Transactions falling outside the delegations above require Board approval prior to execution. Activity with CAISO is excluded from this table due to the nature of the market, where prices for activity may not be known until after transactions are committed.

All procurement executed under the delegation above, must align with the RCEA's underlying risk exposure (load requirements, locational and temporal) that is being hedged consistent with the approved [Guidelines for the Redwood Coast Energy Authority Community Energy Program Launch-Period Strategy and Targets and Energy Risk Hedging Strategy \(Appendix D to this policy\)](#) [Procurement Strategy](#).

### 5.2.1 Monitoring, Reporting and Instances of Exceeding Risk Limits

The TEA Middle Office is responsible for monitoring, and reporting compliance with, all limits within this Policy. If a limit or control is violated, the TEA Middle Office will send notification to the trader responsible for the violation and the RMT. The RMT will discuss the cause and potential remediation of the exceedance to determine next steps for curing the exceedance.

## Section 6: CREDIT POLICY

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During startup of the CCA, it is expected that transactions will be executed by TEA on TEA agreements, and with this activity RCEA is exposed to pass-through credit risk. As the CCA builds its own counterparty master trading agreements, transactions executed on CCA agreements will carry direct credit risk. For activity on TEA and/or CCA agreements, RCEA will adopt a scaling methodology to adjust TEA's credit limits to RCEA's risk tolerance. For scaling with RCEA counterparties, where an agreement exists between RCEA and an entity, the RMT will approve changes to credit limits, otherwise TEA will automatically scale the TEA limit to the RCEA risk tolerance.

All procurement activities executed by TEA on behalf of RCEA, using TEA's counterparty agreements, will be subject to the credit policies and procedures outlined in TEA's Energy Risk Management Policy. TEA's credit policy requires that all Counterparties be evaluated for creditworthiness by the TEA Middle Office prior to execution of any transaction and no less than annually thereafter. Additionally, Counterparties shall be reviewed if a change has occurred, or perceived to have occurred, in market conditions or in a company's management or financial condition. This evaluation, including any recommended increase or decrease to a credit limit, shall be documented in writing and includes all information supporting such evaluation in a credit file for the counterparty. A credit limit for a Counterparty will not be recommended, or approved without first confirming the Counterparty's senior unsecured or corporate credit rating from one of the nationally recognized rating agencies and/or performing a credit review or analysis of the Counterparty's or guarantor's financial statements. The TEA credit analysis shall include, at a minimum, current audited financial statements or other supplementary data that indicates financial strength commensurate with an investment grade rating. Trade and banking references, and any other pertinent information, may also be used in the review process.

Counterparties that do not qualify for a Credit Limit must post an acceptable form of credit support or Prepayment prior to the execution of any transaction. A Counterparty may choose to provide a guarantee from a third party, provided the third party satisfies the criteria for a Credit Limit as outlined in TEA's Energy Risk Management Policy.

### 6.1 Credit Limit and Monitoring

In executing transactions on RCEA's behalf, TEA will observe a pass-through counterparty credit maximum limit equal to \$1.0 million.

The TEA Middle Office will establish continuous monitoring of the current credit exposure for each Counterparty with whom TEA transacts on behalf of RCEA and include such information in the Current Counterparty Credit Risk Report. This report will be made available, reviewed and communicated to the RMT pursuant to the reporting requirements outlined in Section 7.

## Section 7: POSITION TRACKING AND MANAGEMENT REPORTING

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Minimum reporting requirements are shown below. The reports outlined below will be made available to RMT members and TEA staff:

- **Daily Financial Model Forecast**

Latest projected financial performance, marked to current market prices, and shown relative to financial goals.

- **Monthly Net Position Report**

Prepare a forward net position report, not less frequently than monthly, and report the results to the RMT.

- **Monthly Pass-through Counterparty Credit Exposure**

This report will show how the credit exposures for transactions that TEA executes on behalf of RCEA will pass-through TEA to RCEA.

- **Monthly Risk Analysis**

This will include a Cash Flow at Risk and stress test of financial forecast relative to financial goals.

- **Quarterly Board Report**

Update on activities and projected financial performance to be presented quarterly at RCEA Board meetings.



## Section 8: POLICY REVISION PROCESS

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RCEA's Energy Risk Management Policy will evolve over time as market and business factors change. At least on an annual basis, the RMT will review this Policy and associated procedures to determine if they should be amended, supplemented, or updated to account for changing business and/or regulatory requirements. If an amendment is warranted, the Policy amendment will be submitted to the RCEA Board for approval. Changes to appendices to this Policy may be approved and implemented by the RMT.

### 8.1 Acknowledgement of Policy

Any RCEA employee participating in any activity or transaction within the scope of this Policy shall sign, on an annual basis or upon any revision, a statement approved by the RMT that such employee has:

- Read RCEA's Energy Risk Management Policy
- Understands the terms and agreements of said Policy
- Will comply with said Policy
- Understands that any violation of said Policy shall be subject to employee discipline up to and including termination of employment.

[See Appendix E for a statement form.](#)

### 8.2 Policy Interpretations

Questions about the interpretation of any matters of this Policy should be referred to the RMT.

All legal matters stemming from this Policy will be referred to General Counsel.

## Appendix A: AUTHORIZED TRANSACTION TYPES ~~OR PRODUCTS, REGIONS AND MARKETS~~

All transaction types listed below must be executed within the limits set forth in this Policy. *(The following transaction types can be 'nonstandard' at RCEA subject to RMT approval)*

### Over the Counter Products

- CAISO Market Products
  - Day-ahead and Real-time Energy
  - Congestion Revenue Rights
  - Convergence
  - Inter Scheduling Coordinator Transactions
  - Tagging into and out of CAISO
- Physical Power Products
  - Short and Long-Term Power
  - Physical OTC Options
- Physical Resource Adequacy Capacity
- Physical Environmental Products
  - Renewable Energy Credits
  - Specified Source Power
  - Carbon Allowances and Obligations
- Transmission Access Charges
- Energy Storage, including time-based arbitrage (selling stored energy into the grid during peak hours and buying energy to store during off-peak hours)

**Commented [RE7]:** Added per suggestion of Jeff Fuller (TEA)

The point of delivery for all products must be at a location on the CAISO transmission grid.

## Appendix B: NEW TRANSACTION APPROVAL FORM

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### New or Non-Standard Transaction Approval Form

Prepared By:

Date:

New or Non-Standard Transaction Name:

Business Rationale and Risk Assessment:

- Product description – including the purpose, function, expected impact on net revenues (i.e. increase, manage volatility, control variances, etc.) and/or benefit to RCEA
- Identification of the in-house or external expertise that will be relied upon to manage and support the new or non-standard transaction
- Assessment of the transaction's risks, including any material legal, tax or regulatory issues
- How the exposures to the risks above will be managed by the limit structure
- Proposed valuation methodology (including pricing model, where appropriate)
- Proposed reporting requirements, including any changes to existing procedures and system requirements necessary to support the new product
- Proposed accounting methodology
- Proposed Middle Office work flows/methodology, including systems
- Brief description of the responsibilities of various departments within RCEA who will have any manner of contact with the new or non-standard transaction

Reviewed by:

\_\_\_\_\_  
Director of Power Resources

\_\_\_\_\_  
Date

\_\_\_\_\_  
TEA Representative

\_\_\_\_\_  
Date

\_\_\_\_\_  
Executive Director

\_\_\_\_\_  
Date

## Appendix C: DEFINITIONS

**Back Office:** That part of a trading organization which handles transaction accounting, confirmations, management reporting, and working capital management.

**Bilateral Transaction:** Any physical or financial transaction between two counterparties, neither of whom is an Exchange or market entity (e.g. ~~MISO~~CAISO).

**Cash Flow at Risk:** ~~A probability-based measure of the extent to which future cash flows may deviate from expectations due to changes in load, generation and/or market prices of energy. (For RCEA, the most relevant Cash Flow at Risk metric is a measure of the potential for net revenues to deviate from the current forecast.) A measure of the potential shortfall in cash flow from a specified level during a specified period of time at a specified confidence level. The CFaR of any Portfolio is equal to the Portfolio's current Mark to Market value less its Terminal Value.~~

**Commented [REB]:** Replacement definition supplied by Jeff Fuller (TEA)

**CAISO:** California Independent System Operator. CAISO operates a California bulk power transmission grid, administers the State's wholesale electricity markets, and provides reliability planning and generation dispatch.

**CCA:** Community Choice Aggregator. CCAs allow local government agencies such as cities and/or counties to purchase and/or develop generation supplies on behalf of their residents, businesses and municipal accounts.

**CFTC:** Commodity Futures Trading Commission. The CFTC is a U.S. federal agency that is responsible for regulating commodity futures and swap markets. Its goals include the promotion of competitive and efficient futures markets and the protection of investors against manipulation, abusive trade practices and fraud.

**Commodity:** A basic good used in commerce that is interchangeable with other ~~commodities~~ goods of the same type. Commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers. When they are traded on an exchange, commodities must also meet specified minimum standards, also known as a basis grade.

**Confirmation Letter:** A letter agreement between two counterparties that details the specific commercial terms (e.g., price, quantity and point of delivery) of a transaction.

**Congestion Revenue Right:** A point-to-point financial instrument in the Day-Ahead Energy Market that entitles the holder to receive compensation for or requires the holder to pay certain congestion related transmission charges that arise when the transmission system is congested.

**Counterparty Credit Risk:** The risk of financial loss resulting from a counterparty to a transaction failing to fulfill its obligations.

**Day-ahead Market:** The short term forward market for efficiently allocating transmission capacity and facilitating purchases and sales of energy and scheduled bilateral transactions; conducted by an Organized Market prior to the operating day.

**Delivery point:** ~~the~~ The point at which a commodity will be delivered and received.

**Departing load:** ~~A Load associated with a~~ retail electricity consumer that elects to purchase generation services from an Energy Service provider rather than the local Investor Owned Utility.

**FERC:** Federal Energy Regulatory Commission. FERC is a federal agency that regulates the interstate transmission of electricity, natural gas and oil. FERC also reviews proposals to build liquefied natural gas terminals, interstate natural gas pipelines, as well as licenses hydroelectric generation projects.

**Front Office:** That part of a trading organization which solicits customer business, services existing customers, executes trades and ensures the physical delivery of commodities.

**Franchise Fee:** A franchise fee is a percentage of gross receipts that an IOU pays cities and counties for the right to use public streets to provide gas and electric service. The franchise fee surcharge is a percentage of the transmission (transportation) and generation costs to customers choosing to buy their energy from third parties. IOUs collect the surcharges and pass them through to cities and counties.

**Hedging products:** ~~Hedging products means~~ capacity, energy, renewable energy credits or other products related to a specific transaction.

**Hedging Transaction:** A transaction designed to reduce the exposure of a specific outstanding position or portfolio; “fully hedged” equates to complete elimination of the targeted risk and “partially hedged” implies a risk reduction of less than 100%.

**~~IOU~~Investor Owned Utility (IOU):**~~An Investor Owned Utility (IOU) is a~~ business organization providing electrical and/or natural gas services to both retail and wholesale consumers and is management as a private enterprise.

**Limit structure:** A set of constraints that are intended to limit procurement activities.

**Limit violation:** Any time a defined limit is violated.

**Middle Office:** That part of a trading organization that measures and reports on market risks, develops risk management policies and monitors compliance with those policies, manages contract administration and credit, and keeps management and the Board informed on risk management issues.

**Net Forward Position:** A forecast of the anticipated electric demands of a load serving entity compared to existing resource (generation and/or power purchase agreements) commitments.

**Nonstandard:** ~~Nonstandard refers to any~~ Any product that is not commonly transacted among market participants in forward markets. The nonstandard attribute of the product could be a function of a number of factors such as volume, delivery period and/or term.

**Opt-out Rate:** Typically expressed as a percentage, the Opt-out Rate measures the ratio of eligible customers of a CCA that have elected to remain a bundled service customer of the IOU rather than take generation services from the CCA.

**PCIA:** Power Cost Indifference Adjustment. The PCIA is intended to compensate IOUs for their stranded costs when a bundled customer departs and begins taking generation services from a CCA.

**~~Schedule~~Scheduling:**~~Schedule or Scheduling means t~~ The actions of the counterparts to a transaction, and/or their designated representatives, of notifying, requesting and confirming to each other the quantity and type of product to be delivered on a given day.

**Separation of function:** ~~Separation of function, a~~ Also referred to as “segregation of duties,” is part of a complete risk control framework. Individuals responsible for legally binding the organization to a transaction should not also perform confirmation, clearance or accounting functions. ~~RCEA will maintain appropriate segregation of duties in its organization and activities.~~

**Settlement:** Settlement is the process by which counterparties agree on the dollar value and quantity of a commodity exchanged between them during a particular time interval.

**Speculation:** ~~Speculation is the~~ The act of trading an asset with the expectation of realizing financial gain resulting from a change in price in the asset being transacted. (See discussion in sections 1.1 and 3.9 that elaborates on discretion staff and third party service providers are allowed in conducting trading activities.)

**Stranded cost:** ~~Stranded costs commonly refer to g~~ Generation costs that ~~an IOU (although could be any)~~ a load serving entity is allowed to collect from customers through retail rates but that will not be recovered if the generation is sold in wholesale electricity markets.

**Stress testing:** ~~Stress testing is the~~ The process of simulating different financial outcomes to assess potential impacts on projected financial results. Stress testing typically evaluates the effect of negative events to help inform what actions may be taken to lessen the negative consequences should such an event occur.

## **Appendix D: ENERGY RISK HEDGING STRATEGY**

**Commented [RE9]:** Authored by Spencer Stewart (TEA) with edits by RCEA staff

**Appendix D contents redacted due to confidential content.**



# REDWOOD COAST Energy Authority

## STAFF REPORT Agenda Item # 8.2

AGENDA DATE:	December 17, 2018
TO:	Board of Directors
PREPARED BY:	Richard Engel, Director of Power Resources
SUBJECT:	2019-2021 Hydropower Procurement

### SUMMARY

RCEA's power portfolio manager The Energy Authority (TEA) has identified an opportunity for RCEA to purchase carbon-free energy in the form of in-state and out-of-state hydroelectric power in the form of 36-month contracts for 2019-2021. Until now, RCEA has been procuring carbon-free energy on a year at a time basis. TEA staff have analyzed this opportunity compared with other procurement options and recommend it.

RCEA's risk management policy calls for Board approval of all transactions that exceed specified limits of term length, volume (MWh), or cost. The proposed hydropower purchase exceeds the policy's 24-month term threshold for transactions to be reviewed by the Board. The proposed purchase includes a mix of firm and non-firm (as-available) energy, due to the historic variability in the hydro plants' yearly generation. Depending on how much non-firm energy is delivered, the total three-year volume could reach the 500,000 MWh level that is another trigger in the risk policy calling for Board approval. Even with maximum delivery of firm and non-firm energy, the total dollar value of the purchase would not exceed the \$2 million level that calls for Board approval.

In addition to RCEA Board approval, this transaction will also require authorization by TEA's own risk management committee. TEA's committee has not yet voted to approve the transaction, but given the timing of meetings of their committee and the RCEA Board, TEA staff recommend securing RCEA Board authorization now in order not to miss out on the opportunity while favorable pricing is available.

Power under this purchase would be supplied by two companies, Morgan Stanley Capital Group and Tenaska. Morgan Stanley's power would come from various plants in the Pacific Northwest, while Tenaska's power would come from the in-state New Exchequer plant on the Merced River. Volumes to be delivered are as shown in the table below.

Supplier	Firm MWh/year	Non-Firm MWh/year
Morgan Stanley	100,000	N/A
Tenaska	11,000	up to 284,000



## **FINANCIAL IMPACTS**

This procurement opportunity is attractive to RCEA in two ways. First and most significantly, the pricing for hydropower has been increasing lately, and making a longer-term purchase will lock in current pricing as a hedge against this price trend. Second, administrative costs for both RCEA and TEA staff will be reduced by having to conduct, monitor, and report on fewer transactions for this amount of procurement.

## **RECOMMENDED ACTION**

Authorize the Executive Director to approve hydropower purchases with 36-month contract terms with Morgan Stanley Capital Group and Tenaska.

## **ATTACHMENTS**

None