VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Agenda Item 8

TO:	Valley Clean Energy Alliance Community Advisory Committee
FROM:	Mitch Sears, Interim General Manager Toni Hoang, Sacramento Municipal Utility District (SMUD)
SUBJECT:	Enterprise Risk Management Policy
DATE:	March 12, 2018

RECOMMENDATION

Recommend that the VCEA Board adopt the attached Enterprise Risk Management Policy.

BACKGROUND AND ANALYSIS

The Enterprise Risk Management Policy was revised for clarity following the CAC and Board review in February. The updated draft, included in Attachment 1, contains two new sections: Business Practices and Management Reporting and Metrics.

- 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 provided on a regular basis: a semi-annual report to the EROC and annual report to the Board.

CONCLUSION

Staff is seeking a recommendation from the Community Advisory Committee in support of Board adoption of the attached Enterprise Risk Management Policy.

Attachment

1. Enterprise Risk Management Policy

DRAFT

Valley Clean Energy Alliance
Enterprise Risk Management Policy

Adopted: _____

Table of Contents

1   Introduction

1.1   Background and Purpose

Valley Clean Energy Alliance (VCEA) is implementing an Enterprise Risk Management (ERM) program to provide a structured, disciplined, and consistent approach to risk management that facilitates risk-informed decision making throughout the organization. ERM supports VCEA in aligning strategy, processes, people, and technology for the purpose of evaluating and managing uncertainties in executing its mission. By strategically managing risk, VCEA can proactively reduce the chance of loss, identify and take advantage of opportunities, create greater financial stability, and protect its resources to support its mission and create value for its members.

This policy has been established to ensure appropriate identification and evaluation of risks associated with all VCEA activities, and to ensure that these risks are managed to an acceptable level.

1.2   Enterprise Risk Management Objective

This ERM Policy (Policy) establishes VCEA's ERM Program (Program) and ensures that risk management assessments and decisions are based on a consistent approach and a common language.

The objective of the Policy is to provide a framework for identifying, assessing, responding to, managing, and communicating risks and opportunities to help VCEA achieve its objectives. The framework provides the means to embed risk management as a core competency in VCEA operations, enabling it to apply consistent risk management practices at both the enterprise-wide level and within each program in a way that facilitates risk-informed decision making at all levels.

The ERM objectives are to:

- Provide the VCEA Board with transparency and insight into risks that could impact the ability to execute VCEA's mission.
- Implement well-defined risk management process, tools and techniques.
- Identify current and emerging risks, and prioritize and develop response plans when necessary.
- Increase the likelihood of success in achieving the VCEA's objectives.
- Build credibility and sustain confidence in VCEA's governance by all stakeholders including private, federal, state, and local partners.
- Improve the understanding of interactions and relationships between risks.
- Establish clear accountability and ownership of risk.
- Develop the capacity for continuous monitoring and periodic reporting of risks.

1.3   Statement of Risk Policy and Risk Appetite

VCEA's approach is to conservatively manage its exposure to financial, legal, compliance and regulatory, operational, strategic, and reputational impacts while accepting and balancing risk taking in pursuit of its mission and objectives. It recognizes that its appetite for risk varies according to the activity undertaken, that acceptance of risk is subject to ensuring that potential benefits and risks are fully understood before taking action, and that sensible measures to mitigate risk are established.
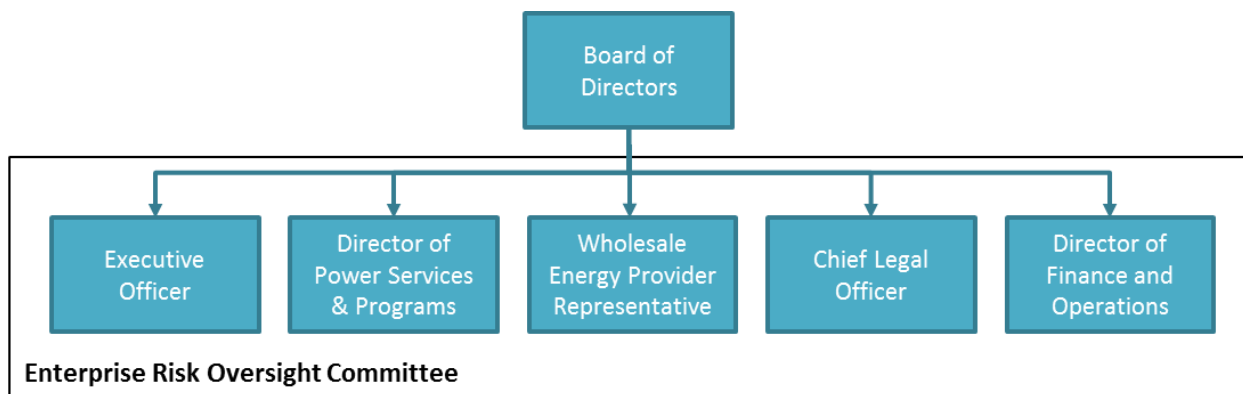
1.4   Policy Administration

The Board must approve amendments to this Policy.

2 ERM Roles and Responsibilities

2.1 Enterprise Risk Management Organizational Structure

Please refer to the Wholesale Power Procurement & Risk Management Policy, Section 3 for the ERM Risk Management Structure.

### 2.2 Enterprise Risk Oversight Committee (EROC)

In addition to the EROC roles as outlined in Section 3 of the Wholesale Power Procurement & Risk Management Policy, the EROC is also responsible for overseeing the development and implementation of processes used to analyze, prioritize, and address risks across VCEA. The EROC is responsible for establishing risk appetite and risk tolerance levels to ensure that risks are managed to create value for VCEA members in a manner which is consistent with this policy.

In addition to the authorities outlined in Section 3 of the Wholesale Power Procurement & Risk Management Policy, the EROC maintains the additional authority and responsibility to:

- Approve ERM processes and risk appetite and risk tolerance guidelines;
- Receive and review ERM reports as described in this Policy;
- Maintain this Policy; and
- Perform any other activities consistent with this policy and governing laws that VCEA's Board determines are necessary or appropriate.

3 Business Practices

To develop a better understand of risks, a formal risk management process will be used (see diagram below).
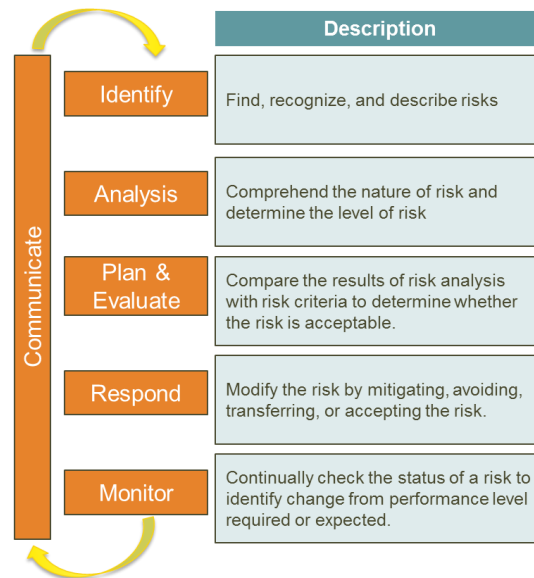
At each stage of the risk management process, tools and/or techniques appropriate to VCEA's objectives, resources and capabilities shall be used. The portfolio manager shall recommend appropriate tools for proper risk identification, assessment and management.

3.1 Identify

The process begins with the identification of risks to the enterprise. Initially a set of risks will be identified through the use of surveys and staff brainstorming sessions. In the course of normal business operations, internal and external risks that could impact VCEA's achievement of set objectives are identified at various points in the business cycle. During strategic/business planning, the portfolio manager will help facilitate risk based conversations to help identify risks to the organization's objectives. Throughout the year, risk assessments, scans and/or surveys are performed where appropriate. VCEA risk management staff review the output from internal monitoring and assurance activities to identify gaps and emerging risk areas.

3.2 Analysis

After potential risks have been identified, risks are analyzed, considering likelihood, velocity (timeframe over which a risk could materialize) and impact to VCEA of a given outcome. While much of the risk assessment and analysis may be subjective, where appropriate, tolerance levels are adopted to serve as a guide for managing risks.

3.3   Plan & Evaluate

This phase is intended to assist in making decisions, based on the outcomes of the risk analysis, about which risks need to be further mitigated and the priority for the implementation. During this phase, the results of the risk assessments are compared with the agreed upon risk tolerance levels to determine whether the current level of exposure is acceptable. In addition to consideration of the risk analysis, Staff shall balance the cost of risk mitigation strategy implementation against the benefits to be derived.

3.4   Respond

Risk response is the process of developing strategic options and determining actions to enhance opportunities and reduce threats to VCEA. At this stage, appropropriate actions are developed to either get ahead of events in order to avoid exposure to the risk, or to respond to events in order to mitigate the impact of such risk. The process ensures that each risk requiring a response has an owner monitoring the response. When considering the response methodology, it is important to recognize the impacts of the decision as well as the capabilities of the organization to implement and maintain the response.   Where appropriate, metrics will be established and/or adopted to help serve as early warning signals.

3.5   Monitor

Staff will be responsible for monitoring and measuring risk mitigation recommendations, risk trends and metrics to ensure the cost-effectiveness of the controls and introduce improvements when appropriate. Staff is responsible for reporting to the EROC and to the Board on the status of high priority enterprise risks.

4 Management Reporting and Metrics

The Portfolio Manager will work with the EROC to establish an appropriate reporting format and metrics for VCEA staff to use in reporting enterprise risks. The reports will show metrics, status and additional mitigations where appropriate. In addition, emerging risk evaluation and discussion will be integrated into the reporting and monitoring process.

- **Semi Annual Report to EROC**

Staff will report semi-annually to the EROC on the status of enterprise risks.

- **Annual Report to Board**

Staff will report annually to the Board on the status of enterprise risks.