

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 17

TO: Valley Clean Energy Alliance Board of Directors

FROM: Lisa Limcaco, Finance and Operations Director, VCEA
Mitch Sears, Interim General Manager, VCEA

SUBJECT: Bi-annual Enterprise Risk Management Report

DATE: July 11, 2019

RECOMMENDATION:

Accept the Bi-annual Enterprise Risk Management Report – July 2019.

BACKGROUND & DISCUSSION:

In 2018, the Board approve VCE's Enterprise Risk Management (ERM) Policy. The ERM policy contained the following information:

- **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 two enterprise risk reports that will be provided on a regular basis: a quarterly report to the EROC and bi-annual report to the Board.

Staff has used the consistent framework described the ERM policy to identify various risks and related mitigations, and to ensure effective mitigation and communication across all levels. The ERM bi-annual report describes specifically the activities that took place since the adoption of the ERM Policy in 2018.

Attachment:

Bi-annual Enterprise Risk Management Report – July 2019

Valley Clean Energy

Enterprise Risk Management Report

7-11-2019

PURPOSE:

The purpose of this report is to provide the first bi-annual enterprise risk management report, specifically regarding the activities that took place since the adoption of the Enterprise Risk Management Policy in 2018.

Executive Summary

Introduction and Background

In 2018, the Valley Clean Energy (VCE) Board approved the recommendation to adopt an Enterprise Risk Management (ERM) framework to provide the Board with transparency and 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 and periodic reporting of risks.

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 all categories of risk and provide a complete picture of risk to the Enterprise Risk Oversight Committee (EROC).

ERM Philosophy

The ERM philosophy embeds 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 that evaluates the trade-off between risk, cost of mitigation and opportunities across all business functions. This approach addresses the following issues:

- Roles and responsibilities
- Consistent definitions and language
- Risk heat map and risk exposure inventory
- Risk exposure monitoring and continuous updates
- Integration of ERM with key business processes
- Integration of risk awareness into corporate culture

This framework supports the Board to exercise its overall responsibilities to:

- Regulate appropriate 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 2018 Activities

From an implementation perspective, in 2018, there has been progress 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 our management a consolidated view of the risks being faced by VCE and the potential impact.

Staff is using a consistent framework to identify various risks and related mitigations, and to ensure effective mitigation and communication across all levels. In doing so, staff has completed the following developmental tasks:

1. Established Interim General Manager as Chief Risk Officer and establish 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

VCE's Risk Portfolio

Key Risks

























Key risks are those risks that, given VCE's current position, could have the ability to threaten its business model, future performance or prospects, solvency, liquidity, reputation, or prevent it from delivering on its promise. These key risks are updated on an on-going basis and looks forward over a 5-year horizon to identify the:

1. Nature and extent of risks facing VCE;
2. Likelihood and velocity of the risks and potential impacts; and
3. VCE's ability to reduce or control the risk;



Key Priorities for Risk Management in 2019

1. Maintaining the operational risk management process:



Risk Portfolio


Risk	Description	Current Residual Risk	Target Residual Risk
PCIA	Risk that PCIA rate could increase as a result of CPUC decision		
Regulatory & policy risk	Risk of additional regulatory requirements increasing complexity and cost of operations		
Rate structure	Risk of rate design not following marginal costs (non-TOU PCIA, demand charges, varying generation rates)		
Media & community	Risk of unfavorable public communications		
Opt-out rate	Risk of higher than expected opt-out level		
Cyber security & data privacy	Risk of data breach as a result of a cyber breach or physical attack		
Commodity Procurement	Risk of fluctuations associated with commodity prices		
Economy-business agility	Risk that customers will be impacted by poor economy, lowering or flat revenue impacting VCE growth opportunities		
Capital availability/cashflow	Risk that VCE is unable to secure affordable financing		
Business model	Ability to quickly identify and respond to business risks that have the potential to impact the ability to achieve VCE goals.		
Financial Markets Volatility	Swings in global financial markets and currencies may create significant challenges that VCE will have to address		
Changing customer expectation	Risk that customer's changing expectations as a result of innovation may result in reduced customer revenue and loyalty		

Summary of VCE top risk response plan

Risk Event	Response	Trend ¹	Plan	Trigger/Control	Owner
PCIA	Reduce risk		1) In 2019, changed VCE rate structure to match PG&E rates and adopted a Dividend Program 2) Direct involvement with PCIA Phase 2 workgroups to develop guidelines on methodology of calculation of PCIA based on the CPUCs Alternative Proposed Decision	CPUCs annual approval of PG&E's PCIA rate within the Energy Resource Recovery Account (ERRA) forecast	Lisa Limcaco
Regulatory & policy risk	Accept risk & monitor		1) 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) Active role in appealing various regulations through the CPUC proceedings along with support from CalCCA Regulatory Committee	Weekly CalCCA Regulatory and Legislative Committee meetings	Mitch Sears

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

Risk Event	Response	Trend ¹	Plan	Trigger/Control	Owner
Rate structure	Reduce risk		<ul style="list-style-type: none"> 1) In 2019, changed VCE rate structure to match PG&E rates and adopted a Dividend Program 2) Obtain favorable long-term renewable power contracts to keep power costs low 3) Direct involvement in annual PG&E ERRA proceedings to appeal any changes in cost recovery methodology 	<ul style="list-style-type: none"> 1) CPUCs annual approval of PG&E's Energy Resource Recovery Account (ERRA) forecast 2) Annual determination of customer dividends based on audited financial statements 	Lisa Limcaco
Media & Community Relations	Accept risk & monitor		<ul style="list-style-type: none"> 1) Develop and maintain relationship with print and mass media 2) Work with marketing firm to develop positive social media presence and good customer relations. Develop metrics to measure success. 3) Develop a plan to prevent and respond to negative public perceptions 	Develop metrics to measure success of marketing programs	Jim Parks

Risk Event	Response	Trend ¹	Plan	Trigger/Control	Owner
Opt-out rate	Reduce risk		<ul style="list-style-type: none"> 1) Develop customer outreach/marketing explaining rates and communicate additional benefits of VCE 2) Obtain favorable long-term renewable power contracts to keep power costs low 3) Accelerate building cash reserves immediately to offset any rate structure impacts of PG&E 4) In 2019, changed VCE rate structure to match PG&E rates and adopted a Dividend Program 5) Direct involvement in annual PG&E ERRA proceedings to appeal any changes in cost recovery methodology 	<ul style="list-style-type: none"> 1) Monthly report from SMUD on status of Opt-outs 2) CPUCs annual approval of PG&E's Energy Resource Recovery Account (ERRA) forecast 	Jim Parks/Lisa Limcaco