

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, 2022



Certified
Public
Accountants

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
For the Year Ended June 30, 2022

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Independent Accountant's Report

Honorable City Council and
Risk Oversight Committee
San José, California

We have performed the procedures enumerated below on San Jose Clean Energy's (SJCE), an enterprise fund of the City of San Jose (City), compliance with the Clean Energy Risk Management Regulations effective November 19, 2020 and February 28, 2022 for the year ended June 30, 2022. The City's management is responsible for the City's compliance with those requirements.

The City's Finance Department, Community Energy Department (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 assisting specified parties in evaluating whether the City complied with the Clean Energy Risk Management Regulations effective November 19, 2020 and February 28, 2022, as applicable, for the year ended June 30, 2022. 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 Northern California Power Agency (NCPA) Weekly Reports for the last full week of each quarter for the year ended June 30, 2022 to determine whether they contained the information/data required by the City's Energy Risk Management Regulations as follows:
 - a) The reports include regular update of load and resource forecasts as evidence of monitoring and measuring the supply portfolio against estimated demand.

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

2. Obtain the Risk Management Regulations (RMR) Concentration Reports as of December 31, 2021 and June 30, 2022. Inspect energy confirmations for counterparties that had a 10% or higher concentration rate to verify whether the City complied with the concentration limits identified in section 15.3 of the RMR as amended from time to time.

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

3. Obtain the Approved Counterparty logs for counterparties with whom SJCE had entered into agreements for the year ended June 30, 2022 and documentary evidence that supported whether the City managed counterparty credit risk by:
 - a) Conducting regular, up-to-date credit evaluations
 - b) Requiring collateral in accordance with the RMR, Risk Oversight Committee (ROC) approvals, and executed agreements with the counterparties.

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

4. Obtain the City's Banking Services Agreement with Wells Fargo Bank and the City's June 2022 bank statement balance as of June 30, 2022 to determine whether the City managed custodial credit risk by keeping deposits at FDIC insured institutions below insurance thresholds, or maintaining minimum 100% collateral, and actively monitoring the creditworthiness of the custodian.

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

5. Obtain the Approved Counterparty Log and the Finance Counterparty Credit Analysis Procedures (Procedures) as of June 30, 2022. Inspect the Credit Analysis by Counterparty Report, transmittal sheet for Counterparty credit analysis, and the City Memorandum submitted to ROC for approval to determine if counterparty credit assessment and monitoring were performed in accordance with the Procedures.

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

6. Select individual Transmittal Sheets for seven Energy and three Resource Adequacy contracts, based on the largest transmittal sheets by dollar amount for each quarter of the year ended June 30, 2022, to determine whether the executed transactions were within transaction term limits and transaction volume limits authorized in Appendix 4 of the RMR, as amended from time to time.

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

7. Obtain the Revolving Credit Agreement with Barclays Bank and the City's bank statements for the year ended June 30, 2022 and determined whether the City funded an operating reserve to ensure SJCE had a credit facility to support cash flow needs.

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

8. Obtain power purchase and sale agreements and related invoices for the months of December 2021 and June 2022 to verify whether (a) counterparty representatives were authorized by the counterparty and (b) long-term power purchase and sale agreements were approved as to form by the City Attorney and reviewed by appropriate legal and market experts.

Finding: MGO reviewed the six short-term agreements that were executed in December 2021. All agreements were properly approved by authorized personnel. Only four out of six had invoices as the contracted delivery periods were after June 30, 2022.

MGO reviewed the seven short-term agreements that were executed in June 2022. All agreements were properly approved by authorized personnel. None of the agreements had invoices as the contracted delivery periods were after June 30, 2022.

There were no long-term agreement executed for the month of December 2021.

MGO reviewed the one long-term agreement for the month of June 2022, which was properly approved by authorized personnel. The agreement did not have invoice as the contracted delivery period was after June 30, 2022.

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

9. Obtain the Power Contract Tracking Reports for the months of December 2021 and June 2022 and compare them to the Recommended Coverage (Appendix 9 of the RMR, as amended from time to time – see attached Schedule A) to determine whether SJCE was in compliance with the coverage requirements for Energy.

Finding: The rolling 2 years and 4 years forward were above the maximum limit because the City procured additional energy as a hedge against the possibility that long-term contracts (Power Purchase Agreements) would not come online on time or perform as expected. These procurement strategies outside of Coverage Thresholds were reported for ROC review and approval in ROC Reports as of December 31, 2021.

December 2021 Report	Period	Actual Coverage	Minimum Coverage	Maximum Coverage
Rolling two years forward	January 2022 – December 2023	95%	30%	90%
Rolling four years forward	January 2022 – December 2025	72%	30%	50%

No deviations were found for the June 2022 report as a result of applying the procedure.

10. Confirm the types of Energy products listed in the Expected Power Cost Workbook for the months of December 2021 and June 2022 were for permitted products as provided in Appendix 6 of the RMR, as amended from time to time.

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

11. Obtain Expected Power Cost Workbook, Power Contract Tracking Report, and Approved Counterparty Log Master Workbook for the months of December 2021 and June 2022; select a sample of seven Energy and three Resource Adequacy contracts, based on the largest contract by dollar amount; and obtain additional documentation to determine whether the City met the permitted transactions and approved product requirements of the RMR, as follows:

- a) Transactions are duly authorized and within risk limits, and shall not cause individual counterparty credit limits to be exceeded (for Energy contracts only).
- b) Transactions shall utilize contract terms intended to minimize the risk of loss if a counterparty fails to deliver, take delivery or pay for transactions provided.
- c) Transactions are executed and documented following standardized procedures.
- d) Transactions are approved as to form by the City Attorney’s Office.

Finding: No Energy contracts were executed in December 2021. MGO reviewed the six Energy contracts executed in June 2022, and the only one Resource Adequacy contract executed in June 2022.

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

12. If unauthorized transactions were observed in the sampled transactions from procedure 11, verify the existence of the appropriate deviations report as required in Section 5.4 of the RMR as amended from time to time.

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

13. Compare the reports issued by SJCE management to satisfy reporting requirements in the RMR to the Management Reports listed in Appendix 7 of the RMR (See attached Schedule B), as may be amended from time to time, for the last month of each quarter, to determine whether SJCE complied with the reporting requirements, report frequency, primary responsibility, approval and deadlines.

Finding: Based on the Management Reports listed in Appendix 7 of the RMR, seven of nine separate reports were required. The following reports were not applicable because there are no exceptions or violations to be reported (Exceptions Report) or the Integrated Resource Plan is prepared every two years for the periods selected:

Report	Frequency
Exceptions Report	As needed
Integrated Resource Plan	As needed

The reports listed were reviewed and approved by the management on June 23, 2022 and were presented to the ROC upon approval.

Report	Frequency	Period of Report
Load and Resource	Quarterly	For the quarter ended December 2021
Concentration Balance	Monthly	For the month ended December 2021
Portfolio Performance (MTM)	Monthly	For the month ended December 2021
Credit Limit Status by counterparty and Master Agreements	Monthly	For the month ended December 2021
Coverage Ratio – Procurement Report	Monthly	For the month ended December 2021
Credit Exposure to LOC Issuers	Monthly	For the month ended December 2021

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

14. Sample the last individual transaction from each quarter and determine whether the transaction included formal and official documentation by the City as follows:
- a) Competitive bidding or ROC approved variance authorizing bilateral negotiations.
SJCE front office manages a Request for Offers (RFO) inbox for the purposes of capturing bid solicitations.
 - b) Written commitment to the transaction
SCJE front office manages an RFO inbox for the purposes of capturing bid solicitations.
 - c) Confirmation the transaction with the counterparty with a written and executed confirmation
All transactions with the counterparty are memorialized with a written and executed confirmation.
 - d) Authorization/Approval
Each confirmation includes a cover sheet to ensure appropriate authorization/approvals are in place.

e) Actual product delivery

Both the Northern California Power Agency (NCPA) and the Middle Office review expected power costs and confirm the quantities match information included on confirmation. NCPA confirms the actual delivery of energy products prior to SJCE submitting invoices for payment.

f) Billing and settlement

Both NCPA and the Middle Office review expected power costs and confirm the quantities match information included on confirmation. NCPA confirms the actual delivery of energy products prior to SJCE submitting invoices for payment.

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

15. Obtain a listing of employees who were engaged in approved product transactions and consultants performing services for SJCE as of June 30, 2022, and confirm that the employees and consultants 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, the objective of which would be the expression of an opinion or conclusion, respectively, on the City's compliance with the Clean Energy Risk Management Regulations effective November 19, 2020 and February 28, 2022 for the year ended June 30, 2022. 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.

The City's response to the deviations identified as a result of our procedures is described in the management response starting page 10. The City's response was not subjected to the procedures applied in this agreed-upon procedures engagement and, accordingly, we express no opinion on it.

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



Walnut Creek, California
January 24, 2023

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
Schedule A
For the Year Ended June 30, 2022

ENERGY RISK MANAGEMENT REGULATION APPENDIX 9
RECOMMENDED COVERAGE

SJCE will manage risks associated with its Load Obligation through procurement of energy up to four years ahead consistent with Table 1 below, and through medium and long-term contracts up to 25 years in length that are consistent with SJCE’s Integrated Resource Plan (IRP). To access the market at different times, SJCE will hedge its load obligation by soliciting energy supply offers at regular intervals during favorable buying periods during the year (focusing on Spring and Fall). The Director of Community Energy, or designee, will review each solicitation; solicitation reviews shall cover pre-solicitation portfolio positions, expected coverage, procurement limits and market analysis. Supply offers will be selected with respect to the risks outlined in this document (i.e. price risk, counter party credit worthiness, concentration risk, etc.).

SJCE will seek to achieve coverage ratios consistent with Table 1 Coverage Thresholds. SJCE will apply coverage ratios within the ranges set forth in Table 1 taking into account market and system conditions during particular time periods, such as higher risks of price spikes during the Summer and early Fall, and opportunities to take advantage of low prices from favorable hydro conditions during the Spring, and schedules for natural gas storage reports.

Table 1 Coverage Thresholds

RMR – 11/19/2020

	Minimum Coverage	Maximum Coverage
Rolling Six Months Forward	80%	115%
Rolling One Year Forward	70%	110%
Rolling Two and Three Years Forward	30%	90%
Rolling Four Years forward and Beyond	30%	50%

RMR – 2/28/2022

	Minimum Coverage	Maximum Coverage
Prompt Quarter	85%	125%
Prompt 1-4 Quarters	75%	115%
Balance of the prompt year not covered by Prompt 1-4 quarters	70%	115%
Current Calendar year (CY) + 2	50%	95%
CY + 3	40%	90%
CY + 4	40%	90%
CY + 5 to CY + 10	30%	85%
Beyond CY + 10	0%	70%

From time to time, the Front Office staff may recommend procurement strategies outside of these Coverage Thresholds for ROC review and approval.

The Front Office shall prepare an Integrated Resource Plan (IRP) every two years in accordance with State law requirements and City policy. The IRP shall be presented to City Council for approval and filed with the California Public Utilities Commission. The Front Office shall propose long term transactions for approval by City Council and the ROC as appropriate and consistent with the requirements of the approved IRP.

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
Schedule B
For the Year Ended June 30, 2022

ENERGY RISK MANAGEMENT REGULATION 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. Load and Resource (11/19/2020 RMR only)	X					X				CED Deputy Director of Power Resources
b. Concentration Balance		X			X					CED Division Manager of Risk Management, Contracts and Administration
c. Portfolio Performance (MTM)		X			X					CED Division Manager of Risk Management, Contracts and Administration
d. Exceptions Report		X							X	CED Division Manager of Risk Management, Contracts and Administration
e. Annual Regulations Update		X					X			CED Division Manager of Risk Management, Contracts and Administration
f. Credit Limit Status by Counterparty and Master Agreements		X			X					CED Division Manager of Risk Management, Contracts and Administration
g. Coverage Ratio – Procurement Report	X				X					CED Deputy Director of Power Resources
h. Integrated Resource Plan	X	X	X						X	CED Deputy Director of Power Resources
i. Credit Exposure to LOC Issuers		X			X					CED Division Manager of Risk Management, Contracts and Administration
j. Power Transactions (2/28/2022 RMR only)	X					X				CED Deputy Director of Power Resources

SAN JOSE CLEAN ENERGY
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Schedule B
For the Year Ended June 30, 2022

Report Audience: **SJCE Management**

Management Report		Primary Responsibility			Report Frequency					Approval	
		Front	Middle	Back	Weekly	Monthly	Quarterly	Annual	Bi-Annual		As Needed
a.	Load and Resource (11/19/2020 RMR only)	X			X						CED Deputy Director of Power Resources
c.	Portfolio Performance (MTM)		X		X						CED Division Manager of Risk Management, Contracts and Administration
f.	Credit Limit Status by Counterparty and Master Agreements		X			X					CED Division Manager of Risk Management, Contracts and Administration

Report Audience: **Front & Back Office**

Management Report		Primary Responsibility			Report Frequency					Approval	
		Front	Middle	Back	Weekly	Monthly	Quarterly	Annual	Bi-Annual		As Needed
f.	Credit Limit Status by Counterparty and Master Agreements		X			X					CED Division Manager of Risk Management, Contracts and Administration

SAN JOSE CLEAN ENERGY
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Schedule B
For the Year Ended June 30, 2022

1.1. Description of Management Reports

- a. Load and Resource: The Front Office produces the Load and Resource Balance report detailing total resources by source as compared to total actual load. This report shows supply surpluses and shortages. The Load Resource report is updated weekly and reviewed with SJCE management. It is also included on ROC meeting agendas as a consent item on a quarterly basis.
- b. 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.
- c. 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.
- d. Exceptions Report: A Middle Office report summarizing current exception and violation reports. The Exception Report is developed and presented to the ROC as needed.
- e. 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.
- f. 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.
- g. 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.
- h. Integrated Resource Plan: This is a plan prepared every few years that shows long-term supply and resources plan.
- i. 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.
- j. 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.

TO: MACIAS GINI & O'CONNELL, LLP

FROM: Lori Mitchell
Julia H. Cooper

SUBJECT: SEE BELOW

DATE: January 24, 2023

Approved

Date

SUBJECT: RESPONSE TO INDEPENDENT ACCOUNTANT'S REPORT ON THE CITY OF SAN JOSE'S COMPLIANCE WITH CLEAN ENERGY RISK MANAGEMENT REGULATIONS FOR THE YEAR ENDED JUNE 30, 2022

BACKGROUND

The Administration has reviewed the Independent Accountant's report on the City of San José's compliance with Clean Energy Risk Management Regulations for the year ended June 30, 2022. This memorandum details the Administration's response to the findings related to the procedures detailed in the report. The Administration greatly appreciates the work of the team at Macias Gini & O'Connell, LLP (MGO) for this report.

PROCEDURES AND PROCESS IMPROVEMENTS

Procedure 8: No deviations were found as a result of applying the procedure. The auditors have clarified that the agreements were properly approved by the authorized personnel. The auditors have further noted that some of the agreements did not have invoices since the contracted delivery period was beyond the period audited. The agreements verified involve delivery of power products for future months. The invoices for those agreements will be received at the contractually agreed upon time in the future and are not available yet.

Procedure 9: The Administration procured additional energy over the maximum recommended range of coverage for the periods noted in the finding. As reported to the Risk Oversight Committee, the rationale of the procurement was to mitigate risk and effectively hedge the power portfolio given the possibility of a long-term power purchase agreement (PPA) not coming online on time or performing as expected. The Energy Risk Management Regulations (ERMR) allow the Administration to recommend procurement strategies outside of the recommended coverage ratios from time to time. This hedging strategy proved effective since the PPA was eventually delayed. Please note that the coverage calculations include all the executed agreements unless modified or terminated. The hedging strategy does not incorporate adjustments for delays of PPAs. The ERMR was revised in February 2022 (after December 2021

January 24, 2023

Subject: Response to Review of City's Compliance with Clean Energy Risk Management Regulations for the year ended June 30, 2022

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report noted in the finding) to increase the maximum coverage to mitigate uncertainty of online dates and expected output volatility of PPAs.

Procedure 13: The reports for December 2021 were presented to Risk Oversight Committee in June 2022 due to staff turnover and technical difficulties faced in the preparation of reports by the Finance Department and Community Energy Department. The Administration informed the Risk Oversight Committee of the expected delays.

As noted by the auditors, the "Exceptions Report" and "Integrated Resource Plan" are to be reported on an as-needed basis, neither of which were needed in FY 2021 – 2022. All other reports were provided.

CONCLUSION

The Administration thanks the team at MGO for the comprehensive review of the City's compliance with Clean Energy Risk Management Regulations. We appreciate the hard work and professionalism in conducting this review.

Lori Mitchell

Lori Mitchell (Jan 23, 2023 17:06 PST)

LORI MITCHELL
Director, Community Energy Department

Julia H. Cooper

Julia H. Cooper (Jan 24, 2023 14:37 PST)

JULIA H. COOPER
Director, Finance Department

For questions, please contact Zachary Struyk, Assistant Director of Community Energy, at (408) 535-4868.