

**Meeting of the Advisory Committee of the
Valley Clean Energy Alliance (VCEA)
December 4, 2017
5:30 PM**

Davis Senior Center - Activity Room, 646 A Street, Davis CA 95616

Meetings are accessible to people with disabilities. Individuals who need special assistance or a disability-related modification or accommodation to participate in this meeting, or who have a disability and wish to request an alternative format for the meeting materials, should contact Mitch Sears, VCEA Interim General Manager, at least 2 working days before the meeting at (530) 757-5610 or msears@cityofdavis.org.

If you have anything that you wish to be distributed to the Committee and included in the official record, please hand it to a member of VCEA staff who will distribute the information to the Committee members and other staff.

Committee Members: Mark Aulman, Marsha Baird (Secretary), Amanda Beck, Gerry Braun (Chair), Tom Flynn, Yvonne Hunter, Lorenzo Kristov, Christine Shewmaker (Vice-Chair), David Springer

5:30 PM CALL TO ORDER

- 1. Welcome and Roll Call**
- 2. Approval of Agenda**
- 3. Public Comment**

This item is reserved for persons wishing to address the Committee on any VCEA-related matters that are not otherwise on this meeting agenda. Public comments on matters listed on the agenda shall be heard at the time the matter is called. As with all public comment, members of the public who wish to address the Committee are customarily limited to two minutes per speaker, but an extension can be provided at the discretion of the Chair.

4. Brief VCEA Staff and Advisory Task Group Reports

Representatives of VCEA staff and active sub-committees may request time to provide updates on on-going work. Sub-committee recommendations requiring Committee attention require a regular agenda item. Summaries of written reports received by the committee in advance of the meeting will receive a time allocation of up to ten minutes. Otherwised, the time allocation will be five minutes, including questions and answers. The committee may decide to allocate additional time at the end of the regular agenda.

REGULAR AGENDA

- 5. Action. Review Board Workplan and Approve Recommended CAC Workplan updates (5 minutes)**
- 6. Action. Consider recommendation to Board on Power Mix Targets and Rates for FY 2018-2019 (30 minutes)**
 - A. Receive ad hoc work group report on SMUD forecasting and scenario analysis results to date**
 - B. Review rates**
 - C. Consider recommendation to Board.**

- 7. Action. Consider recommendation to Board on proposed Operating Reserve Policy (15 minutes)**
- 8. Action. Consider recommendation to Board on proposed Wholesale Power Procurement and Risk Management Policy (15 minutes)**
- 9. Action. Consider recommendation to Board on proposed Organization Chart (15 minutes)**
- 10. Action. Receive nominations and appoint a Portfolio, Programs and Rates Task Group (5 minutes)**
- 11. Action. Consider recommendation to Board on proposed VCEA Legislative/Regulatory policy and procedures (15 minutes)**
- 12. Chair/Vice Chair Report**
- 13. Discussion. Next Meeting Agenda**
- 14. Board Member and Staff Announcements**

Action items and reports from members of the Committee, including announcements, AB1234 reporting of meetings attended by Committee Members at VCEA expense, questions to be referred to staff, future agenda items, and reports on meetings and information which would be of interest to the Committee or the public.

15. Adjournment (Approximately 7:30 pm)

Public records that relate to any item on the open session agenda for a regular board meeting are available for public inspection. Those records that are distributed less than 72 hours prior to the meeting are available for public inspection at the same time they are distributed to all members, or a majority of the members of the Committee. Until VCEA has offices, the Board has designated the Department of Community Development and Sustainability at the City of Davis located at 23 Russell Blvd, Davis, CA for the purpose of making those public records available for inspection. The documents are also available on the City of Davis website located at: <http://www.valleycleanenergyalliance.org/advisory-committee>

**VALLEY CLEAN ENERGY ALLIANCE
COMMUNITY ADVISORY COMMITTEE**

Staff Report Item - 5

TO: VCEA Community Advisory Committee

FROM: Mitch Sears, Interim General Manager

SUBJECT: Review board work plan. Approve recommended CAC work plan updates.

DATE: November 27, 2017

Recommendation

Review board work plan. Approve recommended CAC work plan updates.

Background and Analysis

In order to keep the VCEA Board and VCEA Community Advisory Committee (CAC) working in alignment, and to allow for the CAC to revise its work plan when needed, this item will be a standing item on the CAC agenda.

Changes have been highlighted.

VALLEY CLEAN ENERGY ALLIANCE
Advisory Committee

2017-8 Advisory Committee and Board Meeting Dates and Topics

MEETING DATE		TOPICS	ACTION
November 6, 2017	Advisory Committee	<ul style="list-style-type: none"> • Long Range Calendar/Work Plan • Strategic Marketing and Communications Plan • Vision Statement • Load Forecast, Implementation Plan, Procurement Approach • Energy Trading and Risk Management Policy 	<ul style="list-style-type: none"> • Review • Recommend* • Update • Review • Presentation
November 16, 2017	Board	<ul style="list-style-type: none"> • Load Forecasts/Procurement Approach • Introduction - Energy Trading and Risk Policies • Outreach Plan • Wholesale Energy Risk and Trading Policies 	<ul style="list-style-type: none"> • Approve • Review • Approve • Approve
November 27, 2017	Advisory Committee	<ul style="list-style-type: none"> • Power Mix Targets • Reserve Policy • Wholesale Energy Risk and Trading Policies • VCEA Staffing Plan 	<ul style="list-style-type: none"> • Review, refer to sub-group • Review, refer to sub-group • Review, refer to sub-group • Review
December 4, 2017	Advisory Committee	<ul style="list-style-type: none"> • Power Mix Targets • Reserve Policy • <u>Target Rates for FY 2018-2019</u> • Energy Trading/Risk Management Policies • <u>Organization Chart</u> • <u>VCEA Leg/Reg Policy</u> 	<ul style="list-style-type: none"> • Recommend* • Recommend* • Recommend • Recommend* • Recommend • Recommend*
December 14, 2017	Board	<ul style="list-style-type: none"> • <u>Task Order 4</u> • Discuss Power Mix • Financials/Adopt Reserve Policy • Target Rates for FY 2018-2019 	<ul style="list-style-type: none"> • Approve • Review • Review and Approve • Approve

		<ul style="list-style-type: none"> • Energy Trading and Risk Mgmt Policies 	<ul style="list-style-type: none"> • Approve • Review
January 1, 2018	SMUD	<ul style="list-style-type: none"> • Begin power procurements 	
January 8, 2018	Advisory Committee	<ul style="list-style-type: none"> • <u>Presentation from Defenders of Wildlife (tentative)</u> • <u>Customer and Data Policies</u> • <u>Power Procurement Delegation</u> • <u>NEM Policy (Tentative)</u> 	<ul style="list-style-type: none"> • Informational • Review • Review • Review
January 11, 2018	Board	<ul style="list-style-type: none"> • <u>Customer and Data Policies</u> • <u>Power Procurement Delegation</u> • <u>NEM Policy (Tentative)</u> 	<ul style="list-style-type: none"> • Review and Approve • Approve • Review
January 29, 2018	Advisory Committee	<ul style="list-style-type: none"> • <u>Review Enterprise Risk Policy</u> 	<ul style="list-style-type: none"> • Recommend
February 8, 2018	Board	<ul style="list-style-type: none"> • <u>Review Enterprise Risk Policy</u> 	<ul style="list-style-type: none"> • Review • Approve
February 26, 2018	Advisory Committee	<ul style="list-style-type: none"> • <u>Enterprise Risk Policy</u> • <u>Final Rate Discount</u> • <u>Final Power Mix</u> • <u>Power/Operational Budget</u> 	<ul style="list-style-type: none"> • Recommend • Recommend • Recommend • Recommend
March 8, 2018	Board	<ul style="list-style-type: none"> • <u>Enterprise Risk Policy</u> • <u>Final Rate Discount</u> • <u>Final Power Mix</u> • <u>Power/Operational Budget</u> 	<ul style="list-style-type: none"> • Approve • Review • Review • Approve

***Requires Task Group Recommendation**

**VALLEY CLEAN ENERGY ALLIANCE
COMMUNITY ADVISORY COMMITTEE**

Staff Report Item - 6

TO: VCEA Community Advisory Committee
FROM: Mitch Sears, Interim General Manager
SUBJECT: Power Mix Targets and Rates for FY 2018-2019
DATE: December 4, 2017

Recommendation

1. Support staff recommendation that VCEA target an initial resource mix sufficient to meet a minimum 75% percent carbon free power and 35% qualifying renewables for VCEA's retail load (Resource Portfolio Alternative A).
2. Support staff recommendation that VCEA target a 1% rate discount relative to PG&E rates.

Background and Analysis

Beginning in September 2017, SMUD staff have made a series of presentations to the VCEA Board of Directors and the Community Advisory Committee (CAC) regarding initial power mix targets for VCEA. The six power mix portfolios modeled are included as Attachment 1. The links to the various background presentations and related materials are provided below.

- From September 27, 2017 CAC Meeting
 - [SMUD Slide Presentation](#) Note: This presentation includes scenarios A, B and C - not Alt A or E. Alt A was used in the submission of the implementation plan\
- From October 12, 2017 VCEA Board Meeting
 - [Discussion and Adoption of VCEA Implementation Plan & Statement of Intent](#) Note: Board approved scenario Alt A for the submission of implementation plan
- From Nov 6, 2017 CAC Meeting
 - [SMUD Slide Presentation, November 6, 2017](#) Note: Includes detail on option E and comparison of all 5 scenarios
 - [SMUD Financial Modeling of all 5 Scenarios](#)
 - [Background power mix targets](#) – Created by Christine Shewmaker
 - [Key Metrics Key Metrics of Operational CCA Programs in PG&E Territory](#) – From LEAN Energy

- Definitions of the various PCC classes (“Buckets”)
 - [CPUC Definitions](#)

In addition, at the two CAC meetings in November, SMUD staff have presented the fiscal model (proforma), showing the interaction between power mix targets, rate discount levels, and fiscal reserve levels.

Based on the six power mix portfolios modeled (Attachment 1) and discussion by the VCEA Board and CAC, staff believes that power mix portfolio Alternative A, with a minimum 75% percent carbon free power and 35% qualifying renewables for VCEA’s retail load, provides the best opportunity to achieve VCEA’s goal to provide cost effective clean electricity. Staff notes that VCEA customers will also be able to opt up to a 100% clean electricity option for a premium.

The 1% rate discount relative to PG&E rates for VCEA’s base electricity offering allows VCEA to achieve its goals to provide cost effective clean electricity while building financial reserves and paying down debt incurred to launch the program.

Attachment

1. VCEA Power Mix Portfolios

**VALLEY CLEAN ENERGY ALLIANCE
COMMUNITY ADVISORY COMMITTEE**

Staff Report Item - 7

TO: VCEA Community Advisory Committee
FROM: Mitch Sears, Interim General Manager
SUBJECT: Operating Reserve Policy
DATE: December 4, 2017

Recommendation

Support staff recommendation that the VCEA Board adopt the draft Operating Reserve policy.

Background

The purpose of an operating reserve are to: (1) provide cash for volatility in payables and receivables and (2) to signal fiscal discipline to financial counterparties. A rate stabilization fund mitigates risks from changes to PG&E rates and exit fees, and provides collateral for long-term contracts.

The proposed minimum balance for the operating reserve is 30 days operating expenses or approximately \$3.6 million dollars. The target balance is 90 days operating expense, or approximately \$11 million dollars. The rate stabilization fund is typically a percentage of revenue or power costs. This can be defined at a later date.

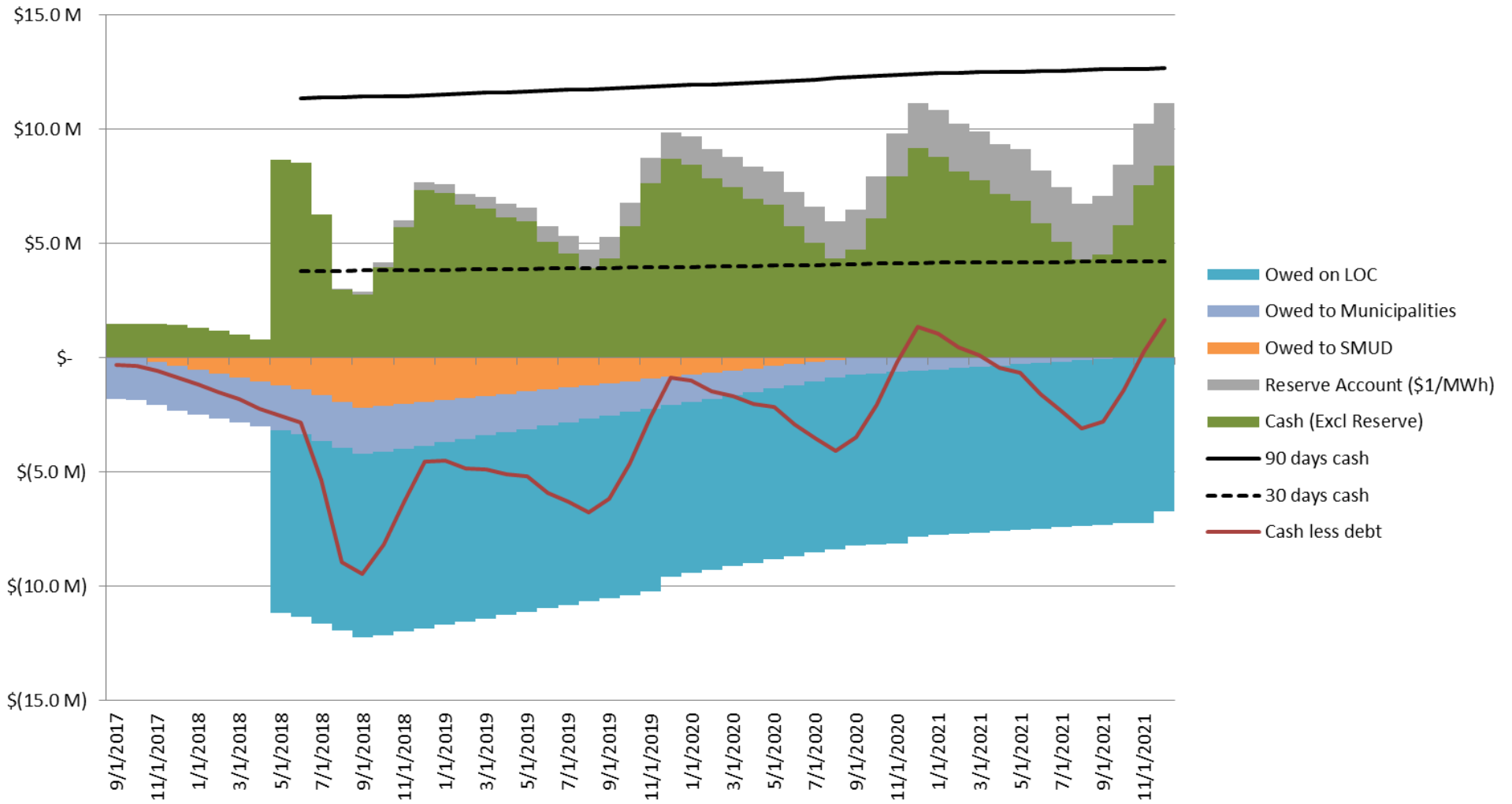
SMUD staff have prepared forecast projections of cash and debt (Attachment A). Based on this forecast, staff recommends that VCEA begin by taking the following steps:

1. Fund the operating reserve to 30 days
2. Next, concurrently
 - Pay off start-up financing
 - Fund operating reserve to 90 days

Moving forward, the annual amount of reserve contributions can be determined based upon power market prices, and should make consistent progress towards the target balance of 90-days operating expense.

The draft Operating Reserve policy reflects this course of action. (Attachment B)

Projected Cash and Debt



Rate Discount	1.00%
Resource Portfolio	A-Alt
PG&E Scenario	Low 1/1/1
PCIA Scenario	Low 3/3/3/0

DRAFT VCEA Operating Reserve Policy

The VCEA Board recognizes the importance of developing reserves to:

- Ensure financial stability
- Ensure access to credit at competitive rates
- Ensure rate stability

To achieve these objectives, VCEA targets an operating reserve account minimum balance of 30 days operating expenses, with a goal of building to a reserve of 90 days operating expenses.

VCEA will initially build a reserve fund of 30 days operating expenses. Once this is funded, VCEA will begin paying off debt and building cash reserves to meet a 90-day operating reserve level.

Rates, Power Portfolio Resource mix, and Operating Budget will be adjusted as needed to meet VCEA's target reserves schedule.

**VALLEY CLEAN ENERGY ALLIANCE
COMMUNITY ADVISORY COMMITTEE**

Staff Report Item - 8

TO: VCEA Community Advisory Committee
FROM: Mitch Sears, Interim General Manager
SUBJECT: Wholesale Power Procurement and Risk Management Policy
DATE: December 4, 2017

Recommendation

Support staff recommendation that the VCEA Board adopt the draft Wholesale Power Procurement and Risk Management Policy

Background

The Implementation Plan for VCEA identifies Risk Management as an important function of the power supply activities:

“Risk Management – application of standard industry techniques to reduce exposure to energy and credit markets volatility and insulate Customer rates from sudden and significant changes in wholesale market prices.”

The Wholesale Power Procurement and Risk Management Policy will provide the primary guidance for managing the energy commodity risks faced by VCEA. The policy will establish VCEA’s Risk Management Program, with the focus on commodity risk. The policy further identifies specific risk management functions and procedures to manage energy commodity risks. Lastly, it establishes risk management standards.

Key Elements of the Policy

1. Enterprise Risk Oversight Committee

The Policy establishes an Enterprise Risk Oversight Committee that is delegated by the Board to be responsible for implementing, maintaining, and overseeing compliance of the Policy. The composition of the Enterprise Risk Oversight Committee would be the VCEA Executive Officer and key Directors, as well as the Wholesale Energy Services Provider and the Chief Legal Officer both serving in advisory roles.

2. Business Practices

The Policy lays out specific business practices to be followed. The business practices support standard

practice and conduct for maintaining sound risk practices and include:

General Conduct Requirements

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

Notification of conflicts

- Require that all personnel provide notification to VCEA should they have an interest in any counter party seeking to do business with VCEA.

Counterparty suitability

- The Wholesale Energy Service Provider's (WESP), counterparty credit limits and approval processes will govern counterparty suitability for all transactions executed by the WESP on behalf of VCEA.

Transaction records

- The Wholesale Energy Service Provider's Middle Office will maintain a set of records for all transactions executed in association with VCEA procurement activities.

Transaction valuation

- Transaction valuation and reporting of positions shall be based on objective, market-observed prices.

Stress testing

- In addition to limiting and measuring risk using the methods described herein, stress testing would also be used to examine performance of the VCEA portfolio under adverse conditions.

3. Functional Separation Criteria for Wholesale Energy Services Provider

The policy requires that the Wholesale Energy Services Provider keep the procurement activities separate from the activities of assessing portfolio risk, assigning credit, and conducting wholesale energy settlements.

Front Office

- The Wholesale Energy Service Provider's Front Office is responsible for managing all activities related to procuring and delivering resources needed to serve VCEA's load, conducting the analysis of fundamentals affecting load and supply factors that determine VCEA's net position, and transacting within the limits of the Policy to balance loads and resources, and maximize the value of VCEA's assets through the exercise of approved optimization strategies.

Middle Office

- The Wholesale Energy Service Provider's Middle Office provides independent market and credit risk oversight and is functionally and organizationally separate from the Front Office.

Back Office

- The Wholesale Energy Service Provider's Back Office provides support with a wide range of administrative activities necessary to execute and settle transactions and to support the risk control efforts (e.g. transaction entry and/or checking, data collection, billing, etc.) consistent with the Policy.

4. Delegations of Authority

The delegations of authority will establish the authority that the Board gives to the Enterprise Risk Oversight Committee, the Executive Officer, and the Wholesale Energy Services Provider for executing power transactions.

5. Risk and Credit Monitoring

Establishes that the Wholesale Energy Services Provider will provide risk and credit monitoring for the energy portfolio.

Staff is recommending that the Wholesale Power Procurement and Risk Management Policy be considered for approval by the VCEA Board at their December 14, 2017 Board meeting.

Attachment

1. Wholesale Power Procurement and Risk Management Policy

DRAFT

**Valley Clean Energy Alliance
Wholesale Energy Risk
Management Policy**

Adopted on: _____

Table of Contents

Table of Contents.....	i
1 Policy Overview.....	1
1.1 Background and Purpose	1
1.2 Scope	1
1.3 Wholesale Energy Risk Management Objective	2
1.4 Policy Administration	2
2 Risk Exposures and Goals.....	3
2.1 Risk Exposures.....	3
2.2 PG&E Generation Rates and Power Charge Indifference Adjustment.....	3
2.3 Customer Opt-Out Risk	4
2.4 Market Risk.....	4
2.5 Volumetric Risk.....	4
2.6 Model Risk.....	5
2.7 Counterparty Credit Risk	5
2.8 Policy Goals.....	5
3 Organizational Structure and Responsibilities	7
3.1 Risk Management Organizational Structure	7
3.2 Board of Directors.....	7
3.3 Enterprise Risk Oversight Committee	7
3.4 Portfolio Manager	9
3.5 Front Office.....	9
3.6 Middle/Back Office.....	10
4 Business Practices.....	11
4.1 General Conduct	11
4.2 Trading Personal Accounts	11
4.3 Counterparty Suitability	11
4.4 System Record	11
4.5 Transaction Valuation.....	12
4.6 Stress Testing.....	12
4.7 Policy Compliance	12
5 Delegation of Authority.....	13
5.1 Procurement to Serve Load.....	13
5.2 Monitoring, Reporting and Instances of Exceeding Risk Limits.....	14
6 Credit Policy	15
6.1 Credit Limit and Monitoring.....	15
7 Management Reporting and Position Tracking	16

[MS1]

1 Policy Overview

1.1 Background and Purpose

The Valley Clean Energy Alliance (VCEA) is a public joint powers agency located within the geographic boundaries of Yolo County. VCEA is governed by a six-member Board of Directors (Board), with two members each from the Davis City Council, Woodland City Council, and the Yolo County Board of Supervisors.

VCEA members desire to implement and administer a Community Choice Aggregation (CCA)/Community Choice Energy (CCE) PProgram (hereinafter “Program”). VCEA’sProgram will give its members an opportunity to join together to procure electricity supplies and implement local energy programs that meet the goals of the local community. Electricity procured to serve customers will continue to be delivered over Pacific Gas and Electric’s (PG&E’s) transmission and distribution system.

Providing retail electric generation service to customers enrolled in VCEA’sProgram exposes VCEA to risks such as retail load uncertainty (due to weather, customer opt-out, and other factors), energy market price volatility, counterparty credit, PG&E generation and power charge indifference adjustment (PCIA), rate competitiveness and other regulatory risks.

This Wholesale Energy Risk Management Policy (Policy) establishes VCEA’s Energy Risk Management Program (ERMP) including risk management functions and procedures to manage risks associated with power procurement activities.

The purpose of this Policy is to aid VCEA in achieving its goals by specifying roles, responsibilities, organizational structures, risk management standards, operating controls and limits necessary to properly identify and manage VCEA’s exposure to risk.

1.2 Scope

Unless otherwise explicitly stated in this Policy, or other policies approved by the Board, this Policy applies to all power procurement and related business activities that may affect the risk profile of VCEA. This Policy documents the framework by which VCEA staff and Wholesale Energy Services Provider (WESP) will:

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

To ensure successful operation of VCEA’s Program, VCEA will contract with an experienced WESP to provide energy-related services. At the beginning of VCEA’s Program, the WESP will be executing the front, middle and back-office (transacting, monitoring and settlement) related activities on VCEA’s behalf. In providing these services, the WESP will observe the policies and procedures outlined in this document. The WESP will maintain its own risk policies and

procedures including following industry practices of segregation of duties, which will also govern WESP activities and transactions executed on VCEA's behalf.

1.3 Wholesale Energy Risk Management Objective

The objective of this Policy is to provide a framework for conducting procurement activities that strengthens VCEA's portfolio and aids in meeting goals listed in Section 2.

Pursuant to this Policy, VCEA will identify and measure the magnitude of the risks to which it is exposed and that contribute to the potential to deviate from identified goals.

1.4 Policy Administration

The Board must approve amendments to this Policy, except for the appendices, which may be amended with approval of the Enterprise Risk Oversight Committee ("EROC") as identified in Section 3. The EROC must give notice to the Board of any amendment it makes to an appendix, a reference policy or procedure document at the next following regularly scheduled Board meeting. VCEA's General Counsel should also review changes to documentation.

2 Risk Exposures and Goals

2.1 Risk Exposures

Throughout launch and ongoing operation the Program faces a range of risks including:

- PG&E generation rates and Power Charge Indifference Adjustment^[MS2]
- Customer Opt-out
- Power Market Volatility
- Volumetric Deviations
- Modelling Uncertainties
- Counterparty credit
-

These risks are not all-inclusive but are the known major risk factors impacting the business success of VCEA. This Policy addresses these risk types below.

For the purpose of this Policy, risk exposure is assessed on all transactions (energy, environmental attributes, capacity, etc.) executed by the WESP on behalf of VCEA, or by VCEA on its own behalf, as well as the risk exposure of open positions and the impacts of these uncertainties on VCEA's costs, revenues, load and other obligations.

2.2 PG&E Generation Rates and Power Charge Indifference Adjustment

The ability of VCEA to attain financial margins sufficient to fund programs and to remain rate competitive is dependent upon 4 key factors: 1) the level of PG&E's generation rates; 2) the level of the Power Charge Indifference Adjustment (PCIA); 3) power supply costs; AND 4) operating expenses (including any debt service). Historically the PCIA and power supply costs have seen significant variation, putting significant financial uncertainty on CCAs.

PG&E's generation rates are designed to recover power supply costs, primarily of historical contracts, but also of current market costs, to the extent PG&E has unhedged positions. These rates are set annually, but may be adjusted mid-year if actual costs prove significantly different than expected. PG&E rates, over time, should be positively correlated to market power supply costs. This means that over time if power supply costs rise PG&E rates, which serve as VCEA's rate benchmark, should also rise.

The Power Charge Indifference Adjustment is the current CCA exit fee calculation, and is designed to reimburse PG&E for the above-market costs of historical contracts entered into on behalf of departing CCA customers. It is calculated annually and reviewed by the CPUC. Discussions are currently underway on proposed changes to the PCIA to provide better forecasts of future costs, and to adjust the methodology used to estimate market costs.

To help manage exposure to PCIA variability, having a robust reserve policy that focuses on early accumulation of reserves will help give VCEA the ability to weather periods from the impact of high PCIA.

2.3 Customer Opt-Out Risk

Customer opt-out risk includes any condition or event that creates uncertainty in VCEA's customer base which would cause customers to choose to opt-out of VCEA's Program. A declining customer base could decrease the potential for VCEA to attain its Policy goals. VCEA faces other business risks, but a significant concern is how those other risks may affect customer opt-out decisions.

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

- Retail rate competitiveness with PG&E
- Financial reserve levels

2.4 Market Risk

Another risk to VCEA is the uncertainty of VCEA's financial performance due to variable commodity market prices (market price risk) and uncertain price relationships (locational risk). Variability in market prices creates uncertainty in VCEA's procurement costs and can materially impact VCEA's financial position. Market risk is mitigated by regular market exposure measurement, execution of approved procurement strategies, inclusion of hedging products that serve to fix energy prices, implementation of Congestion Revenue Right strategies, and adherence to limits as set forth in this Policy.

2.5 Volumetric Risk

The uncertainty of VCEA's financial performance due to unpredictability in the quantity of retail load served by VCEA can create volumetric risk. Retail load uncertainty can result from temperature deviation from normal, customer opt-outs, unforeseen adoption of behind the meter generation by VCEA customers, as well as local, state and national economic conditions.

Volumetric risk is managed by taking steps to:

- Monitor trends in customer onsite generation, macro economic shifts and other factors that affect electricity customer energy consumption and composition;
- Monitor and adjust for non-regulatory factors driving volumetric uncertainty (e.g. weather);
- Expand the customer base of VCEA into non-member jurisdictions of Yolo County and consider expansion into neighboring counties, and market to direct access loads to increase load magnitude and customer diversity;
- Quantify anticipated generation and PCIA rates, and variability therein;
- Quantify variability in procurement costs;

- Adopt a formal procurement strategy;
- Implement a key accounts program and maintain strong relationships with the local community.

2.6 Model Risk

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

- The WESP with VCEA approval of assumptions and guidelines;
- Ongoing update and improvement of models as additional information and expertise is acquired;
- Ongoing review of model outputs as part of controls framework;
- Ongoing VCEA and WESP staff education and participation in CCE industry forums as warranted.

2.7 Counterparty Credit Risk

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

2.8 Policy Goals

The following Policy goals have been outlined by VCEA to help ensure the long-term sustainability of the Program. These goals will inform metrics used for modeling and measuring risk exposures of VCEA.

- After adjusting for the PCIA and Franchise Fee, VCEA will target to maintain competitive retail rates with PG&E.
- VCEA will target during the initial years of operation to fund financial reserves with the following objectives:
 - Establish cash flow objectives that enable obligations to be covered under expected variations in budgeted versus actual expenses.
 - Develop a source of funds for investment in generation and other local programs.
 - Stabilize rates and dampen year-to-year variability in procurement costs.
 - Establish long-term business sustainability practices.
 - Build collateral for power procurement activities.
 - Establish an investment grade credit rating.
-

The goals outlined above are incorporated into financial models that are used to evaluate and measure risk exposures. It's important to note that the goals listed above are not intended to be

a comprehensive list of goals for VCEA. Rather, they reflect a subset of Program goals that are critical to long-term business viability for VCEA.

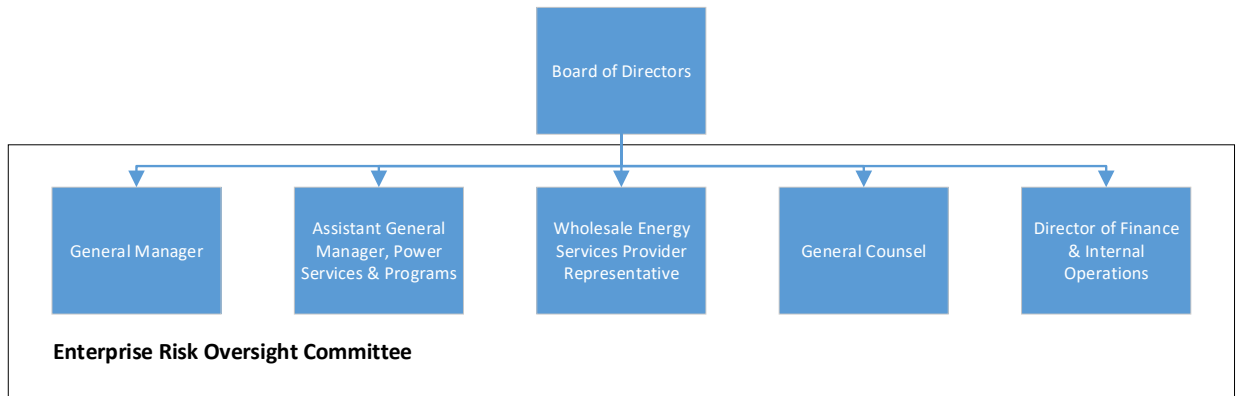
Risk Measurement Methodology

A vital element in this Policy is the regular identification, measurement, and communication of risk. To effectively communicate risk, all risk management activities must be monitored on a frequent and periodic^(MS3) basis using risk measurement methodologies that quantify the risks associated with VCEA's procurement-related business activities and measure performance relative to goals.

3 Organizational Structure and Responsibilities

3.1 Risk Management Organizational Structure

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



3.2 Board of Directors

The Board has the responsibility to review and approve this Policy. Upon approval, the Board assumes responsibility for understanding the risks to which VCEA is exposed due to Program activities and how the policies outlined in this document help VCEA manage the associated risks. The Board is also responsible to:

- Determine VCEA strategic direction.
- Understand and approve the procurement strategy employed.
- Delegate risk and credit management authority.
- Approve and appoint voting members of the Enterprise Risk Oversight Committee.

3.3 Enterprise Risk Oversight Committee

The Enterprise Risk Oversight Committee (EROC) is responsible for implementing, maintaining, and overseeing Policy compliance. The voting members of the EROC shall be the Board approved positions described below. It is recommended that this committee maintain an odd number of members, although this may not be feasible at the startup of VCEA's Program. This approach allows the EROC to avoid split decisions and to make decisions in a timely manner. Each voting member will be assigned one vote. The current members of the EROC are:

Voting Member

- General Manger
- Director of Finance & Internal Operations, or other position designated by the VCEA Board
- Assitant General Manager, Power Services & Programs, or other position designated by the VCEA Board.

Advisory Member

- The WESP Representative
- General Counsel

The WESP representative will serve as the EROC Facilitator. The primary goal of the EROC is to ensure that procurement activities of VCEA are executed within the guidelines of this Policy and are consistent with Board directives. The EROC is also responsible for considering and proposing recommendations for changes to this Policy when conditions warrant.

Pursuant to direction from the Board and the limitations specified by this Policy, the EROC and the General Manager maintain full authority over all procurement activities for VCEA. This authority includes, but is not limited to, taking any or all actions necessary to ensure compliance with this Policy, meeting customer load, resource sufficiency and regulatory obligations. The WESP will only procure resources for the VCEA portfolio pursuant to EROC or General Manager instructions outside the delegation authority.

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

Any voting or advisory member of the EROC may initiate an emergency EROC meeting by giving notice to all other ERCO members. Such notice shall include a brief summary of the situation, event or action believed to warrant such emergency meeting. A requested emergency meeting will be scheduled not later than the end of the next following business day, or if this is not possible, as soon as practicable. Minutes of any findings, actions or vote taken at an emergency meeting will be taken and reported in the same manner as any non emergency EROC meeting.

The EROC maintains the authority and responsibility to:

- Approve and ensure that all procurement strategies are consistent with this Policy;
- Determine if changes in procurement strategies are warranted;
- Approve new transaction types, regions, markets and delivery points;
- Understand financial and risk models used by the WESP;
- Understand counterparty credit review models and methods for setting and monitoring credit limits;
- Monitor regulatory and legislative activities;
- Approve and update Policy appendices if changes in procurement strategies are warranted;

- Receive and review reports as described in this Policy;
- Meet to review actual and projected financial results and potential risks;
- Escalate to the Board of Directors any risks or situations beyond the EROC's authority to act;
- Review summaries of Policy exceptions and limit violations;
- Review the effectiveness of VCEA's energy risk measurement methods;
- Undertake other activities as direct by the Board;
- Maintain this Policy.

3.4 Portfolio Manager

VCEA has partnered with the WESP as its Portfolio Manager. The WESP's risk policy must demonstrate a strong segregation of duties, also referred to as "separation of function" that is fundamental to manage and control the risks outlined in this Policy. The Portfolio Manager will provide education to the EROC on risk and credit models, methods and processes that it uses to fulfill its obligations under this Policy. Individuals responsible for legally binding VCEA to a transaction will be separate from those individuals performing confirmation, clearance or accounting functions. With this in mind, the WESP's responsibilities are divided into front-middle-back office activities, as described below.

3.5 Front Office

The Portfolio Manager's Front Office has overall responsibility for:

1. Managing all activities related to procuring and delivering resources needed to serve VCEA's load.
2. Analysing fundamentals affecting load and supply factors that determine VCEA's net position.
3. Transacting within the limits of this Policy and associated policies and risk tolerances established by the EROC, to balance loads and resources, and augment the value of VCEA's assets through the exercise of approved optimization strategies.

Other duties associated with these responsibilities include:

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

3.6 Middle/Back Office

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

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

- a. Maintaining and calculating the net forward portfolio positions of VCEA.
- b. Ensuring adherence to all risk policies and procedures of both VCEA and the Wholesale Energy Services Provider in letter and in intent.
- c. Maintaining the overall financial security of transactions undertaken by the Portfolio Manager on behalf of VCEA.
- d. Enforcing and implementing credit policies and limits.
- e. Ensure that the energy portfolio is within the risk tolerance established by the EROC.
- f. Handling confirmation of all portfolio transactions and reconciling differences with the trading counterparties.
- g. Reviewing trade tickets for adherence to approved limits.
- h. Ensuring all trades have been entered into the appropriate system of record.
- i. Ensuring actual delivery volumes and prices are entered into the physical database.
- j. Carrying out month-end checkout of all physical and financial transactions.
- k. Reviewing models and methodologies and recommending EROC approval.

4 Business Practices

4.1 General Conduct

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

4.2 Trading Personal Accounts

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

If there is any doubt as to whether a prohibited condition exists, then it is the employee's responsibility to discuss the possible prohibited condition with her/his agent, manager or VCEA representative. Violations of this Policy by VCEA employees may result in disciplinary action up to and including dismissal. Violations of this policy by agents, consultants or contractors may result may result in contract termination or other legally available remedy.

4.3 Counterparty Suitability

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

4.4 System Record

The WESP's Middle Office will maintain a set of records for all transactions executed in association with VCEA procurement activities. The records will be maintained in US dollars and transactions will be separately recorded and categorized by type of transaction. This system of procurement records for VCEA shall be auditable by VCEA during regular business hours and at VCEA's expense.

4.5 Transaction Valuation

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

4.6 Stress Testing

In addition to limiting and measuring risk using the methods described herein, stress testing shall also be used to examine performance of the VCEA portfolio under adverse conditions. Stress testing is used to understand the potential variability in VCEA's projected procurement costs. The WESP's Middle Office will perform stress testing of the portfolio on a monthly basis and distribute results.

4.7 Policy Compliance

The WESP's Middle Office will provide a monthly report^[MS4] monitoring compliance with the limits established by this Policy.

5 Delegation of Authority

With the approval of this Policy, the VCEA Board is explicitly delegating operational control and oversight to the EROC and the Portfolio Manager, as outlined through this Policy. Specifically, to facilitate daily operations of VCEA, the Board is delegating the authority to approve transaction executions and limitations as shown in the table below.

Authorization/Delegation Level		
Level	Transaction	Limit of Authorization/Delegation ^[MS5]
Enterprise Risk Oversight Committee	Non-CAISO Transactions, terms up to 24 months	\$16,000,000 per calendar year
General Manager	Non-CAISO Transactions, terms up to 24 months	\$8,000,000 per calendar year
WESP	Non CAISO Transactions up to 13 months	\$4,000,000 per calendar year
WESP	CAISO Transactions	Not Limited

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

All procurement executed under the delegation above, must align with the VCEA's underlying risk exposure (locational and temporal) that is being hedged, consistent with the approved Procurement Strategy.

5.1 Procurement to Serve Load

The general focus of all VCEA wholesale power procurement activities, whether undertaken by the WESP or VCEA directly, will be to assure adequate resources and any ancillary financial products are available and sufficient to serve VCEA's Program. Generally, the procurement of energy, capacity, RECs, or other power products in excess of VCEA's forecast load, regulatory requirements, or financial goals are to be avoided unless approved by the EROC. Speculative market positions are specifically prohibited by VCEA.

5.2 Monitoring, Reporting and Instances of Exceeding Risk Limits

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

6 Credit Policy

During startup of VCEA's Program, most transactions will be executed by the WESP utilizing WESP's enabling agreements, and with this activity VCEA is exposed to pass-through credit risk. As VCEA builds its own counterparty master trading agreements, transactions executed directly by VCEA agreements will carry direct credit risk. For activity on the WESP and/or VCEA agreements, VCEA will scale its credit limits to WESP's credit limits based on VCEA's risk tolerance. For VCEA counterparties, where an agreement exists between VCEA and a VCEA counterparty, the WESP will recommend limits within VCEA's risk tolerances, subject to EROC approval.

All procurement activities executed by the WESP on behalf of VCEA, using WESP's counterparty agreements, will be subject to the credit policies and procedures outlined in the WESP's Energy Risk Management Policy. The WESP's credit policy requires the WESP's Credit Manager, on an ongoing basis, to monitor all counterparties for creditworthiness. Additionally, counterparties shall be reviewed if a change has occurred in credit ratings, market conditions, or financial condition.

This evaluation, including any recommended increase or decrease to a credit limit, shall be documented in writing and include all information supporting such evaluation in a credit file for the counterparty. A credit limit for a counterparty will be based on the counterparty's senior unsecured or corporate credit rating from one of the nationally recognized rating agencies and/or performing a credit review or analysis of the counterparty's or guarantor's financial statements. Third party credit analysis, trade, banking references, and any other pertinent information may also be used in the review process.

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

6.1 Credit Limit and Monitoring

In executing transactions on VCEA's behalf, the WESP will observe a pass-through counterparty credit maximum limit equal to \$1.5 million[De].

The WESP Credit Manager will continuously monitor the current credit exposure for each counterparty with whom the WESP transacts on behalf of VCEA and include such exposure in the current counterparty Credit Exposure Report. This report will be made available, reviewed and communicated to the EROC pursuant to the reporting requirements outlined in Section 7.

7 Management Reporting and Position Tracking

Minimum reporting requirements are shown below. The reports outlined below will be made available to EROC members and the WESP staff:

- **Monthly Financial Model Forecast**

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

- **Monthly Net Position Report**

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

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

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

- **Monthly Risk Analysis**

Provide a risk assessment of power supply portfolio costs to VCEA to express the portfolio risk at the 95% confidence level based on past price and volume volatility.

- **Quarterly Board Report**

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

**VALLEY CLEAN ENERGY ALLIANCE
COMMUNITY ADVISORY COMMITTEE**

Staff Report Item - 9

TO: VCEA Community Advisory Committee
FROM: Mitch Sears, Interim General Manager
SUBJECT: VCEA Staffing Plan Organization Chart
DATE: December 4, 2017

Recommendation

Support staff recommendation that the Board approve the VCEA Staffing Plan Organization Chart.

Background

VCEA and SMUD staff have been working to complete Task Order 4, which outlines staffing and administrative services to be provided by SMUD and which contemplates a shared staffing structure that utilizes a small in-house team of VCEA employees augmented by significant staff and consulting support from SMUD and other outside service contractors.

At the November 16, 2017 VCEA board meeting, staff presented a proposed initial organizational chart as an informational item to the board in order to receive feedback and direction. The board:

- Discussed the role of the Assistant General Manager, who is tasked with Power Services and Programs.
- Requested that the Regulatory & Legislative Analyst report directly to internal VCEA staff – either the General Manager or the Assistant General Manager.

This organizational chart was also brought forward to the CAC at the November 27 meeting. Based on Board direction and CAC input, staff has revised the organizational chart. (See Attachment A).

CAC members requested that the revised organizational chart be placed on this meeting's agenda so that the committee can consider approving a recommendation for the board.

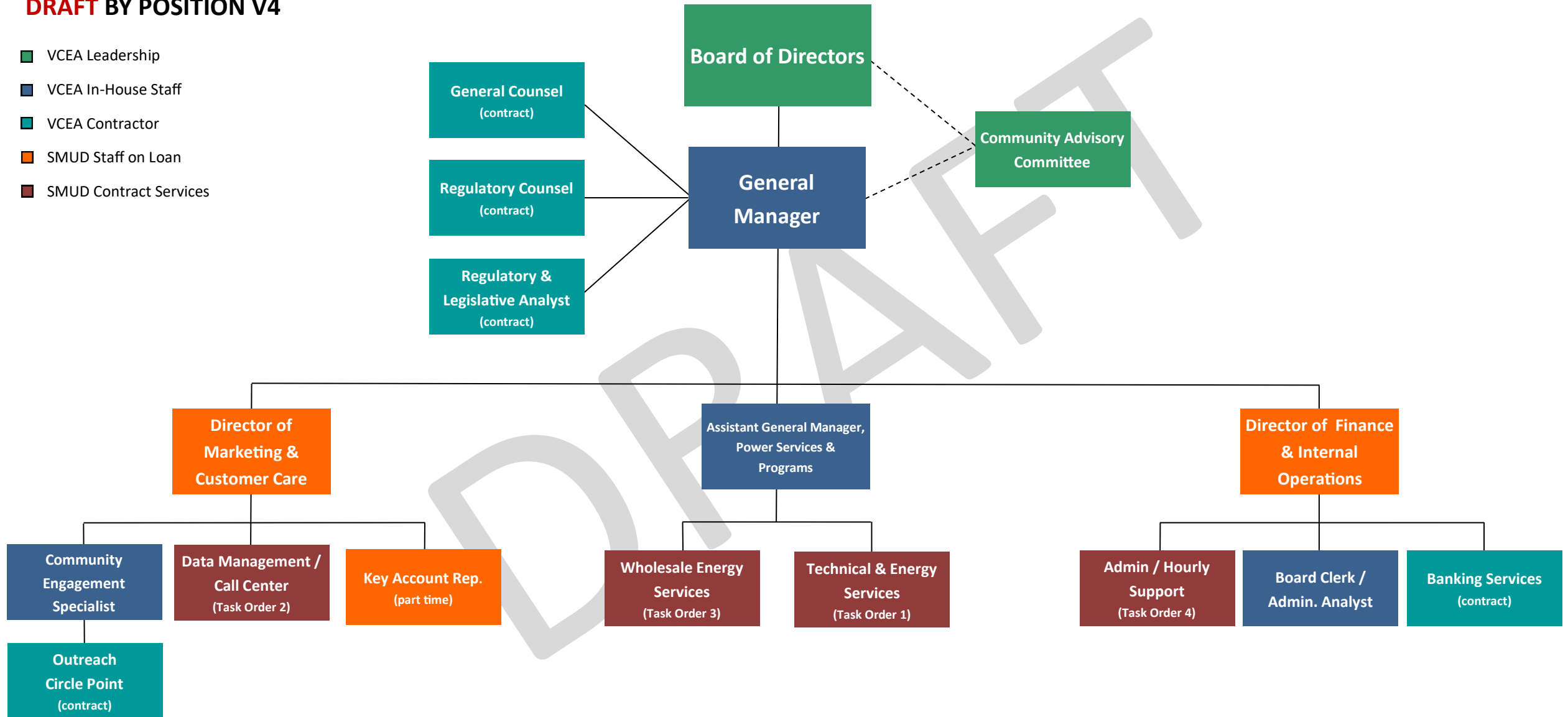
Attachment

1. VCEA Organizational Chart – Draft

VCEA ORGANIZATION CHART

DRAFT BY POSITION V4

- VCEA Leadership
- VCEA In-House Staff
- VCEA Contractor
- SMUD Staff on Loan
- SMUD Contract Services



**VALLEY CLEAN ENERGY ALLIANCE
COMMUNITY ADVISORY COMMITTEE**

Staff Report Item - 11

TO: VCEA Community Advisory Committee
FROM: Mitch Sears, Interim General Manager VCEA
SUBJECT: Legislative/Regulatory Task Group Report
DATE: December 12, 2017

Recommendation

Approve a recommendation that the VCEA Board adopt the proposed VCEA legislative and regulatory policy and procedures.

Background

The CAC 2017-2018 Legislative and Regulatory Subcommittee, Yvonne Hunter and Christine Shewmaker, developed a draft policy and procedure for how VCEA would adopt positions on proposed legislation and regulations, including the role of the VCEA board, staff and CAC/subcommittee.

The draft policy was discussed at the November 27 CAC meeting. Following the meeting, additional input was offered from other committee members, which has been integrated into the proposed policy.

As background, the subcommittee is also providing Cal-CCA's Regulatory & Legislative Platform.

Attachments

- A. Proposed Policy and Procedures Related To VCEA Positions On Proposed Legislation And Regulations
- B. Cal-CCA Regulatory & Legislative Platform

**CAC LEGISLATIVE SUBCOMMITTEE PROPOSED POLICY AND PROCEDURES RELATED TO VCEA
POSITIONS ON PROPOSED LEGISLATION AND REGULATIONS**

Background:

The charge to the VCEA Community Advisory Committee (CAC) from the VCEA board states that the CAC should “Collaborate with VCEA staff with monitoring legislative and regulatory activities related to Community Choice Energy issues.”

The CAC 2017-2018 Legislative and Regulatory Subcommittee, which consists of Yvonne Hunter and Christine Shewmaker, met by conference call November 14 to discuss options related to how VCEA would monitor legislative and regulatory activities to identify ones on which a VCEA position should be considered, and how VCEA would then adopt positions on the identified proposed legislation and regulations, including the role of the VCEA board, staff and CAC/subcommittee; Interim VCEA General Manager Mitch Sears joined the conference call.

We agreed that the policy and procedure recommended below can be revisited and modified if necessary after time, based on experience by the VCEA board, legislative subcommittee and staff.

Recommendation:

After thoughtful discussion, the subcommittee (with input from Mitch and subsequent input from Lorenzo) agreed on the following procedure to recommend to the CAC, with the intent that if approved, the CAC would forward the recommended procedure to the VCEA board for consideration.

1. It is recommended that the VCEA board of directors adopt a policy that establishes a procedure for identifying needs for VCEA positions and for taking positions on the identified proposed legislation and regulatory issues. It is important that this procedure enable VCEA to be nimble and to respond to requests for legislative or regulatory action in a timely manner, especially throughout the legislative session.
2. The CAC Legislative Subcommittee will monitor proposed regulatory and legislative actions to identify those on which a VCEA position is needed by reviewing the proposed legislation and regulations followed by CalCCA. The Subcommittee will also review positions recommended by CalCCA on those issues. If the CAC legislative subcommittee disagrees with a position recommended by CalCCA, the subcommittee will forward its alternative recommendation, along with CalCCA’s recommended position for comparison, as well as the positions recommended by CalCCA on the remaining issues, to the CAC. The CAC will review the Subcommittee’s recommendations and forward its recommendations to the

**Revised Legislative-Regulatory Subcommittee Report
12-1-17**

VCEA board. (VCEA is a member of CalCCA, a statewide trade-association representing CCAs throughout California, with a professional staff and legislative/regulatory expertise.)

3. The procedure outlined in #2 may be updated in the future (such as six months after launch of VCEA) to consider whether it would be beneficial to VCEA also to track and consider positions on proposed legislation and regulatory issues not included in the issues tracked by CalCCA, and if so, how VCEA would monitor the legislative and regulatory arenas to identify such issues.
4. It is recommended that the VCEA board designate the General Manager and two VCEA board members as having the authority to take action on proposed legislation and regulations, in consideration of the recommendations of the CAC and CalCCA, , consistent with the policy adopted in #2 above.
5. The CAC legislative subcommittee will review the materials provided by CalCCA and LEAN throughout the year and will identify 2-4 high priority issues that VCEA may want to emphasize in its legislative and regulatory outreach efforts. (Note: The legislative subcommittee will adopt criteria to explain why a bill or proposed regulation is considered a priority and will propose these criteria to the CAC, which may forward it to the board.)

REGULATORY & LEGISLATIVE PLATFORM¹

Support California Community Choice Aggregation

CalCCA supports legislation and regulatory policies that protect and foster CCA within the state. We promote competitive neutrality and a level playing field and we will support legislation and regulatory policies that support CCA autonomy in policymaking and decision-making. We oppose legislation and regulatory policies that unfairly discriminate against CCAs or CCA customers, or reduce CCA policymaking or decision-making autonomy.

Advocate on Behalf of Community Choice Aggregation Customers

CalCCA supports legislation and regulatory policies that benefit CCA customers. We address legislation and regulatory policies that may have rate impacts on CCA customers. We address legislation and regulatory policies affecting legislative or regulatory processes that may impact CCA customers.

Current Platform Objectives for 2017

1. Prevent new non-bypassable charges and phase out or eliminate existing non-bypassable charges
2. Protect CCA procurement autonomy and local government oversight
3. Protect CCA autonomy to administer energy efficiency and integrated distributed energy resources
4. Increase transparency of inputs to PCIA and all non-bypassable charges, increase certainty of PCIA charges, and phase out unreasonable PCIA charges over a time period that reasonably addresses stranded costs.
5. Reform IOU procurement practices to minimize stranded load and mitigate CCA charges.

¹ Copied November 2017 from CalCCA website .