

CLEAN ENERGY ALLIANCE  
CARLSBAD, CALIFORNIA  
ANNUAL FINANCIAL REPORT  
FOR THE PERIOD OF INCEPTION (NOVEMBER 4, 2019) THROUGH JUNE 30, 2020

CLEAN ENERGY ALLIANCE  
ANNUAL FINANCIAL REPORT

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## **INTRODUCTORY SECTION**



January 11, 2021

To the Clean Energy Alliance Board of Directors (Board) and Residents/Businesses within CEA territory:

We are pleased to submit the Comprehensive Annual Financial Report (Report) of Clean Energy Alliance (CEA) for the fiscal year ended June 30, 2020.

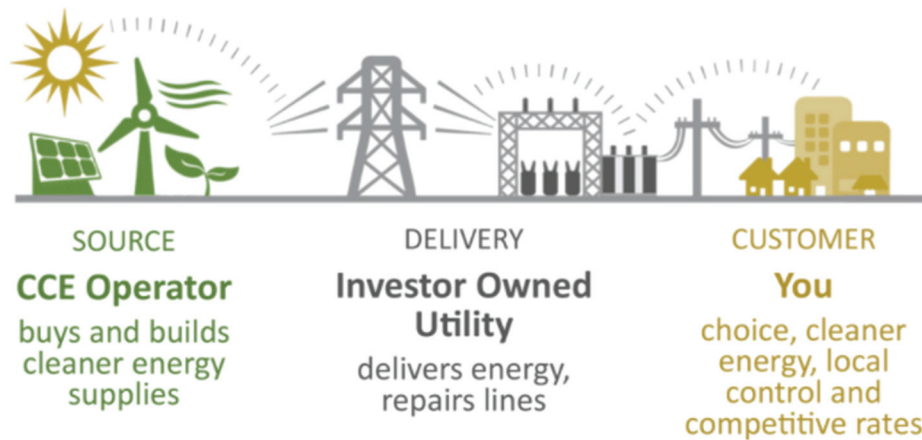
The Interim Treasurer/Chief Financial Officer prepared the data in this Report. Lance, Soll & Lunghard, LLP (LSL) independently audited the financial statements and related notes. Nonetheless, CEA bears the responsibility for the accuracy of all data presented in this Report. We, CEA's Interim Chief Executive Officer and Interim Treasurer/Chief Financial Officer, assume the responsibility for the Report's completeness and fairness of presentation including all disclosures. We affirm that, to the best of our knowledge and belief, information in the Report provides an accurate and fair representation of CEA's financial position and the status of its operations during the fiscal year ended June 30, 2020. We believe that this Report contains all information and disclosures needed to clearly understand CEA's Fiscal Year 2020 financial activities.

LSL has issued an unmodified opinion on CEA's financial statements for the fiscal year ended June 30, 2020. The independent auditors' report is located at the front of the financial section of this Report.

A Management Discussion and Analysis (MD&A) is normally included as part of the Report. The MD&A provides "financial highlights" and interprets the financial reports by analyzing trends and by explaining changes, fluctuations, and variances in the financial data by comparing current fiscal year financial information to the previous year's financial information. This is the first fiscal year for CEA; therefore, a MD&A is not included in the Report for the fiscal year ended June 30, 2020.

## **BACKGROUND**

California Assembly Bill 117 allows local governments to form Community Choice Aggregations (CCAs), which are also referred to as Community Choice Energy (CCE) programs, that offer an alternative electric power option to constituents currently served electric power by investor owned utilities (IOUs). Under the CCE model, local governments purchase and manage their community's electric power supply by sourcing power from a preferred mix of traditional and renewable generation sources, while the incumbent IOU continues to provide distribution service. CCEs face the same requirements for renewable energy purchases as the incumbent IOUs and public utilities; however, many CCE programs can offer power content that has a greater share of renewable energy compared with the incumbent utility and at lower retail rates.



Marin County was the first to create a California CCE utility in 2008. Today there are 19 CCE programs operating throughout California. In San Diego County, Solana Beach began using this model in 2018 with Solana Energy Alliance (SEA), and other cities and the county are currently exploring CCE formations. The cities of Chula Vista, Encinitas, Imperial Beach, La Mesa and San Diego recently formed a CCE named San Diego Community Power (SDCP).

#### GOVERNMENT PROFILE

A feasibility study was completed in April 2019 that evaluated the financial feasibility of a potential CCE, and based on this study, the cities of Carlsbad, Del Mar, and Solana Beach partnered in November 2019 to form CEA. CEA is organized under the Joint Powers Act (California Government Code 6500 et seq). By law, as a joint powers authority (JPA), CEA is a separate legal entity from its member agencies. Its budget is separate from the member cities' general funds. In addition, CEA is funded by program revenues and reserves.



Senate Bill 350, adopted in 2015, mandates a reduction in greenhouse gas emissions to 40 percent below 1990 levels by 2030 and to 80 percent below 1990 levels by 2050. In 2018, the State Legislature adopted SB 100, which directs the Renewable Portfolio Standard to be increased to 60% renewable by 2030 and establishes a policy for eligible renewable energy resources and zero-carbon resources to supply 100 percent of electricity retail sales to California end-use customers by 2045. Each city has adopted a Climate Action Plan to help the city meet the state goals for reducing greenhouse gasses and a CCA is expected to help the cities meet those goals.

Among other goals, the agreement seeks to meet the following objectives:

- Default energy product from a minimum 50% renewable sources
- Voluntary 100% renewable energy service at a premium above the default service rate
- Default rates that are set to provide a minimum target of 2% discount below San Diego Gas & Electric (SDG&E) comparable service offerings.

Each member city has equal voting power and JPA board meetings are held monthly, rotating between the cities of Carlsbad, Del Mar and Solana Beach. CEA is operated under the direction of a Chief Executive Officer (CEO) appointed by the Board, with legal and regulatory support provided by a Board-appointed General Counsel. In the future, CEA's service area may expand to include additional regional agencies.

There are approximately 58,000 eligible customer accounts within CEA's boundaries as shown in the table below:

Residential	49,800
Commercial & Agriculture	8,000
Street Lighting & Traffic	<u>200</u>
	58,000

#### Budgetary Process and Controls

An annual budget is adopted by the Board before the fiscal year begins and can be amended during the fiscal year by the Board as needed. All expenditures are made in accordance with the approved budget.

While CEA's first year of operations reported a deficit net position of \$278,684, as explained in Note 2 to the Financial Statements, the reason for the deficit is that CEA has not established a revenue stream by selling energy to customers but has incurred operating expenses associated with startup costs. These startup costs were funded by advances made by the founding members. From a budgetary comparison, the budget to actual variance was a net positive variance of \$71,316 as shown in the schedule on the following page.

**CLEAN ENERGY ALLIANCE**  
**BUDGETARY COMPARISON SCHEDULE**  
**November 4, 2019 though June 30, 2020**

	BUDGET	ACTUALS	VARIANCE
<b>Operating Expenses</b>			
Professional Services			
Administrative	\$ 50,000	\$ 95,874	\$ (45,874)
Legal	130,000	77,796	52,204
Technical	115,000	78,469	36,531
Total Professional Services	295,000	252,139	42,861
Membership Dues	1,500	26,500	(25,000)
Graphic Design Services	6,500	-	6,500
Bank Fees	-	45	(45)
<b>Total Operating Expenses</b>	303,000	278,684	24,316
<b>Other Sources and Uses</b>			
Sources			
Advances from Member Agencies	450,000	450,000	-
Uses			
CCA Bond	147,000	100,000	47,000
<b>Total Sources and Uses</b>	303,000	350,000	(47,000)
<b>Net Increase (Decrease) in Available Fund Balance</b>	\$ -	\$ 71,316	\$ (71,316)

Internal Controls

The management of CEA is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of CEA are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. The internal control structure is subject to periodic evaluation by the management of CEA.

Annual Audit

LSL has audited CEA's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of CEA for the fiscal year ended June 30, 2020, are free of material misstatement. As part of CEA's annual audit, reviews are made to determine the adequacy of the internal control structure as well as to determine that CEA has complied with applicable laws and regulations.

The results of CEA's annual audit for the fiscal year ended June 30, 2020, provided no instances of material weaknesses in the internal control structure and no violations of applicable laws and regulations. The independent auditor concluded there was a basis for rendering an unmodified opinion and CEA's financial statements are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this Report.

Administrative and Operational Policies

The policies listed below were approved by the end of the fiscal year and are based on government code or regulatory requirements and best practices of successfully operational CCAs:

- Travel and Expense Reimbursement Policy
- Protection of Confidential Information Policy
- Privacy and Customer Confidentiality Policy
- Advanced Metering Infrastructure Data Security and Privacy Policy
- Collections Policy

## **IMPLEMENTATION TIMELINE**

To meet the goal of a 2021 launch, pertinent action items needed to be completed by the end of the fiscal year. These tasks were tracked on a timeline to ensure they were being completed on time and in compliance with regulatory requirements. The action items were grouped into three general categories:

- Administrative
- Implementation Plan Related
- Regulatory Compliance

Administrative tasks included actions specific to the operations of CEA, such as appointment of interim staff and adoption of policies and procedures. Implementation Plan Related tasks included actions specific to meeting the requirements established by California Public Utilities Commission (CPUC) Resolution E-4907 for the Clean Energy Alliance to begin serving customers in 2021. They included preparation, approval and filing of the Implementation Plan, creating and submitting a draft customer notice, filing the financial security (CCA bond) requirement and execution of the SDG&E Service Agreement. Regulatory Compliance tasks included actions such as preparation and filing of an initial Renewable Portfolio Standards Procurement Plan and participation in the year-ahead Resource Adequacy process.

By the end of the fiscal year, all actions listed on the timeline were successfully completed as shown in the schedule on the following page:



**Clean Energy Alliance  
Timeline of Implementation Related Action Items**

Timing	Date		Description	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
	Completed									
12/19/19	12/19/19		Appoint Interim Executive Director							
12/19/19	12/19/19 & 12/23/19		Approve & File Implementation Plan & Statement of Intent							
1/16/20	1/16/20		Direction on Banking and Credit Solutions							
1/16/20	1/16/20		Authorize RFP for Technical Consultant to Assist with Regulatory Filings							
1/16/20	1/16/20		Authorize RFP for Data Manager/Call Center							
1/16/20	1/16/20		CEA Public Outreach and Marketing Kickoff							
1/20/20	1/20/20		Issue RFP for Technical Consultant & Data Manager							
2/20/20	2/20/20		Select Financial Institution & Approve Financing Plan							
2/20/20	2/20/20		Select Technical Consultant to Assist with Regulatory Filings							
2/20/20	2/20/20		Select Data Manager							
2/20/20	2/20/20		Staff Develop & Submit Draft Customer Notice to CPUC							
2/20/20	2/20/20		Develop Renewable Portfolio Standards Procurement Plan							
2/20/20	2/20/20		Authorize Execution of Service Agreement with SDG&E							
4/20/20	4/23/20		Post CCA Bond with CPUC							
4/20/20	4/23/20		Execute Service Agreement with SDG&E & Submit to CPUC							
4/20/20	4/23/20		Year-Ahead Resource Adequacy Forecast Filing							
6/30/20	6/30/20		Initial Resource Adequacy Solicitation Initiated							
6/30/20	6/30/20		File Updated Renewable Portfolio Standards Procurement Plan							

**Key:**

Administrative
Implementation Plan Related
Regulatory Compliance

**Implementation Plan**

Public Utilities Code Section 366.2(c)(3) establishes the requirements related to the filing of an Implementation Plan (Plan) for a CCA program. CEA submitted its Plan by the due date of January 1, 2020 which made CEA eligible to serve customers in 2021. This regulatory compliance document details CEA’s complete organizational and operational structure including setting operational policies and its process of hiring key vendors and staff; goals such as renewable energy standards, energy supply mix and rate discount targets; and addresses universal access, reliability and state law compliance

CEA achieved a significant milestone on March 16, 2020 with the CPUC’s certification of the Plan.

**ELECTRICAL USAGE AND COVID-19**

United States economic growth was continuing with solid growth in business investment and spending until March 2020 when the growth was curtailed by the COVID-19 pandemic. In response to the outbreak and spread of COVID-19, in March 2020, California Governor Gavin Newsom issued stay at home orders and shut down non-essential businesses. In January 2020, California expected a \$5.6 billion surplus in the state budget by the time the fiscal year ended on June 30. In May, however, the Department of Finance changed its projection, saying that the state would instead have a deficit of \$54.3 billion. Some of this shortfall was caused by expenses for COVID-19 response - an unanticipated \$7.1 billion for health programs and an additional \$6 billion for other types of responses - but most was caused by the expectation that tax revenue—personal income, corporate, and sales—will be one-quarter lower than originally projected.

Since mid-March, as infection rates fluctuated, there have been various versions of stay-at-home orders statewide and by the County of San Diego. The most recent increase in infections rates, and subsequent hospitalizations and related deaths, have resulted in Governor Newsom announcing on December 3, 2020, a regional stay-at-home order, which divides the state into 5 regions (Northern California, Bay Area, Greater Sacramento, San Joaquin Valley, Southern California). The order would be implemented in any region if the region's ICU capacity falls 15% and would be in effect for three weeks at a time. As of the beginning of January, only Northern California has not reached the 15% threshold.

How has Covid-19 affected electrical usage? Broadly speaking, the pandemic has resulted in a decrease in electricity usage by commercial customers, largely due to the economic slowdown and millions of employees working from home. Conversely, residential consumption is up, which is leading to higher bills for some households. During the hot summer and early fall months, residential usage spiked due to families being home during the day when they would otherwise be at work or school.

Shortly after Governor Newsom instituted the first stay-at-home order in March, SDG&E suspended all service disconnections due to non-payment, waived late payment fees for business customers and offered flexible payments for customers struggling to pay their monthly bills. SDG&E has also suspended sending out late notices and streamlined processed for enrollment in programs that offer discounts on power bills is up. These measures are due to expire in April 2021.

Consumer protections were further extended in June 2020 when the CPUC mandated an Arrearage Management Program (AMP) which provides debt forgiveness of past due amounts for residential customers that meet certain criteria. Debt forgiven will be reimbursed to the utilities, and CCAs, from Public Purpose Program funds administered by the CPUC. The Board will consider participating in the AMP at its January board meeting.

## **FUTURE GOALS AND PLANS**

### Credit Solution

CEA requires financing for its start-up implementation activities and initial cash flow. Initial start-up funding was provided by advances from its Member Agencies to be repaid in the future from revenues generated through CCA operations. CEA plans to seek financing for implementation and initial cash flow needs through a loan or line of credit from a financial institution.

The implementation of the CCA Program requires funding for three major functions: (1) staffing and contractor costs; (2) deposits and reserves; and (3) operating cash flow. Based on CEA's anticipated start-up activities and implementation schedule, a total need of \$6M has been identified to support the functions. A short-term borrowing arrangement has been made with Calpine Energy Solutions (Calpine) for \$650,000 to cover CEA's cash flow needs through January 2021. A revolving credit agreement with JPMorgan is expected to be finalized at the beginning of February 2021.

Out of the \$6M capital requirements, \$540K is related to the administrative costs related to implementation/startup efforts (i.e., rate setting, power procurement and contract negotiations, marketing and communications, regulatory compliance, SDG&E security deposit, etc.) in order to serve customers beginning in May 2021. Deposits in the amount of \$745K will also need to be posted to the California Independent System Operator (CAISO) for CEA to be a Congestion Revenue Rights Holder and

related to power procurements. CEA plans to repay the short-term loan to Calpine of \$650K and \$1M will be available to accommodate contingencies and letters of credit that may be required by energy suppliers. The remaining \$590K is the cash “float” required for CEA to pay its monthly bills due to the timing of when customer payments are anticipated to begin coming in and when expenses are due.

#### Community Advisory Committee (CAC)

The Board approved a CAC Policy at the regular Board meeting held in July. Per the policy, the purpose of the CAC is to advise CEA’s Board of Directors on those matters concerning the operation of its CCA program as directed by the Board in an annual workplan for the CAC that is adopted by the Board. The objectives of the CAC are to provide feedback to the Board, act as a liaison between the Board and the community and serve as a forum for community input on those matters assigned to the CAC in the annual workplan. The CAC does not have any decision-making authority but serves as an advisory body to the Board of Directors. The CAC membership consist of two appointees from each CEA member agency and 1 Board Alternate.

At the Board meeting held in September 2020, the Board approved the following scope of work and desired outcomes for the Workplan:

- Community Outreach
- Social Equity Issues
- CEA Program Review for meeting CEA Goals of equity & innovation
- Monitoring Climate Action Plan goals
- Play role in strategic plan process

The first meeting of the CAC took place on December 3, 2020.

#### Integrated Resource Plan (IRP)

The Board adopted an IRP at its August 2020 meeting which provides the CPUC with CEA’s 10-year projected electricity load as part of the integrated resource planning process. The IRP is required to ensure that California’s electric sector meets its Green House Gas (GHG) reduction goals while maintaining reliability at the lowest possible costs. The IRP was submitted by the September 1, 2020 deadline.

#### Energy Risk Management Policy (ERMP)

CEA established an ERMP to manage the inherent risks associated with wholesale energy market transactions. These transactions include procurement of energy products needed to fulfill customer needs and meet regulatory compliance requirements, the negotiation of contracts for those products, review and validation of related invoices, payments of invoices, resolution of disputes and management of credit concerns. The ERMP provides a framework and related guidance, intended to establish procedures for administration of the tasks and responsibilities related to risk management, including identification of necessary roles and responsibilities assigned to those individuals and groups who will be involved in the energy transactions process and risk management activities.

Energy market risks that the ERMP is intended to assist CEA in addressing include:

- Market Price Risk – exposure to changes in wholesale energy prices
- Counterparty Credit and Performance Risk – inability or unwillingness of a counterparty to perform according to its contractual obligations
- Load and Generation Volumetric Risk – inaccuracies in load forecasts resulting in over- or under-procurement of energy and/or customer rate revenues that deviate from projections
- Operational Risk – potential for failure to execute and control business activities relative to plan
- Liquidity Risk – risk that CEA will be unable to meet its financial obligations
- Regulatory/Legislative Risk – shifting state and federal regulatory policies, rules, and requirements that could negatively impact CEA

To mitigate CEA’s exposure to such risks, the Policy has been adopted to focus on the following key principles:

- Risk Management Goals and Principles
- Internal Control Principles
- Risk Management Business Practices
- Risk Management Policy Governance

#### CEA Communications and Marketing

A ten-month workplan was developed for communications and marketing tasks needed to support CEA’s implementation efforts. These tasks are in the areas of branding, website design and launch, social media, communication tools, customer notifications, press and public relations. As part of the branding efforts, the following logo for CEA was designed and approved:



The CEA website was updated and went live on December 1, 2020 at [thecleanenergyalliance.org](http://thecleanenergyalliance.org)

#### CEA Launch Schedule

SDG&E has been working over the past several years on their Customer Information System replacement program, known as Envision. They had committed to, and were on track, for a January 4, 2021 go live, despite the challenges of working remote in the COVID-19 environment. With a January 2021 go live, SDG&E committed to supporting CEA’s launch of May 2021. CEA and its consultants worked diligently with SDG&E to develop a launch schedule that minimized impact to CEA while also minimizing the risk of incorrect bills being sent to customers. SDG&E and CEA agreed to a two-phased schedule with accounts transitioning to CEA in May and June 2021. May 2021 Phase 1 would include the transition of SEA customers to CEA as well as customers who do not have complex billing plans in Carlsbad and Del Mar.

Those customers who have been identified with complex billing plans would transition in June 2021. Preliminary analysis indicates that the proposed phasing does not have a material impact from a financial perspective.

### CCA Launch

To date, CEA is meeting its milestones for the implementation of its CCA program and is on track to begin serving customers in May 2021/June 2021. The following are the identified milestones and completion dates:

- Award Scheduling Coordinator Services contract - September 2020
- Resource Adequacy Compliance - October 2020 and ongoing monthly reports

As a load serving entity serving customers in 2021, CEA has an obligation to procure Resource Adequacy (RA), based on quantities allocated by the CPUC and CAISO. RA procurements do not supply any energy to CEA or its customers, rather it commits the seller to be available to supply energy to the grid if called upon by CAISO and reduce the possibility of outages. This process is key to ensuring grid reliability. CEA has monthly and annual RA compliance reporting requirements with the Year-Ahead Compliance Demonstration due by October 31, 2020. This report must demonstrate CEA has entered into contracts to meet CPUC requirements. CEA successfully procured all its RA requirements by the due date and is fully compliant with its RA obligation.

- Long-Term Renewable Procurement

As a load serving entity, CEA will be required to procure 65% of its minimum state required renewable portfolio standards in contracts of 10-years or longer. To ensure compliance with this requirement, CEA's initial renewable energy solicitation is underway. The solicitation process, from beginning through final execution can be lengthy, particularly in light of the impacts of COVID-19 on the renewable development industry. The solicitation opened on July 1, 2020 with proposals due July 27, 2020. CEA's consultant, Pacific Energy Advisors, has identified a short list of projects and negotiations are proceeding. It is anticipated final contracts will be before the Board in first quarter 2021.

- System testing with SDG&E - 4th quarter 2020 and 1st quarter 2021
- Setup Call Center, develop scripting and Interactive Voice Response (IVR) recordings - 4th quarter 2020 and 1st quarter 2021
- Create customer pre-and post-enrollment Notices – 4th quarter 2020
- Select product options to offer at launch with 50% renewable energy product as the minimum default energy product/renewable energy policies - February 2021
- Set Rates - March 2021
- Customer Noticing – March – August 2021
- Procure Power – Spring 2021
- Go live in two phased CCA implementation process to accommodate SDG&E's billing system replacement project – May and June 2021

## Administrative and Operational Policies

In addition to the policies mentioned in previous sections, the following policies were approved by the Board after June 30, 2020:

- Unsolicited Proposals Policy
- Non-Energy Procurement Policy
- Inclusive and Sustainable Workforce Policy
- Financial Reserve Policy
- 2020 Legislative and Regulatory Platform
- Records Retention Policy
- Bid Evaluation and Criteria Scoring System Policy
- Investment Policy (January Board Meeting)
- Social Media Policy (January Board Meeting)
- Debt Management Policy (January Board Meeting)

## **Acknowledgments**

We would like to thank the Board of Directors for their continued support for maintaining the highest standards of professionalism in the management CEA's finances and acknowledge the professional work and advice of Lance, Sol & Lunghard, LLP.

Respectfully submitted,



Barbara Boswell  
Interim Chief Executive Officer

Respectfully submitted,



Marie Marron Berkuti  
Interim Treasurer/Chief Financial Officer

# CLEAN ENERGY ALLIANCE

## Members and officers of the Board of Directors on June 30, 2020

<u>Member Agency</u>	<u>Representative</u>	<u>Alternate</u>
City of Carlsbad	Cori Schumacher – Chair	Matt Hall
City of Del Mar	Ellie Haviland – Vice Chair	Dwight Worden
City of Solana Beach	Kristi Becker	Judy Hegenauer

### CEA Staff

Barbara Boswell – Interim Chief Executive Officer  
Marie Marron Berkuti – Interim Treasurer/Chief Financial Officer  
Sheila Cobian – Interim Board Secretary  
Susan Caputo – Interim Board Clerk

**FINANCIAL SECTION**





## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Clean Energy Alliance  
Carlsbad, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Clean Energy Alliance (CEA) for the period of inception to June 30, 2020, and the related notes to the financial statements, which collectively comprise CEA'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; 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 from 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 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.



To the Board of Directors  
Clean Energy Alliance  
Carlsbad, California

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clean Energy Alliance as of June 30, 2020, and the changes in financial position and cash flows thereof for the period then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CEA's basic financial statements. The introductory section is presented for purposes of additional analysis and are not a required part of the basic financial statements and has not been subjected to the auditing procedures applied in the audit of the basic financial statement. 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 January 11, 2021, on our consideration of CEA'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 solely 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 the effectiveness of CEA's 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 CEA's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Lance, Soll &amp; Lughard, LLP".

Brea, California  
January 11, 2021

**CLEAN ENERGY ALLIANCE**

**STATEMENT OF NET POSITION  
JUNE 30, 2020**

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**Assets:**

Cash and cash equivalents	\$	203,530
Deposits		100,000
<b>Total Assets</b>		<b>303,530</b>

**Liabilities:**

Accounts payable		78,197
Due to member agencies		504,017
<b>Total Liabilities</b>		<b>582,214</b>

**Net Position:**

Unrestricted		(278,684)
<b>Total Net Position</b>	<b>\$</b>	<b>(278,684)</b>

The notes to financial statements are an integral part of this statement.

CLEAN ENERGY ALLIANCE

STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION  
FOR THE PERIOD OF INCEPTION (NOVEMBER 4, 2019) THROUGH JUNE 30, 2020

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<b>Operating Expenses:</b>	
Professional services	\$ 252,139
Membership dues	26,500
Miscellaneous	45
<b>Total Operating Expenses</b>	<b>278,684</b>
Operating (Loss)	(278,684)
Net Position - Beginning	-
<b>Net Position - Ending</b>	<b>\$ (278,684)</b>

The notes to financial statements are an integral part of this statement.

## CLEAN ENERGY ALLIANCE

### STATEMENT OF CASH FLOWS FOR THE PERIOD OF INCEPTION (NOVEMBER 4, 2019) THROUGH JUNE 30, 2020

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#### Cash Flows from Operating Activities:

Payments to suppliers and service providers	\$ (246,470)
<b>Net Cash (Used for) Operating Activities</b>	<b><u>(246,470)</u></b>

#### Cash Flows from Noncapital Financing Activities:

Cash advances from member agencies	450,000
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b><u>450,000</u></b>
Net Increase in Cash and Cash Equivalents	203,530

Cash and Cash Equivalents, Inception	-
<b>Cash and Cash Equivalents, June 30</b>	<b><u>\$ 203,530</u></b>

#### Reconciliation of Operating (Loss) to Net Cash (Used for) Operating Activities:

Operating (Loss)	<u>\$ (278,684)</u>
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#### Adjustments to Reconcile Operating (Loss) to Net Cash (Used for) Operating Activities:

(Increase) in deposits	(100,000)
Increase in accounts payable	78,197
Increase in due to member agencies	54,017
Total Adjustments	<u>32,214</u>
<b>Net Cash (Used for) Operating Activities</b>	<b><u>\$ (246,470)</u></b>

#### Schedule of Non-Cash Activities:

For the year ended June 30, 2020, CEA received \$54,017 in services provided from its member agencies to support commencement of activities.

The notes to financial statements are an integral part of this statement.

## CLEAN ENERGY ALLIANCE

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD OF INCEPTION (NOVEMBER 4, 2019) THROUGH JUNE 30, 2020

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#### Note 1: Summary of Significant Accounting Policies

##### a. Reporting Entity

Clean Energy Alliance, (“CEA”), is a joint exercise of powers agency organized under the laws of the State of California by agreements dated November 4, 2019 and entered into by the cities of Carlsbad, Del Mar, and Solana Beach, California. CEA was formed to operate a Community Choice Energy program to provide alternative energy resources within those three cities. CEA’s powers are exercised through a Board of Directors (the “Board”), which is the governing body of CEA. The Board is responsible for the legislative and executive control of CEA. The governmental reporting entity consists of CEA, which reports no component units.

##### b. Basis of Presentation

CEA’s financial statements are prepared in accordance with accounting principles generally accepted in the U.S (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

##### c. Basis of Accounting/Measurement Focus

The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

The basic financial statements are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

The basic financial statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with CEA’s principal ongoing operations. The principal operating revenues of CEA are charges to customers for energy sales. Operating expenses include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

##### d. Net Position Flow Assumption

Sometimes CEA will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is CEA’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

## CLEAN ENERGY ALLIANCE

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD OF INCEPTION (NOVEMBER 4, 2019) THROUGH JUNE 30, 2020

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#### Note 2: Stewardship, Accountability, and Compliance

At June 30, 2020, CEA reported a deficit net position of \$278,684. It is not unusual for organizations in their first year of operations to report a deficit. The reason for the deficit is that CEA has not yet established a revenue stream by selling energy to customers but has incurred operating expenses associated with startup costs. This deficit is expected to be eliminated as resources are obtained and sales operations commence on May 1, 2021.

#### Note 3: Cash and Cash Equivalents

At June 30, 2020, the reported amount of CEA's deposits was \$203,530 and the bank balance was \$305,030. The \$101,500 difference represents various reconciling items such as outstanding checks. Of the bank balance, \$250,000 was covered by federal depository insurance and \$55,030 was covered by collateral held in the pledging bank's trust department in accordance with California Government Code.

#### Note 4: Deposits Receivable

The CEA deposited \$100,000 with the California Public Utilities Commission (CPUC) for the purpose of covering costs borne by San Diego Gas & Electric (SDG&E) in the event of a mass involuntary return of CEA customers to SDG&E, such as the decertification of CEA or a community choice aggregation failure. This deposit is to be refunded to CEA upon the establishment of a line of credit for the aforementioned purpose.

#### Note 5: Related Party Transactions

CEA received funding from the cities of Carlsbad, Del Mar, and Solana Beach for the initial startup costs associated with commencing operations. These amounts are refundable back to the cities within three years after operating revenues commence. These advances and services are reported as Due to Member Agencies in the basic financial statements. Amounts due to each of the cities are as follows:

Member	Cash Advances	Services Provided	Total
City of Carlsbad	\$ 150,000	\$ 36,572	\$ 186,572
City of Del Mar	150,000	1,893	151,893
City of Solana Beach	150,000	15,552	165,552
Total	<u>\$ 450,000</u>	<u>\$ 54,017</u>	<u>\$ 504,017</u>

## CLEAN ENERGY ALLIANCE

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD OF INCEPTION (NOVEMBER 4, 2019) THROUGH JUNE 30, 2020

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#### Note 6: Subsequent Events

##### a. Promissory Note

CEA's Board of Directors approved the execution of Promissory Notes with Calpine Energy Solutions on August 20, 2020 and November 19, 2020 for \$400,000 and \$250,000, respectively, to provide funding for CEA operational costs through February 2021. The interest rate of the Promissory Notes is based on the 1-month LIBOR rate plus 2 percent per annum not to exceed 5 percent, with interest accruing from the date funds are deposited in CEA's account. The Notes are to be repaid in twelve equal monthly installments beginning 90 days after the Power Start Date (or date CEA begins serving customers).

##### b. Letter of Credit

On December 7, 2020, CEA opened a letter of credit with U.S. Bank National Association in the amount of \$147,000, with an expiration date of December 7, 2021. The purpose of this letter of credit is described in Note 4. SDG&E may only withdraw funds from the letter of credit for unpaid administrative or procurements costs associated with the return of CEA customers. Any withdrawal of these funds must first be approved by the CPUC.





INDEPENDENT AUDITORS' 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*

To the Board of Directors  
Clean Energy Alliance  
Carlsbad, California

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 Clean Energy Alliance (CEA), as of and for the period from inception to June 30, 2020, and the related notes to the financial statements, which collectively comprise CEA's basic financial statements, and have issued our report thereon dated January 11, 2021.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered CEA's internal control over financial reporting (internal control) as a basis for designing 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 CEA's internal control. Accordingly, we do not express an opinion on the effectiveness of CEA'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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether CEA'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 financial statements. 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*.



To the Board of Directors  
Clean Energy Alliance  
Carlsbad, California

**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 CEA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CEA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lance, Soll & Lughard, LLP*

Brea, California  
January 11, 2021