

# VALLEY CLEAN ENERGY ALLIANCE

## Staff Report Item - 13

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**TO:** Valley Clean Energy Alliance Board of Directors

**FROM:** Mitch Sears, Interim General Manager, VCEA  
Gary Lawson, Sacramento Municipal Utility District (SMUD)

**SUBJECT:** Wholesale Power Procurement and Risk Management Policy - Introduction

**DATE:** November 16, 2017

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### **Recommendation**

Receive the introduction to the Wholesale Power Procurement and Risk Management Policy and provide feedback/ direction as desired.

### **Summary**

The purpose of this staff report/agenda item is to provide an introduction on the role and elements of the 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.

### **Proposed Timing**

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

### **Fiscal Impact**

The cost to develop the Risk Policies is included in the comprehensive Wholesale Energy Services provided by SMUD, and is included in VCEA's implementation budget.