Agenda Item 7.1
Community Choice Energy Program
Risk Management Quarterly Report
February 2018
Risk Management Policy

• Establishes goals and success metrics:
  – Maintain rates competitive with PG&E’s
  – Build program reserves

• Identifies risk types

• Describes business practices

• Describes Risk Management Team makeup

• Delegates authority for energy transactions

• Calls for quarterly risk management report to Board – hence today’s presentation

Policy is in need of some minor updates – coming later in 2018
• Meets monthly via web conference
• Agenda typically includes
  • Power market update and procurement planning
  • California Independent System Operator (CAISO) performance
  • Congestion Revenue Right (CRR) performance
  • RCEA CCE program outlook
• Emerging issues are brought up and discussed by TEA and RCEA staff as needed between risk team meetings

* Director of Finance and HR also participates in the team and will be proposed as a team member in an updated version of the Risk Management Policy.
Delegation of procurement authority

<table>
<thead>
<tr>
<th>Position</th>
<th>Maturity Limit</th>
<th>Term Limit</th>
<th>Volume Limit (MWh)</th>
<th>Value Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Management Team</td>
<td>30 Months</td>
<td>24 Months</td>
<td>500,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Executive Director</td>
<td>24 Months</td>
<td>18 Months</td>
<td>375,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>TEA</td>
<td>18 months</td>
<td>12 Months</td>
<td>250,000</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

1Volume limit applies only to energy purchases.

2Value limits apply to non-energy product transactions (e.g., Resource Adequacy and Renewable Energy Credits.

Transactions exceeding any one limit shown for Risk Management Team are presented to the Board for discussion and approval.

Example: DG Fairhaven contract brought before the Board in January is for 12 months and <500,000 MWh; however, its estimated value is approximately $2.8M, above the RMT value limit.
Risk Types as ID’ed in Risk Management Policy

• Market risk
• Regulatory risk
• Volumetric risk
• Model risk
• Operational risk
• Counterparty credit risk
• Reputation risk
Market Risk

• Addressed through tracking market performance
  – Forward-looking financial model tracking program
    headroom is updated daily and available to RCEA staff via
    TEA’s online customer portal
  – TEA provides RCEA with daily end-of-day reports showing
    daily market results for RCEA and at CAISO system level
  – Hedgefox tool allows TEA to perform probabilistic modeling
    of market scenarios to aid in decision-making

• PG&E rate forecast from MRW Associates, based on
  publicly available CPUC filings, used by TEA in their
  financial model – key to delivering CCE customer rate
  savings (Note: proposed rates being brought to the
  Board today were set based on actual PG&E rates
  published 2/16/2018)
Regulatory Risk

- Multiple factors at work
  - Unresolved PCIA (exit fee for unbundled IOU customers) proceedings
  - Integrated Resource Plan – could affect procurement requirements for CCAs
  - AB 1110 (“Ting bill”) implementation – could affect GHG accounting
Volumetric Risk

• Load
  – Opt-outs have been lower than predicted, leading to greater load than was modeled in planning program – positive net revenue impacts

• Generation
  – Some HRC outages have led to less biomass generation than forecast by HRC
  – RPS still well above PG&E’s level
  – Will overprocure RPS in 2018 to address risk of under-delivery by local (biomass) contracts
Model Risk

• Risk that TEA’s financial model fails to accurately predict outcomes

• Addressed through
  – daily updating of model with latest available information
  – use of multiple scenarios, e.g. PCIA stress test
  – comparing predictions after the fact with actual outcomes and adjusting model parameters
Operational Risk

• This risk is largely “outsourced” to TEA, who have lead responsibility for product transactions (energy, RPS, carbon free, RA, CRRs) and delivery scheduling

• The value of this risk is incorporated in the fees RCEA pays TEA
Counterparty Credit Risk

• Also minimized by using TEA’s services and creditworthiness
• Bilateral contracts, active and pending, include pre-delivery and delivery term security deposits to protect RCEA against non-delivery or under-delivery
Reputation Risk

- Reputation w/ respect to customers monitored via opt-up and opt-out rates; staff discussion and analysis of customer service calls
- Reputation w/ respect to counterparties: HRC appears happy with our business processes, has not contested monthly settlements
- RCEA staff communicate and meet frequently with staff of other CCAs to share best practices in working with customers and counterparties
Business Practices

Risk Management Plan discusses:

• Conflict of interest
• Statutory requirements
• Counterparty suitability
• Transaction approval
• Stress testing

To date these mechanisms have performed satisfactorily with no identified conflicts or policy violations
Identified Areas for Improvement

• TEA will more regularly provide updates on how RPS and carbon-free percentages are tracking against planning targets

• RCEA needs to increase engagement on regulatory monitoring and analysis, be it through CalCCA, consultants, or eventually a dedicated staff position (as most other CCAs do)
2018 Retail Revenue Scenarios: Cash Flow
Continuing with 2017 Rates vs. 3% Discount to PG&E

$50,903,619
$47,407,460

Monthly Revenue 2017 Rates
Cumulative Revenue 2017 Rates

Monthly Revenue w/Rate Increase
Cumulative Revenue w/Rate Increase

May 23, 2017
2018 Net Revenue: Cash Flow

Continuing with 2017 Rates vs. 3% Discount to PG&E

May 23, 2017
2018 Net Revenue: Accrual
Continuing with 2017 Rates vs. 3% Discount to PG&E

Cumulative Net Revenue with 2018 Rate Increase
Cumulative Net Revenue Extending 2017 Rates

May 23, 2017