

## VALLEY CLEAN ENERGY ALLIANCE

### Staff Report – Item 10

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**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 8, 2022

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#### RECOMMENDATION

Accept the Bi-annual Enterprise Risk Management Report – September 2022.

#### 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 March 2022 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 March 2022 to the Board, 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 2022

Valley Clean Energy

# Enterprise Risk Management Report

September 2022

**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 March 2022.

# 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 2nd of VCE's biannual risk reports for 2022; the prior ERM biannual Report was issued on March 2022.

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 September of 2022

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 Executive Director 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 2022 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. Reduced the 2020 - 2022 RPS targets to maintain VCE's rate policy and partially mitigate the use of reserve funds during the transition to long-term power purchase agreements savings of ~\$3.75M.

3. Executed 5 power purchase agreements, including 4 through California Community Power, PV plus storage, long duration storage, and geothermal technologies.
4. Adopted a cost recovery-based customer rate policy for 2022, expanded customer rate options for 2023, collections policy, and debt policy to stabilize and support establishing a credit rating.
5. Secured a short-term \$5M line of credit with the County of Yolo and a 2-year line of credit for \$11M with River City Bank for 2022-2023 cash flow requirements.
6. Development and launch of AgFIT pilot program that provides growers with incentives for irrigation automation and uses scheduling software, to better manage energy costs.

## 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 2022:

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. Capital availability/cash flow
4. Power Charge Indifference Adjustment ("PCIA") adjustments
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 2022 decreased by 57%. The 2023 PCIA rate is expected to decrease with current forward market prices. Continued uncertainty around PCIA and the impacts on bundled rates will remain for future years until a sunset date is established.		
Commodity Procurement	The 2022 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.		
Capital availability/cashflow	Capital / Cashflow Risk has been slightly reduced through the adoption of the new cost recovery rate policy and renegotiated lines of credit with River City Bank.		
Economic Uncertainty	The risk that 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 (non-time of use (TOU), PCIA, demand charges, varying generation rates) has been reduced with an updated rate policy and additional rate/ product option for 2023. 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.		

Risk	Description	Current Residual Risk	Target Residual Risk
<b>Financial Markets Volatility</b>	Swings in global energy markets, financial markets, and currencies due to current geopolitical events (e.g. Russian invasion of Ukraine) have created challenges that impact VCE's short-term power costs.		
<b>Changing customer expectations</b>	Risk that customer's changing expectations as a result of innovation may result in reduced customer revenue and loyalty		
<b>Opt-out rate</b>	The risk of higher than expected opt-out levels has increased with rising rates in both electricity and gas, which could adversely affect opt-out rates. VCE will implement the "Base Green" product option to minimize opt-out activity and perform outreach as necessary.		
<b>Business model</b>	Ability to quickly identify and respond to business risks that have the potential to impact the ability to achieve VCE goals.		
<b>Media &amp; Community</b>	Risk of unfavorable public communications or events; spillover customer dissatisfaction related to PG&E's PSPS		
<b>Unknown risks</b>	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 <sup>1</sup>	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>3) Work towards stabilization and reduction of the PCIA from a regulatory and legislative standpoint</p>	The 2023 PG&E PCIA forecast is expected to decrease. VCE will continue to monitor Energy Resource Recovery Account (ERRA) proceedings related to the 2023 PG&E PCIA and bundled rate setting.	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	<p>Execution of PPA contracts</p> <p>Regulatory rulings that affect commodity procurement cost and RA cost</p>	Director of Power Procurement

<sup>1</sup> Current trend of risk for VCE- increasing  , no change  or decreasing 

Risk Event	Response	Trend <sup>1</sup>	Plan	Trigger/Control	Owner
			<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 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>		
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 support from CalCCA legislative committee</p> <p>2) Follow and continue to update the annual VCE Legislative Platform</p>	<p>Weekly CalCCA Regulatory and Legislative Committee meetings</p> <p>Regulatory rulings</p> <p>Legislative actions</p>	Executive Officer

Risk Event	Response	Trend <sup>1</sup>	Plan	Trigger/Control	Owner
			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		
Capital Availability/ Cash Flow	Monitor risk & actively engage and respond		<p>1) Continue towards conserving cash, reduce 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 &amp; renewals has been extended to 2024.</p> <p>VCE is securing a Financial Advisor to assist in establishing VCE's initial investment grade credit rating.</p> <p>Implement VCE Collections Policy</p>	Director of Finance

Risk Event	Response	Trend <sup>1</sup>	Plan	Trigger/Control	Owner
Rate Structure	Reduce & manage risk		<ol style="list-style-type: none"> <li>1) Monitor and update Board based on analyst forecasts for ERRA proceeding.</li> <li>2) Identify and mitigate risks outside of VCE control to limit impacts and frequency of rate changes.</li> <li>3) Review and update rate policy for cost -recovery based model</li> </ol>	<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