VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 11

TO: Valley Clean Energy Alliance Board of Administration

FROM: Mitch Sears, Interim General Manager
Toni Hoang, SMUD

SUBJECT: Review of Draft Enterprise Risk Management Policy

DATE: February 8, 2018

BACKGROUND AND ANALYSIS

Staff is presenting a draft Enterprise Risk Management (ERM) Policy for Board review. Following the Board meeting, any feedback will be incorporated and the policy will be presented at the March Board meeting for approval.

The Enterprise Risk Management Policy includes 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. The policy defines VCEA's risk appetite as conservative but balanced with measured risk-taking in pursuit of the VCEA mission when the benefits are clearly understood and appropriate mitigation measures are established.
- 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. It also defines the Portfolio Manager's role in providing guidance to the EROC regarding risk management.
- Delegation of Authority and Compliance: This section defines the VCEA Board's delegation of operational control and oversight to the EROC and the Portfolio Manager. Specifically the Portfolio Manager is delegated responsibility for monitoring and reporting compliance with the Policy. The policy requires the Portfolio Manager to provide bi-annual risk management reports to the EROC.

CONCLUSION

Staff will present the Enterprise Risk Management topic at the February 8, 2018 Board meeting. Staff is seeking Board feedback on the policy, which will be incorporated for consideration at the March Board meeting.

Attachment

1. Draft Enterprise Risk Management Policy

DRAFT

Valley Clean Energy Alliance

Enterprise Risk Management Policy

2/2/2018

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1 Introduction

Background and Purpose

Valley Clean Energy Alliance (VCEA) is implementing an Enterprise Risk Management (ERM) program to provide a structured, disciplined, and consistent approach to risk management that facilitates risk-informed decision making throughout the organization. ERM supports VCEA in aligning strategy, processes, people, and technology for the purpose of evaluating and managing uncertainties in executing its mission. By strategically managing risk, VCEA can proactively reduce the chance of loss, identify and take advantage of opportunities, create greater financial stability, and protect its resources to support its mission and create value for its members.

This policy has been established to ensure appropriate identification and evaluation of risks associated with all VCEA activities, and to ensure that these risks are managed to an acceptable level.

Enterprise Risk Management Objective

This ERM Policy (Policy) establishes VCEA's ERM Program (Program) and ensures that risk management assessments and decisions are based on a consistent approach and a common language.

The objective of the Policy is to provide a framework for identifying, assessing, responding to, managing, and communicating risks and opportunities to help VCEA achieve its objectives. The framework provides the means to embed risk management as a core competency in VCEA operations, enabling it to apply consistent risk management practices at both the enterprise-wide level and within each program in a way that facilitates risk-informed decision making at all levels.

The ERM objectives are to:

- Provide the VCEA Board with transparency and insight into risks that could impact the ability to execute VCEA's mission.
- Implement well-defined risk management process, tools and techniques.
- Identify current and emerging risks, and prioritize and develop response plans when necessary.
- Increase the likelihood of success in achieving the VCEA's objectives.
- Build credibility and sustain confidence in VCEA's governance by all stakeholders including private, federal, state, and local partners.
- Improve the understanding of interactions and relationships between risks.
- Establish clear accountability and ownership of risk.
- Develop the capacity for continuous monitoring and periodic reporting of risks.

Statement of Risk Policy and Risk Appetite

VCEA's approach is to conservatively manage its exposure to financial, legal, compliance and regulatory, operational, strategic, and reputational impacts while accepting and balancing risk taking in pursuit of its mission and objectives. It recognizes that its appetite for risk varies according to the activity undertaken, that acceptance of risk is subject to ensuring that potential benefits and risks are fully understood before taking action, and that sensible measures to mitigate risk are established.
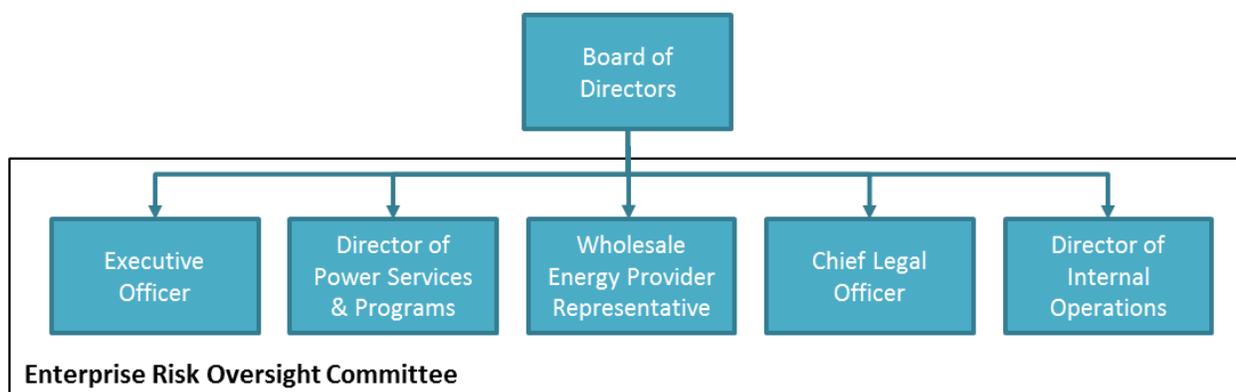
Policy Administration

The Board must approve amendments to this Policy.

2   ERM Roles and Responsibilities

Enterprise Risk Management Organizational Structure

Please refer to the Wholesale Power Procurement & Risk Management Policy, Section 3 for the ERM Risk Management Structure.

Enterprise Risk Oversight Committee (EROC)

In addition to the EROC roles as outlined in Section 3 of the Wholesale Power Procurement & Risk Management Policy, The EROC is also responsible for overseeing the development and implementation of processes used to analyze, prioritize, and address risks across VCEA. The EROC is responsible for establishing risk appetite and risk tolerance levels to ensure that risks are managed to create value for VCEA members in a manner which is consistent with this policy.

In addition to the authorities outlined in Section 3 of the Wholesale Power Procurement & Risk Management Policy, the EROC maintains the additional authority and responsibility to:

- Approve ERM processes and risk appetite and risk tolerance guidelines;
- Set commodity risk exposure limits;

- Receive and review ERM reports as described in this Policy;
- Maintain this Policy; and
- Perform any other activities consistent with this policy and governing laws that VCEA's Board determines are necessary or appropriate.

Portfolio Manager

VCEA has partnered with the Wholesale Energy Service Provider (WESP) as its Portfolio Manager. The WESP's Portfolio Manager will be responsible for providing education and recommendations to the EROC on the enterprise risk management process, identified risks, risk levels as well as mitigation strategies to fulfill its obligations under this Policy.

3 Delegation of Authority & Compliance

With the approval of the Policy, the VCEA Board is explicitly delegating operational control and oversight to the EROC and the Portfolio Manager, as outlined through this Policy.

These authorities will be broadly applied to all enterprise risk items identified through the process.

Monitoring, Reporting and Instances of Exceeding Risk Limits

The WESP's Portfolio Manager is responsible for monitoring, and reporting compliance with this Policy. If risk exceeds appropriate levels or control is insufficient, the WESP's Portfolio Manager will send notification to the EROC. The EROC will discuss the cause and potential remediation of increased risks to determine next steps for curing the exceedance.

The WESP's Portfolio Manager will provide the EROC with bi-annual reports which includes update on activities and projected risk trends of its top risks.