DEPARTMENT OF FINANCE
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Transmitted via e-mail

June 27, 2013

Mr. Robert P. Oglesby, Executive Director
Energy Resources Conservation and
Development Commission
1516 Ninth Street, MS-39
Sacramento, CA 95814-5512

Dear Mr. Oglesby:

Final Audit Report—Energy Resources Conservation and Development Commission, Renewable Resource Trust Fund Audit for the Fiscal Year Ended June 30, 2012

The Department of Finance, Office of State Audits and Evaluations, has completed its financial statement audit of the Energy Resources Conservation and Development Commission's (Commission) Renewable Resource Trust Fund for the fiscal year ended June 30, 2012.

The enclosed report is for your information and use. In summary, the financial statements are fairly presented for the fiscal year ended June 30, 2012 resulting in an unqualified opinion. Because there are no audit observations requiring the Commission's response, we are issuing the report as final. This report will be placed on our website.

We appreciate the assistance and cooperation of the Commission. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Robert Scott, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Robert B. Weisenmiller, Ph.D., Chairman, Energy Resources Conservation and Development Commission
Mr. Mark Hutchison, Deputy Director, Administrative Services Division, Energy Resources Conservation and Development Commission
Ms. Diane F. Boyer-Vine, Legislative Counsel, Office of Legislative Counsel
Mr. Gregory Schmidt, Secretary of the Senate, Office of the Secretary of the Senate
Mr. E. Dotson Wilson, Chief Clerk, California State Assembly
Ms. Amy Leach, Journal Clerk, California State Assembly, Office of the Chief Clerk

A Financial Statement Audit

Energy Resources Conservation and Development Commission Renewable Resource Trust Fund for the Fiscal Year Ended June 30, 2012

Prepared By:
Office of State Audits and Evaluations
Department of Finance

133360008 June 2013

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

Robert Scott, CPA
Supervisor

Staff
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Final reports are available on our website at http://www.dof.ca.gov

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INDEPENDENT AUDITOR'S REPORT

Mr. Robert Oglesby, Executive Director
Energy Resources Conservation and
Development Commission
1516 Ninth Street, MS-39
Sacramento, CA 95814-5512

We have audited the accompanying *Balance Sheet* as of June 30, 2012, and the related *Statement of Revenues, Expenditures, and Changes in Fund Balance* of the Renewable Resource Trust Fund (Fund) for the fiscal year then ended. These financial statements are the responsibility of the Energy Resources Conservation and Development Commission's (Commission) management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In connection with our audit, there are certain disclosures required by *Government Auditing Standards*. The Department of Finance (Finance) is not independent of the audited entity, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2012, and the results of its operations and changes in fund balance thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Fund for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the above paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of 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.*

This report is intended solely for the information and use of the Commission's management, those charged with governance, and the Legislature, and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

June 7, 2013

Energy Resources Conservation and Development Commission
Renewable Resource Trust Fund
Balance Sheet
As of June 30, 2012

Assets	
Cash and Pooled Investments (Note 1)	$ 181,831,000
Due from Other Funds or Appropriations (Note 2)	7,549,233
Total Assets	$ 189,380,233
Liabilities and Fund Balance	
Liabilities	
Accounts Payable	$ 4,601,243
Due To Other Funds or Appropriations (Note 2)	1,125,050
Total Liabilities	5,726,293
Fund Balance (Note 3)	
Restricted for Purposes Specified in *Chapter 854/96, Statutes of 1996*	183,653,940
Total Liabilities and Fund Balance	$ 189,380,233

The accompanying notes are an integral part of the financial statements.

Energy Resources Conservation and Development Commission
Renewable Resource Trust Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2012

Revenues (Note 1)	
Existing Technologies	$ 7,293,092
Emerging Technologies	28,807,712
Consumer Side Incentives	364,655
Interest Income	847,770
Miscellaneous Revenue	2,492
Total Revenues	37,315,721
Expenditures (Note 1)	
Existing Technologies	8,131,806
Emerging Technologies	18,203,024
Consumer Education	767,320
Administration Support	5,330,563
Total Expenditures	32,432,713
Other Financing Sources/Uses	
Operating Transfers In (Note 5)	25,000,000
Operating Transfers Out (Note 4)	(26,011,000)
Total Other Financing Sources/Uses	(1,011,000)
Net Change in Fund Balance	3,872,008
Fund Balance, July 1, 2011	179,781,932
Fund Balance, June 30, 2012	$ 183,653,940

The accompanying notes are an integral part of the financial statements.

Energy Resources Conservation and Development Commission
Renewable Resource Trust Fund
For the Year Ended June 30, 2012

NOTE 1 Summary of Significant Accounting Policies

A. Definition of Reporting Entity

The Renewable Resource Trust Fund (Fund) was created in the State Treasury by Senate Bill (SB) 90 of 1997 to account for the sources and uses of the $540 million Fund. Assembly Bill (AB) 1890 of 1996 required California's three major investor-owned utilities (IOUs) to collect $540 million from their ratepayers over a four-year period to support the purposes of AB 1890. These IOUs included Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas and Electric Company. The California Public Utilities Commission's (CPUC) Resolution E-3556 also authorized a fourth IOU, Golden State Water Company, doing business as Bear Valley Electric Service, to collect funds from its ratepayers to support the purposes of AB 1890. The ratepayer funds collected by these four IOUs pursuant to AB 1890 and CPUC Resolution E-3556 were deposited in the Fund in accordance with SB 90. The Energy Resources Conservation and Development Commission (Commission) is responsible for the administration and distribution of these moneys.

The Fund maintains accountability for the following four distinct renewable energy programs.

Program	Target Award Beneficiaries
Existing Renewable Facilities	Existing solid fuel biomass, solar thermal, and wind renewable electricity generation facilities.
New Renewable Facilities	New renewable electricity generation facilities using wind, landfill gas, geothermal, small hydro, and biomass. As of July 1, 2008, this program's fund account has been discontinued.
Emerging Renewables	Customers who install small wind systems (rated output of 50 kW or less) or fuel cells (using a renewable fuel). New residential construction installations of high-performing solar systems under the New Solar Homes Partnership, which is a component of the Emerging Renewables Program.
Consumer Education and Market Support	Consumer information, education, outreach, and public awareness campaigns.

SB 1194 of 2000 extended the collection of funds for the period commencing January 1, 2002 and ending January 1, 2012. Specifically, SB 1194 and AB 995 require California's three major IOUs to collect $135 million annually from ratepayers for the ten-year period. Also, SB 1250 of 2006 authorized the Commission to use funds collected from January 1, 2007 through January 1, 2012 for the continued administration and support of the Renewable Energy Program.

However, SB 1036 of 2007 terminated production incentives awarded prior to January 1, 2002 from the New Renewable Resources Account (New Renewable Facilities), except for funds encumbered for renewable energy projects that began generating electricity by January 1, 2007. The law further required the Commission to transfer the remaining unencumbered funds in the New Renewable Resources Account to the electrical corporations serving customers subject to the renewable energy public goods charge by March 1, 2008.

The Commission administers the Fund, which is shared between the Commission and the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA). The Legislature authorized SB 77 of 2010 which appropriated up to $50 million from the Fund for the Property Assessed Clean Energy bond until January 1, 2015. The Public Resources Code, section 26080, allows the money to be appropriated for and remain in the Fund until needed by CAEATFA. All repayments of moneys disbursed pursuant to this section shall be deposited into the Fund. However, SB 679 of 2011 appropriated $25 million of the unencumbered balance of the $50 million to the Energy Conservation Assistance Account to be expended by the Commission.

The financial statements present information on the financial activities of the Fund only, and do not represent all of the activities of the Commission taken as a whole, or of the State of California.

B. Basis of Presentation—Fund Accounting

The Fund is classified as a *Governmental Cost Fund* for State of California financial reporting purposes. *Governmental Cost Funds* are special revenue funds used to account for revenues restricted by law for specified purposes. The financial statements are presented in accordance with generally accepted accounting principles.

C. Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared using a current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus concentrates on transactions that increase or decrease resources available for spending in the near future. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to finance expenditures of the current period. Expenditures are recorded when the related liability is incurred.

D. Budget and Budgetary Control

The accounting policies of the Commission conform to the State Administrative Manual based on the State's budgetary provisions. Program funds are continuously appropriated without regard to fiscal year. Commission management is responsible for exercising budgetary control to ensure appropriations are not overspent at the fund level. The State Controller's Office is responsible for statewide appropriation control and does not allow expenditures in excess of authorized appropriations.

E. Cash and Pooled Investments

Cash in excess of current needs is deposited in the state's centralized treasury system, which combines the balances of state agencies into a single bank account to simplify cash management. The single bank account in the Surplus Money Investment Fund (SMIF) is managed by the Pooled Money Investment Board (PMIB). State statutes, bond resolutions, and investment policy resolutions allow PMIB to invest in United States government securities, Canadian government securities, state and municipal securities, certificates of deposit, banker's acceptances, commercial paper, corporate bonds, mortgage loans and notes, other debt securities, repurchase agreements, equity securities, real estate, investment agreements, mutual funds, and other investments.

Each fund whose monies are deposited in this pooled investment account has an equity share in the balance, with investment income allocated to participants based on relative equity at month-end.

F. Revenue

Revenues consist of special levies or collections from four California IOUs, interest income earned on funds deposited in SMIF, and voluntary contributions from utility consumers. Miscellaneous revenues include receipts consisting primarily of interest from utilities.

The specified amounts paid to the Commission are required to be adjusted annually by March 31 of each year based on a rate equal to the lesser of the annual growth in electric commodity sales or inflation, as defined by the gross domestic product deflator.

G. Compensated Absences

Liability for vested and unpaid vacation and annual leave is reported as a long-term liability on the government-wide financial statements. It is anticipated that compensated absences will generally not be used in excess of a normal year's accumulation. Unused sick leave balances are not included in compensated absences because they do not vest to employees. For further information, refer to the *State of California Comprehensive Annual Financial Report.*

H. Retirement Plan

Regular employees of the Commission are members of the California Public Employees' Retirement System (CalPERS), which is a defined benefit contributory retirement plan. Retirement contributions by employees are set by statute as a percentage of payroll (Tier I employees), or are zero (Tier II employees). Retirement contributions are actuarially determined under a program where total contributions plus CalPERS' investment earnings will provide the necessary funds to pay retirement benefits when incurred. The employer contributions are included in the cost of personal services. For further information, refer to the *State of California Comprehensive Annual Financial Report*, and to CalPERS' *Comprehensive Annual Financial Report*.

NOTE 2 Due to/from Other Funds or Appropriations

Due to Other Funds or Appropriations and Due from Other Funds or Appropriations represent short-term interfund payables and receivables. Specifically, the Due to Other Funds or Appropriations consists of amounts due to the clearing account in Fund 0465 (interfund reimbursements). The Due from Other Funds or Appropriations consists of interest earned from SMIF and repayment from a short-term General Fund loan.

NOTE 3 Fund Balance

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, the entire fund balance is classified as Restricted because the Budget Act comprises enabling legislation for the Fund.

NOTE 4 Operating Transfers Out

Operating Transfers Out represents two transfers totaling $26 million as follows:

- A transfer of $25 million to the Energy Conservation Assistance Account (SB 679 of 2011).
- A loan of $1 million to CAEATFA authorized by the Budget Act of 2010, with a repayment date no later than December 31, 2014.

NOTE 5 Operating Transfers In

Operating Transfers In represents a loan repayment from the General Fund for $25 million.

NOTE 6 Interfund Loans Receivable

As of June 30, 2012, the unpaid balance of the long-term loans is $96.5 million, which consists of loans to multiple funds. Upon repayment, interest will be calculated at the rate earned by the Pooled Money Investment Account at the time of transfer; this will be reported as interest income by the Fund. In accordance with GASB Statement Number 34, the funds will be classified as Operating Transfers In when the loans are repaid.

The following is a summary of loans outstanding:

Fiscal Year Ended June 30	Amount	Fund Name	Due Date
2003	$18,200,000	General Fund	June 30, 2013
2009	10,900,000	General Fund	June 30, 2013
2010	35,000,000	General Fund	July 1, 2012
2010	10,000,000	Fish and Game	December 31, 2013
2011	20,000,000	General Fund	June 30, 2014
2011	1,398,000	CAEATFA	June 30, 2013
2012	1,011,000	CAEATFA	December 31, 2014
TOTAL	**$96,509,000**		

NOTE 7 Subsequent Events

A. Legislation has been proposed to extend the due date for loan repayments totaling $2.4 million.

B. Commission staff filed a complaint against DyoCore under the California Code of Regulations, title 20, section 12311, alleging DyoCore violated the intent of the Commission's Emerging Renewables Program (ERP). DyoCore submitted information to the Commission that grossly overstated the performance of its turbine in order to have it listed on the Commission's list of eligible turbines. The complaint sought to have the turbine removed from the eligibility list. At its November 2, 2011 business meeting, the Commission dismissed the complaint because DyoCore stipulated the data it submitted was inaccurate and its turbine was de-listed. The Commission also adopted staff's recommendation to pay ERP applicants holding R-2s[1] for DyoCore turbines their actual and provable expenses up to a capped amount of the rebate level they would have received. Because the Commission is still working with holders of R-2 forms on payments, the total payment for all R-2 forms is not yet known.

NOTE 8 Gain Contingency

Altergy Systems (Altergy) is a manufacturer and retailer of fuel cell systems and a participant in the ERP. Altergy has submitted payment claims under the ERP totaling $1.5 million for 55 separate fuel cell systems. Each of these fuel systems was issued an R-2 rebate reservation reserving ERP funding for the system. To qualify for ERP funding, fuel cell systems must use a "renewable fuel" as specified in the *Emerging Renewables Program Guidebook,* which limits renewable fuel to one of the following:

a) Landfill gas, digester gas, and other gases that meet the definition of an "eligible renewable energy resource" as defined in Public Utilities Code section 399.12 with reference to Public Resources Code section 25741.

[1] R-2 refers to a stage in the application process where the Commission has approved an applicant's initial filing and reserved funding for the rebate.

b) Hydrogen or hydrogen rich gases derived from a non-fossil fuel or feedstock through the use of power generated by an "eligible renewable energy resource."

Regarding the latter, the *Emerging Renewables Program Guidebook* explains "An example of a renewable fuel is hydrogen derived from water through an electrolysis process energized with electricity generated by a solar photovoltaic system. In this example, the hydrogen is derived from water (a non-fossil fuel or feedstock) through a process energized with electricity from an eligible renewable energy resource (a solar photovoltaic system)."

The original payment claims submitted by Altergy did not demonstrate the 55 fuel cell systems use a "renewable fuel." In response to the Commission's request for clarification, Altergy provided additional documentation regarding the type of fuel being used by the fuel cell systems. Based on this documentation, the Commission concluded none of the 55 fuel cell systems use a "renewable fuel," and therefore are not eligible for funding under the *Emerging Renewables Program Guidebook.*

The Commission inadvertently processed payment claims for 20 of the 55 fuel cell systems before discovering the deficiencies with the fuel of the fuel cell systems. The amount of these 20 payment claims totals $540,718. The Commission has notified Altergy of the inadvertent payment and informed Altergy it will need to remedy the inadvertent payment in a manner acceptable to the Commission. The Commission is exploring options towards this end, which may include substitution of the deficient fuel with a qualifying "renewable fuel" or the repayment of ERP funds.

The effect on the financial statements is indeterminable.