

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)

Independent Accountant's Report on
Applying Agreed-Upon Procedures

For the Year Ended June 30, 2023

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
For the Year Ended June 30, 2023

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Independent Accountant’s Report

City Manager and
Risk Oversight Committee
San José, California

We have performed the procedures enumerated below, related to San Jose Clean Energy’s (SJCE), an enterprise fund of the City of San José (City), compliance with the Energy Risk Management Regulations (RMR) effective February 28, 2022 and June 23, 2023 for the year ended June 30, 2023. The City’s management is responsible for the City’s compliance with those requirements.

The City and the Community Energy Department’s (CED), City Attorney’s Office, and the Office of the City Auditor have agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of determining the City’s compliance with the RMR effective February 28, 2022 and June 23, 2023 for the year ended June 30, 2023. This report may not be suitable for any other purpose. The procedures performed may not address all items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and the associated findings are as follows:

1. Obtain the Counterparty Concentration Report as of December 31, 2022 and June 30, 2023. Inspect the short-term and medium-term energy confirmations for counterparties with a concentration rate of 10% or higher to verify whether the City adhered to the concentration limits identified in Section 15.3 of the RMR effective February 28, 2022 and Section 14.3 of the RMR effective June 23, 2023, as amended from time to time, for short-term and medium-term agreements at the time of agreement execution.

Findings: No deviations were found as a result of applying the procedure.

2. Obtain the City’s Banking Services Agreement with Wells Fargo Bank and the City’s bank statement balance as of June 30, 2023, to determine whether the City managed custodial credit risk by keeping deposits at FDIC-insured institutions below insurance thresholds, maintaining minimum 100% collateral, and actively monitoring the creditworthiness of the custodian.

Finding: No deviations were found as a result of applying the procedure.

3. Obtain the Finance Approved Counterparty Log and the Finance Counterparty Credit Analysis Procedures as of June 30, 2023. Inspect the Credit Analysis by Counterparty Report, the transmittal sheet for Counterparty credit analysis, and the City Memorandum submitted to the appropriate authority for approval. Select five counterparties for testing and determine whether the counterparty credit assessment and monitoring were performed in accordance with the established procedures.

Finding: No deviations were found as a result of applying the procedure.

4. Select individual confirmation transmittal forms for seven Energy and three Resource Adequacy contracts, based on the largest dollar amount for each quarter of the year ended June 30, 2023, to determine whether:
 - a. Transactions are within the transaction term limits and transaction volume limits, as authorized in Appendix 4 of the RMR effective February 28, 2022 and June 23, 2023, and as amended from time to time.
 - b. Transactions are duly authorized, and do not exceed individual counterparty credit limits, where applicable.
 - c. Transactions are executed and documented in accordance with standardized procedures.
 - d. Transactions have been approved as to form by the City Attorney's Office.

Finding: No deviations were found as a result of applying the procedure.

5. Based on the sample of transactions selected in procedure 4 above, identify any unauthorized transactions. In such cases, confirm these unauthorized transactions were tied to the appropriate exceptions report as required by Section 5.4 of the RMR, as amended from time to time.

Finding: There were no unauthorized transactions as result of applying procedure 4 above.

6. Obtain the Revolving Credit Agreement with JP Morgan Bank, along with any relevant amendments, and Quarterly Debt Service Calculation Ratio Compliance Certificates, where applicable, to determine whether the City has complied with its covenant(s) in the credit facility, thereby supporting the cash flow needs for SJCE.

Finding: The City entered into the Revolving Credit Agreement on February 17, 2023 and have submitted the two required Quarterly Debt Service Calculation Ratio Compliance Certificate for the quarter ended March 31, 2023 and June 30, 2023.

No deviations were found as a result of applying the procedure.

7. Obtain long term power purchase agreements that were executed during the year ended June 30, 2023, verifying that (a) agreements have been approved as to form by the City Attorney and (b) at the time of agreement execution, did not lead to exceeding concentration limits specified in Section 15.3 of the RMR effective February 28, 2022 and Section 14.3 of the RMR effective June 23, 2023, as amended from time to time.

Finding: No deviations were found as a result of applying the procedure.

8. Obtain a copy of the Power Contract Tracking Report for the months of December 2022 and June 2023, and compare those reports to the Recommended Coverage levels (Appendix 9 of the RMR) and approved variances to determine whether SJCE is complying with the coverage requirements for Energy.

Finding: No deviations were found as a result of applying the procedure.

9. Confirm the types of Approved Products listed in the Power Contract Tracking Workbook for transactions executed during the year ended June 30, 2023, are in accordance with the guidelines specified in Appendix 6 of the RMR, as amended from time to time.

Finding: No deviations were found as a result of applying the procedure.

10. Compare the reports issued by CED management to fulfill the reporting requirements for SJCE as specified in the RMR, as amended from time to time, and the Management Reports listed in Appendix 7 of the RMR, which may also be amended from time to time, for the last month of each quarter, to determine whether CED complied with the reporting requirements, report frequency, primary responsibility, and approval.

Finding: The following Management Report listed in Appendix 7 of the RMR was not applicable because there were no exceptions or violations to be reported. The rest of the required reports were submitted during the year ended June 30, 2023.

Report	Frequency
Exceptions Report	As needed

No deviations were found as a result of applying the procedure.

11. Sample an individual transaction with the largest dollar amount executed in each quarter from the Power Contracts Tracking Workbook and determine whether the transaction has documentation as follows:
 - a. Competitive bidding or an approved variance authorizing bilateral negotiations.
 - i. CED front office manages a Request for Offer (RFO) inbox for the purposes of capturing bid solicitations.
 - b. Written commitment to the transaction.
 - i. CED front office manages an RFO inbox for the purposes of capturing bid solicitations.
 - c. Transaction confirmation with the counterparty with a written and executed confirmation.
 - i. All transactions with the counterparty are memorialized with a written and executed confirmation.
 - d. Authorization/Approval
 - i. Each confirmation includes a confirmation transmittal form to ensure appropriate authorization/approvals are in place.

Finding: No deviations were found as a result of applying the procedure.

12. Sample an individual transaction with the largest dollar amount delivered in each quarter from the Expected Power Costs Workbook and determine whether:
 - a. Prior to CED submitting invoices for payment, the Northern California Power Agency (NCPA) confirmed in writing the quantities and delivery of products in the invoice, if applicable.
 - b. Cross-check the invoiced amounts with the delivered amounts and contract price to ensure they match.

Finding: No deviations were found as a result of applying the procedure.

13. Obtain a listing of all employees who were engaged in approved product transactions and consultants providing services for CED throughout the year ended June 30, 2023, and confirm the respective employees and consultants have filed the Form 700 – Community Energy Classifications annual conflict of interest filings.

Finding: No deviations were found as a result of applying the procedure.

We were engaged by the City to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the City's compliance with the Energy Risk Management Regulations effective February 28, 2022 and June 23, 2023 for the year ended June 30, 2023. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the City Council, City Manager, Risk Oversight Committee, the City Auditor, and Finance Department and is not intended to be, and should not be, used by anyone other than the specified parties.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, slightly slanted style.

Walnut Creek, California
November 9, 2023

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
Schedule A
For the Year Ended June 30, 2023

ENERGY RISK MANAGEMENT REGULATIONS APPENDIX 7
MANAGEMENT REPORTS

1. Management Reports

The following energy risk management reports shall be developed and presented as further described in the following table:

Report Audience: **ROC**

Management Report	Primary Responsibility			Report Frequency						Approval
	Front	Middle	Back	Weekly	Monthly	Quarterly	Annual	Bi-Annual	As Needed	
a. Concentration Balance		X			X					CED Division Manager of Risk Management and Contracts Administration
b. Portfolio Performance (MTM)		X			X					CED Division Manager of Risk Management and Contracts Administration
c. Exceptions Report		X							X	CED Division Manager of Risk Management and Contracts Administration
d. Annual Regulations Update		X					X			CED Division Manager of Risk Management and Contracts Administration (2/28/2022 RMR only) City Manager or designee (6/23/2023 RMR only)
e. Credit Limit Status by Counterparty and Master Agreements		X			X					CED Division Manager of Risk Management and Contracts Administration
f. Coverage Ratio – Procurement Report	X				X					CED Deputy Director of Power Resources
g. Integrated Resource Plan	X	X	X						X	CED Deputy Director of Power Resources
h. Credit Exposure to LOC Issuers		X			X					CED Division Manager of Risk Management and Contracts Administration
i. Power Transactions	X					X				CED Deputy Director of Power Resources (2/28/2022 RMR only) Division Manager of Risk Management and Contracts Administration (6/23/2023 RMR only)

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j.	Bilateral Transactions Report (6/23/2023 RMR only)		X			X					CED Deputy Director of Power Resources
k.	Variance Report (6/23/2023 RMR only)		X			X					CED Division Manager of Risk Management and Contracts Administration

SAN JOSE CLEAN ENERGY
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Schedule A (Continued)
For the Year Ended June 30, 2023

1.1. Description of Management Reports (6/23/2023 RMR)

- a. Concentration Balance: The Middle Office reports concentration by counterparty in terms of total covered portfolio, budget, and load concentration. The Concentration Reports are updated monthly and are included on ROC meeting agendas as a standing consent item.
- b. Portfolio Performance (MTM): A Middle Office report comparing the cost of the portfolio of contracts to the current market value of the portfolio (tracking what SJCE paid for the contract to what it is worth now). This is also known as MTM and is used to monitor collateral needs. The Portfolio Performance report is updated weekly and reviewed with SJCE management. It is also included on ROC meeting agendas as a standing consent item.
- c. Exceptions Report: A Middle Office report summarizing current exception and violation reports. The Exception Report is developed and presented to the ROC as needed.
- d. Annual Regulations Update: A Middle Office report providing an annual review of policies and procedures of the Risk Management Regulations and recommendations for needed updates. The Annual Regulations Update report is developed annually. It is included on ROC meeting agendas as a consent item on an annual basis.
- e. Credit Limit Status by Counterparty and Master Agreements: A Middle Office report showing counterparty credit limits, credit used, credit remaining, as well as current set of approved master agreements. Special flagging of counterparties nearing their credit limits should also be included. The Credit Limit Status by Counterparty report is presented to the Front Office and Back Office staff, as well as to SJCE's management on a monthly basis. It is also included on ROC meeting agendas as a standing consent item.
- f. Coverage Ratio – Procurement Report: A Front Office report detailing the coverage ratio and trading strategies for the next 3 years. The Procurement report is developed monthly. It is included on ROC meeting agendas as a standing consent item.
- g. Integrated Resource Plan: This is a plan prepared every few years that shows long-term supply and resources plan.
- h. Credit Exposure and Credit Quality to LOC Issuers: A Middle Office report tracking credit exposure and credit quality to LOC issuers at the portfolio level. The LOC Issuers report is prepared monthly. It is included on ROC meeting agendas as a standing consent item.
- i. Power Transactions: Quarterly report submitted to the Council of all transactions under five years carried out since the last submitted quarterly report. It is included on ROC meeting agendas as a standing consent item.
- j. Bilateral Transactions: A front Office report setting forth transactions entered into pursuant to bilateral discussions.
- k. Variance Report: A Middle Office report summarizing the variances approved by the City Manager or designee with respect to coverage thresholds, concentration limits, relaxation of underwriting standards, credit limits, and credit enhancements.