

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 10

TO: Board of Directors

FROM: Mitch Sears, Executive Officer
Edward Burnham, Director of Finance & Internal Operations

SUBJECT: Bi-annual Enterprise Risk Management Report

DATE: September 12, 2024

RECOMMENDATION

Accept the Bi-annual Enterprise Risk Management Report – September 2024.

BACKGROUND & DISCUSSION

In 2018, the Board approved VCE's Enterprise Risk Management (ERM) Policy. The policy is centered on risk management best practices and policies for the energy sector. In summary, the VCE ERM policy contains the following sections:

- **Introduction:** This section introduces the value of ERM as a structured approach to managing risk and uncertainty. It lays out the objectives of VCEA's ERM function, providing the framework for evaluating and managing risk in the organization's decision-making process.
- **ERM Roles and Responsibilities:** The ERM roles are consistent with the Board-approved Wholesale Power Procurement & Risk Management Policy. The Enterprise Risk Oversight Committee (EROC) has primary responsibility for the implementation of ERM. The policy lays out the scope of the EROC's risk management authority.
- **Business Practices:** This section identifies the steps of risk management and the basic process associated with each step. The intent is to provide a high-level framework. Specific tools and techniques for implementing enterprise risk management will be recommended by the portfolio manager following approval of the policy.
- **Management Reporting and Metrics:** The policy defines an enterprise risk report that will be provided bi-annually to the Board.

Staff has used the consistent framework described in the ERM policy to identify various risks and related mitigations, and to ensure effective mitigation and communication across all levels of the

organization. The attached ERM bi-annual report describes the activities that have taken place since March 2024 and the actions VCE is and will be taking to manage the top risks that have been identified.

Prior to this report, staff most recently presented the bi-annual update to the Board in March 2024, describing progress on the ERM plan since inception. Bi-annual updates are provided in March and September of each year.

ATTACHMENT

1. Bi-annual Enterprise Risk Management Report – September 2024

Valley Clean Energy

Enterprise Risk Management Report

September 2024

Executive Summary

Introduction and Background

In 2018, the Valley Clean Energy (VCE) Board adopted an Enterprise Risk Management (ERM) framework. The objective was to provide the Board with insight into risks that could impact the ability to execute VCE's mission and build credibility and sustain confidence in VCE's governance. In addition, the framework and reports are designed to enhance the understanding of significant risks to VCE, develop the capacity for continuous monitoring, provide for periodic reporting of risks, and establish a platform for responding to changing risk circumstances. This report is the 1st of VCE's biannual risk reports for 2024; the prior ERM biannual Report was issued in March 2024.

ERM is a strategic approach to risk management that supports the achievement of organizational objectives through the management of integrated impacts of risks as an interrelated risk portfolio. ERM is a coordinated effort by management to treat all risks effectively, thereby reducing the overall cost of risk to the organization. The Executive Officer has charged functional leaders to oversee the treatment of known major risk categories and provide a risk overview to the Enterprise Risk Oversight Committee (EROCC).

ERM Philosophy

VCE's ERM philosophy includes the following principles:

1. Identify, assess, prudently manage, monitor, and report on a variety of business-critical risks;
2. Provide enterprise risk context and linkage to existing core business processes to improve the allocation of limited resources;

ERM Approach

Staff has applied a multi-perspective approach to evaluate and estimate the trade-off between risk and cost of mitigation across VCE business functions. This approach addresses the following issues:

- Roles and responsibilities

- Definitions and language
- Risk heat map and risk exposure inventory
- Risk exposure monitoring, updating, and reporting
- Integration of ERM with key business processes
- Integration of risk awareness within corporate culture
- This framework supports the Board in exercising its overall responsibility to:
 - Regulate opportunities and risks for VCE;
 - Develop a better understanding of appropriate opportunities and risks for VCE;
 - Promote active management of risk exposure down to acceptable levels; and
 - Assist VCE in its achievement of business plan objectives and operational performance.

Summary of Activities through September of 2024

From an implementation perspective, progress continues on multiple fronts. Significant effort has been invested in creating an enterprise risk register. Risks to VCE have been identified, categorized, and rated. Existing risk controls and risk treatment measures implemented/proposed have also been identified. The risk register provides VCE's management with a consolidated view of risks being faced by VCE, the potential impact of those risks, mitigation actions, and assessment of short-term risk trends (i.e., higher/lower/steady).

Staff is using a consistent framework to identify various risks and related mitigations, and to ensure effective communication across all levels of the organization. In doing so, staff has completed the following developmental tasks:

1. Established the Executive Officer as Chief Risk Officer and Director of Finance & Internal Operations as risk process owner, focusing on day-to-day monitoring and coordination.
2. Developed ERM framework and tools
3. Conducted a risk survey
4. Developed VCE's top risk portfolio
5. Surveyed staff and management for ongoing risk input
6. Held monthly EROC meetings

Key Steps Taken Since the Last Biannual Update

Some actionable steps that VCE has taken since the last Board update in March 2024 include:

1. Have actively engaged from a regulatory and legislative standpoint, supporting regulatory statewide proceedings and settlements, meeting with key CPUC staff, and continuing progress on the annual VCE legislative platform.
2. Increased 2024 VCE Rate Credits starting July 1 for Standard green providing additional rate credits to all customers.
3. Awarded Energy Prepayment Counsel and Energy Prepayment Counter Party Agreements for power cost savings to further stabilize VCE's financial standing, building reserves, and support establishing a credit rating.
4. Adopted a Strategic Plan guidelines and update including increasing the 80% renewable goal to 100% renewable by 2030 and substituted the 25% renewable local component goal with a goal of 25% of future storage amounts to be from local installations.
5. Approved Renewable Energy Credit Optimization approach for 2025 to balance emission reduction with cost competitive customer rates.

Key Risks

Key risks are those risks that, given VCE's current position, could negatively impact VCE's business model, future performance or prospects, solvency, liquidity, reputation, or prevent it from delivering on its local control commitment. These key risks are updated on an ongoing basis and look forward over a 5-year horizon to identify the:

- Nature and extent of risks facing VCE
- Likelihood and velocity of the risks and potential impacts
- VCE's ability to reduce or control such risks

Key Priorities for Risk Management in 2024:

1. Maintain the operational risk management process
2. Provide regular updates to the Board
3. Continue to take specific actions to mitigate risks as outlined in this document
4. Begin to develop contingency plans for unexpected and emergent events









Risk Portfolio

















Top 5 Risks for VCE:





1. Commodity procurement
2. Regulatory & Policy risk
3. Resource Adequacy (Slice of Day)
4. Rate Stabilization
5. 2025 PCIA Increases

The following tables outline current risks (Table 1) and summarize VCE's response plan for it's top identified risks (Table 2).

Table 1: Risk Description/Level

Risk	Description	Current Residual Risk	Target Residual Risk
PCIA	The PCIA rate for 2024 increased slightly. The lower energy costs and usage are forecasted to be under collected and lower energy price forwards are expected to increase 2025 PCIA. Forecast will be updated in November.		
Resource Adequacy	The supply of RA in the western US is tightening, and the regulatory slice of day framework is evolving. A combination of these two elements has resulted in an increased cost of RA and in some cases no available supply. Due to battery permitting and testing requirements, the willy chap 9 project was partially delayed thus causing VCE to procure short-term RA.		
Commodity Procurement	The 2024/2025 market is experiencing fluctuations associated with commodity prices, including energy prices, resource adequacy, and other components of the energy portfolio.		
Regulatory & Policy risk	Risk of additional regulatory requirements increasing complexity and cost of operations.		

Risk	Description	Current Residual Risk	Target Residual Risk
Capital availability/cashflow	Capital / Cashflow Risk has been reduced through the adoption of the new cost recovery rate policy, lower 2023/2024 PCIA, auto rate adjustment policy, and liquidity lines of credit with River City Bank. VCE has met its current Reserve Policy of 90 days. Staff will be proposing revisions to increase reserve to meet current targets associated with the initial investment grade credit rating to targets +180 operating days.		
Economic Uncertainty	The risk from the ongoing geopolitical climate increases the chances of impacting gas prices, the economy, and associated cost forecasts.		
Rate structure	The risk of rate design for cost of service has been reduced with an updated rate policy and additional implementation of the "Base Green" rate option. VCE will continue to develop rate-setting options to minimize risks further.		
Cyber security & data privacy	Risk of a data breach as a result of a cyber breach or physical attack.		
Financial Markets Volatility	Swings in global energy markets, financial markets, and currencies due to current geopolitical events (e.g. Middle East) have created challenges that impact VCE's power costs.		
Changing customer expectations	Risk that customer's changing expectations as a result of innovation may result in reduced customer revenue and loyalty.		
Opt-out rate	The risk of higher than expected opt-out has normalized despite PG&E's increases in both electricity transmission and distribution and gas rates. VCE implementation of "Base Green" product option should minimize opt-outs.		
Business model	Ability to quickly identify and respond to business risks that have the potential to impact the ability to achieve VCE goals.		

Risk	Description	Current Residual Risk	Target Residual Risk
Media & Community	Risk of unfavorable public communications or events; spillover customer dissatisfaction related to PG&E's PSPS events and continuous rate increases.		
Unknown risks	Business and utilities attempt to identify and adapt to known risks but some potential events outside of VCE's control could have a debilitating impact on utilities in general and VCE in particular.		











	High Risk
	High/Moderate Risk
	Low/Moderate Risk
	Low Risk


Table 2: Summary of VCE top risk response plan


Risk Event	Response	Trend ¹	Plan	Trigger/Control	Owner
PCIA	Monitor risk & actively engage and respond		<p>1) Continue direct involvement with CalCCA task groups to seek favorable rulings and settlements in the PCIA, ERRA, and other filings.</p> <p>2) Work towards the potential long-term goal of attaining an option for a PCIA buy-out and sunset date.</p>	<p>The 2025 PG&E PCIA forecast is expected to increase due to 2024 under collection and lower forward market prices.</p> <p>VCE will continue to monitor Energy Resource</p>	Director of Finance

¹ Current trend of risk for VCE- increasing  , no change  or decreasing

Risk Event	Response	Trend ¹	Plan	Trigger/Control	Owner
				Recovery Account (ERRA) proceedings.	
Commodity Procurement	Reduce & manage risk		<p>1) Continue to pursue long-term power purchase agreements to reduce the average cost of power in future years</p> <p>2) Pursue regulatory and legislative avenues in addressing the extreme swings in pricing.</p> <p>3) Take an active role in regulatory proceedings at the CPUC, including appeals, on various regulations that impact the cost of electricity, along with support from the CalCCA Regulatory Committee</p> <p>4) Amending VCE's Wholesale Energy Risk Manual to extend the hedging horizon to multiple years in an effort to smooth market fluctuations.</p>	<p>Execution of PPA contracts</p> <p>Regulatory rulings that affect commodity procurement cost</p> <p>Monitor impacts and market conditions resulting from slice of day resource adequacy requirements.</p>	Director of Power Procurement
Regulatory & Policy risk	Monitor risk & actively engage and respond		<p>1) Take an active role in legislative sessions (contract with lobbyist and engage Board members for support / opposition on bills) along with</p>	Weekly CalCCA Regulatory and Legislative Committee meetings	Executive Officer

Risk Event	Response	Trend ¹	Plan	Trigger/Control	Owner
			<p>support from CalCCA legislative committee</p> <p>2) Follow and continue to update the annual VCE Legislative Platform</p> <p>3) Take an active role in regulatory proceedings at the CPUC, including appeals, on various regulations that impact VCE and CC's that increase cost or bureaucracy without any significant safety or cost benefits to VCE and its customers along with support from CalCCA Regulatory Committee</p>	<p>Regulatory rulings</p> <p>Legislative actions</p>	
<p>Capital Availability / Cash Flow</p>	<p>Monitor risk & actively engage and respond</p>		<p>1) Continue towards conserving cash, reducing debt, and lowering cash requirements.</p> <p>2) Evaluate reserve policy changes.</p> <p>3) Work towards the 2024 goal of securing an investment-grade credit rating.</p>	<p>VCE Line of credit agreements & extension to 2026.</p> <p>VCE is working with Financial Advisor (PFM) to establish VCE's initial investment grade credit rating by 2028.</p> <p>Implement VCE Rate adjustment and Collections Policy</p>	<p>Director of Finance</p>

Risk Event	Response	Trend ¹	Plan	Trigger/Control	Owner
Resource Adequacy	Reduce & manage risk		<ol style="list-style-type: none"> 1) Take an active role in regulatory proceedings at the CPUC, including appeals, on various regulations that impact the cost of electricity along with support from the CalCCA Regulatory Committee. 2) Monitor and participate in CalCCA activities related to regional developments in RA. 3) Continue to develop portfolio of resources that satisfy various future RA program scenarios. 	<p>Execution of PPA contracts</p> <p>Regulatory rulings that affect RA cost, including non-compliance penalty structure</p> <p>Annual review of VCE PPA RA resources</p>	Director of Power Procurement

Risk Event	Response	Trend ¹	Plan	Trigger/Control	Owner
Rate Structure	Reduce & manage risk		<ol style="list-style-type: none"> 1) Monitor and update Board based on analyst forecasts for ERRA proceeding. 2) Identify and mitigate risks outside of VCE control to limit impacts and frequency of rate changes. 3) Review and update rates for rate adjustment policy. 	<p>Economic outlook and Rate forecasts</p> <p>Monitor Regulatory proceedings that impact PCIA, RA, and ERRA.</p> <p>Monitor cash short-term and long-term impacts to reserve funds, credit lines, commercial negotiations, and PPA covenants.</p>	Director of Finance