

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 19

TO: Board of Directors

FROM: Mitch Sears, Interim General Manager
Edward Burnham, Director of Finance & Internal Operations

SUBJECT: Bi-annual Enterprise Risk Management Report

DATE: September 9, 2021

RECOMMENDATION

Accept the Bi-annual Enterprise Risk Management Report – September 2021.

BACKGROUND & DISCUSSION

In 2018, the Board approved VCE's Enterprise Risk Management (ERM) Policy. The policy is centered on energy best practices and is adapted from the SMUD risk management policy. 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 took place since the last

bi-annual update in December 2020 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 in December 2020 to the Board, describing progress on the ERM plan since inception. We have adjusted our bi-annual updates to be provided in March and September of each year.

ATTACHMENT

1. Bi-annual Enterprise Risk Management Report – September 2021

Valley Clean Energy

Enterprise Risk Management Report

September 2021

PURPOSE:

The purpose of the biannual ERM Report is to update VCE's Board and the public regarding the activities that took place since the last update on December 10, 2020.

Executive Summary

Introduction and Background

In 2018, the Valley Clean Energy (VCE) Board adopted an Enterprise Risk Management (ERM) framework to provide the Board with insight into risks that could impact the ability to execute VCE's mission, build credibility and sustain confidence in VCE's governance and stakeholders, enhance the understanding of significant risks to VCE, and develop the capacity for continuous monitoring, periodic reporting of risks, and responding to changing risk circumstances. This report is the first of VCE's biannual risk reports for FY 2022; the prior ERM biannual Report was issued on December 10, 2020.

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 General Manager has charged functional leaders to oversee the treatment of known major risk categories and provide a risk overview to the Enterprise Risk Oversight Committee (EROC).

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 August 2021

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 Interim General Manager 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 December 2020 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, including SB 612 and AB 843.
2. Reduced the 2020 and 2021 RPS targets to maintain VCE's current rate policy and partially mitigate use of reserve funds during the transition to long-term power purchase agreements savings of ~\$3.75M.

3. One of six long-term Power Purchase agreements (5+ years) began delivery in August 2021, partially addressing power cost volatility long-term.
4. Secured the 3rd extension on the River City Bank line of credit, with Letter of Credit capability.
5. Adopted VCE's 3-Year Programs Plan with four active programs addressing customer expectations.

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 2021:

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. Power Charge Indifference Adjustment ("PCIA") increases
2. Commodity procurement
3. Regulatory & Policy risk
4. Capital availability/cash flow
5. Economic Uncertainty

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

Table 1: Risk Description/Level

Risk	Description	Current Residual Risk	Target Residual Risk
PCIA	The PCIA rate for 2021 was increased as a result of CPUC decisions. 2022 PCIA rates are forecasted to be reduced from current 2021 rates.		
Commodity Procurement	Risk of extreme fluctuations associated with commodity prices, including energy prices, resource adequacy, and other components of the energy portfolio, remain.		
Regulatory & Policy risk	Risk of additional regulatory requirements increasing complexity and cost of operations		
Capital availability/cashflow	Risk that VCE is unable to secure affordable financing as VCE uses reserves for rate stabilization under current rate policy.		
Economic Uncertainty	Risk that the ongoing Covid-19 pandemic increases chances of impacting customers, the economy, and associated revenue forecasts.		
Rate structure	Risk of rate design not following cost of service (non-time of use (TOU), PCIA, demand charges, varying generation rates)		
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 financial markets and currencies may create significant challenges that VCE will have to address		
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	Risk of higher than expected opt-out level		

Risk	Description	Current Residual Risk	Target Residual Risk
Business model	Ability to quickly identify and respond to business risks that have the potential to impact the ability to achieve VCE goals.		
Media & community	Risk of unfavorable public communications or events; spillover customer dissatisfaction related to PG&E's PSPS		
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
-  High/Moderate
-  Low/Moderate
-  Low



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		1) Continue direct involvement with CalCCA task groups to seek favorable rulings and settlements in the PCIA, ERRA, and other filings, such as SB 612.	Risk of PCIA rate does not decrease in the 2022 ERRA Forecast. CPUCs annual approval of PG&E's PCIA rate within the Energy Resource Recovery Account (ERRA) forecast	Director of Finance

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

Risk Event	Response	Trend ¹	Plan	Trigger/Control	Owner
			<p>2) Work towards the potential long-term goal of attaining an option for a PCIA buy-out.</p> <p>3) Work towards stabilizations and reduction of the PCIA from a regulatory and legislative standpoint</p> <p>4) Participate in CalCCA modeling groups to develop tools for PCIA, RA, and Generation Rates.</p>		
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 and requirements of Resource Adequacy (RA) costs.</p> <p>3) Take an active role in regulatory proceedings at the CPUC, including appeals, on various regulations that impact</p>	<p>Execution of PPA contracts</p> <p>Regulatory rulings that affect commodity procurement cost and RA cost</p>	Director of Power Procurement

Risk Event	Response	Trend ¹	Plan	Trigger/Control	Owner
			<p>the cost of electricity along with support from the CalCCA Regulatory Committee</p> <p>4) Follow the guidelines and recommendations of VCE's Wholesale Energy Risk Manual</p>		
<p>Regulatory & policy risk</p>	<p>Monitor risk & actively engage and respond</p>		<p>1) Take an active role in legislative sessions (contract with lobbyist and engage Board members for support/opposition on bills) along with 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>Weekly CalCCA Regulatory and Legislative Committee meetings</p> <p>Regulatory rulings</p> <p>Legislative actions</p>	<p>General Manager</p>

Risk Event	Response	Trend ¹	Plan	Trigger/Control	Owner
Capital Availability/ Cash Flow	Monitor risk & actively engage and respond		<p>1) Continue to work towards conserving cash reserves by lowering costs and increasing cash revenue collection</p> <p>2) Work towards a financial model update to evaluate rate and reserve policy changes.</p> <p>3) Extend favorable terms with banks and contract counterparties</p> <p>4) Work towards the long-term goal of securing an investment-grade credit rating.</p>	<p>Line of credit agreements & renewals</p> <p>Develop VCE Collections Policy</p> <p>CAAP receivables funding for COVID-19 outstanding receivables</p> <p>Develop the long-term Collections Policy.</p>	Director of Finance
Rate Structure	Reduce & manage risk		<p>1) Monitor and update Board based on analyst forecasts for PG&E Rate and PCIA change impacts.</p> <p>4) Identify and mitigate risks outside of VCE control to limit impacts and frequency of rate changes.</p> <p>3) Review and update Financial Policies for possible automatic rate triggers for financial sustainability.</p>	<p>Economic outlook and Rate forecasts</p> <p>Monitor Regulatory proceedings that impact PCIA, RA, and ERRRA.</p> <p>Monitor cash short-term and long-term impacts to reserve funds, credit lines, commercial negotiations, and PPA covenants.</p>	Director of Finance

Risk Event	Response	Trend ¹	Plan	Trigger/Control	Owner
			4) Review and update rate policy for cost -recovery based model		