VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 10

TO: Board of Directors

FROM: Mitch Sears, Chief Executive Officer
Edward Burnham, Chief Financial Officer

SUBJECT: Bi-annual Enterprise Risk Management Report

DATE: October 14, 2025

RECOMMENDATION
Accept the Bi-annual Enterprise Risk Management Report – September 2025.

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 VCE'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

September 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 2025, 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 2025

Valley Clean Energy

Enterprise Risk Management Report

September 2025

Executive Summary

Introduction and Background

In 2018, the Valley Clean Energy (VCE) Board adopted an Enterprise Risk Management (ERM) framework based on the best industry practices structure developed by SMUD. 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 2nd of VCE's biannual risk reports for 2025; the prior ERM biannual Report was issued in March 2025.

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 (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 September of 2025

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 Chief Financial Officer 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 2025 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. Maintained 2025 VCE Rate Credits starting January 1 to 5% for all customers and 10% to CARE/FERA customers.
3. Executed Energy Prepayment Bond for 14% fixed power cost savings to further stabilize VCE's financial standing, building reserves, and support affordability measures.
4. Executed Renewable Energy Credit Optimization approach for 2025 to balance emission reduction with cost-competitive customer rates.
5. Actively updating our strategic plan as a key step toward achieving our goal, ensuring alignment with evolving priorities, stakeholder input, and long-term organizational objectives

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 2025:

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. 2026 PCIA Increases (net revenue reductions)
2. Rate Affordability and Stabilization
3. Legislative & Regulatory Policy Risk
4. Resource Adequacy (Planning Reserve Margin)
5. Commodity procurement

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
Power Charge Indifference Adjustment (PCIA)	The PCIA rate for 2025 remained neutral for the time being due to increased resource adequacy and renewable energy credit market price benchmarks (MPB). The CPUC has reviewed the market price benchmark formula that is forecasted to generate higher long-term PCIA rates and opened an additional proceeding to continue to look at other MPDs/formulas in the PCIA proceedings.		
Resource Adequacy (RA)	Although the supply of RA in the western US is tightening, the regulatory slice of the day framework and markets have stabilized at reasonable cost levels.		
Commodity Procurement	The 2025/2026 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 for VCE. Recently, the CPUC has taken positions and policy changes that have resulted in cost shifts from the IOUs to the CCA community.		

Risk	Description	Current Residual Risk	Target Residual Risk
Capital availability/cashflow	Capital / Cashflow Risk has remained low through VCE's rate, auto rate adjustment, and reserve policies. Staff will be proposing additional revisions to rates and reserve policies to meet, obtain, and maintain credit rating agency requirements.		
Economic Uncertainty	The risks from the ongoing geopolitical climate increases the chances of impacting natural gas prices, the general economy, and the renewable sector specifically through tax reform, trade agreements, war(s), and import tariffs.		
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 rate stabilization funds are anticipated to be used in 2026 with changing PCIA and PG&E 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 energy markets, financial markets, and currencies due to current geopolitical events (e.g. Ukraine and trade tariffs) 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 affordability.		
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. Load Serving Entities, like VCE, are facing new operational, financial, and reliability challenges from unknown impacts from large loads, such as increased demand volatility, potential grid congestion, higher procurement costs, and the need for enhanced infrastructure and forecasting capabilities.		

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

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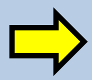
Table 2: Summary of VCE top risk response plan

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. 2) Work towards the potential long-term goal of attaining an option for a PCIA buy-out and sunset date.	The 2026 PG&E PCIA forecast is expected to increase due to RA Benchmark proceeding. VCE will continue to monitor Energy Resource Recovery Account (ERRA) and PCIA proceeding.	Director of Finance
Commodity Procurement	Reduce & manage risk	⇨	1) Continue to pursue long-term power purchase agreements to reduce the average cost of power in future years 2) Pursue regulatory and legislative avenues in addressing the extreme swings in pricing. 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	Execution of PPA contracts Regulatory rulings that affect commodity procurement cost Monitor impacts and market conditions resulting from slice of day resource adequacy requirements.	Director of Power Procurement

[1] Current trend of risk for VCE- increasing ⇧ , no change ⇨ or decreasing ⇩

Risk Event	Response	Trend[1]	Plan	Trigger/Control	Owner
Regulatory & Policy risk	Monitor risk & actively engage and respond		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 2) Follow and continue to update the annual VCE Legislative Platform 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	Weekly CalCCA Regulatory and Legislative Committee meetings Regulatory rulings Legislative actions	Executive Officer
Capital Availability / Cash Flow	Monitor risk & actively engage and respond		1) Continue towards conserving cash, reducing debt, and lowering cash requirements. 2) Evaluate reserve policy changes. 3) Work towards the 2028 goal of securing an investment-grade credit rating.	VCE Line of credit agreements & extension to 2026. VCE is working with Financial Advisor (PFM) to establish VCE's initial investment grade credit rating by 2028.	Director of Finance

Risk Event	Response	Trend[1]	Plan	Trigger/Control	Owner
				Implement VCE Rate adjustment and Collections Policy	
Resource Adequacy	Reduce & manage risk	⇧	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.	Execution of PPA contracts Regulatory rulings that affect RA cost, including non-compliance penalty structure Annual review of VCE PPA RA resources	Director of Power Procurement

Risk Event	Response	Trend[1]	Plan	Trigger/Control	Owner
Rate Structure	Reduce & manage risk	⇧	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.	Economic outlook and Rate forecasts Monitor Regulatory proceedings that impact PCIA, RA, and ERRA. Monitor cash short-term and long-term impacts to reserve funds, credit lines, commercial negotiations, and PPA covenants.	Director of Finance