

## Appendix D-2: ENERGY RISK HEDGING STRATEGY

This is a supplemental document to Appendix D of RCEA’s Energy Risk Management Policy (ERMP). The purpose of this appendix is to detail procurement schedules, or where appropriate justify the decision not to set schedules, for attaining wholesale products required to support the Community Choice Aggregation (CCA) Program portfolio.

The energy hedging schedules described in the Fixed Price Energy section below provide a disciplined approach to procurement by mandating targeted hedge levels to be achieved by definite dates. This commonly utilized approach is intended to mitigate speculation of future wholesale market prices while also spreading procurement over a multi-year period. A key goal of the CCA program is to reduce energy price uncertainty for the upcoming operating year(s) by procuring at least 70 percent and up to 100 percent of its energy needs with fixed price contracts thereby mitigating exposure to unexpected price movement.

RCEA currently does not have programmatic procedures assigned to Renewable Portfolio Standard, Carbon Free Energy, or Resource Adequacy products, for reasons discussed below. Procurement of these products is primarily driven by RCEA Board-adopted goals and regulatory compliance requirements, which in many cases apply prescribed hedging schedules.

### Fixed Price Energy

The targets below describe minimum and maximum percent hedge targets for identified future time periods. The definition of “Hedge %” in this context is the total fixed price megawatt hours (MWh) procured in the period divided by the total forecast load in MWh inclusive, as applicable, of the energy forecast to be provided by PPAs and other long-term resources within RCEA’s portfolio during respective time periods.

RCEA will observe the following schedule when hedging its Fixed Price Energy requirements:

<b>Time Period</b>	<b>Minimum Hedge %</b>	<b>Maximum Hedge %</b>
Prompt Month (Jan-March/Q1)	80%	115%
Prompt Month (April-June/Q2)	70%	105%
Prompt Month (July-Sep/Q3)	80%	125%
Prompt Month (Oct-Dec/Q4)	70%	115%
Prompt Calendar Year (PCY)	70%	100%
PCY +1	50%	100%
PCY +2	30%	100%

The hedge schedule for the Prompt Month will be measured five calendar days prior to the first day of the particular month (*e.g. on January 27, 2023, RCEA will have hedged 80 to 115 percent of its projected energy requirements during February 2023, which is in Q1*).

The hedge schedule for the Prompt Calendar Year (PCY), as well as subsequent two calendar years, will be measured ten calendar days prior to each new calendar year (*e.g. on December 21, 2021, RCEA will have hedged at least 70 percent of its forecast energy requirements for CY 2022, 50 percent of its*

*forecast energy requirements for CY 2023, and 30 percent of its forecast energy requirements for CY 2024).*

### Peak / Heavy Load Hour (HLH) Energy Minimum Hedge

The targets described above represent total fixed-price MWh procured compared to total MWh load forecasts. They are intentionally not instructive regarding diurnal periods (HLH/LLH or Peak/Off Peak) which allows flexibility in procurement strategy given rapidly evolving market dynamics. Historically Peak/HLH periods contain the most price risk. Accordingly, **RCEA additionally requires HLH periods to be procured to a minimum 100% hedged level, using the same definition above, for Prompt Months.**

### Summer Assessment

RCEA will complete a Summer Assessment of market risk and hedging plan by June 1 of each year. This work product will be shared in draft form with the RCEA Risk Management Team in May of each year and will include:

- analysis of summer exposure,
- fundamental analysis of market conditions,
- hourly load/resource balance forecast for June-September, and
- recommendations on products and target hedge levels designed to mitigate peak hour and daily HLH exposure.

Although compliance with the ERMP schedule in this appendix will be measured monthly, RCEA shall endeavor to complete all Q3 hedging prior to June 15 of each year, subject to and allowing for true-ups as load and generation profiles fluctuate throughout the summer season.

### Compliance & Goal Driven Procurement

This section covers procurement undertaken primarily to meet compliance requirements set by regulatory authorities and/or to meet Board-adopted goals that underlie the purpose of RCEA's existence as a local procurement agency. This updated appendix omits the hedging target matrices for these power products that were included in the prior version.

### Renewable Portfolio Standard (RPS)

RCEA has a compliance mandate to procure sufficient renewable energy to meet the state of California's RPS requirements, based on multi-year compliance periods, as well as Board-adopted goals to procure a 100% renewable and carbon free energy portfolio by 2025 and a 100% local energy portfolio by 2030, subject to availability of sufficient local renewable energy resources. These Board-adopted goals currently exceed state compliance mandates.

RCEA has procured several fixed-price long-term renewable contracts to support meeting RPS compliance mandates and Board-adopted goals, such that its long-term energy portfolio offsets energy price risk due to the corresponding decreased reliance on short-term energy procurement. As such, programmatic hedging targets for renewable and carbon free energy are a less effective hedging tool, and consequently do not provide incremental risk reduction given the complexities involved in establishing a growing long-term renewable portfolio.

As a result, RCEA staff undertake an annual assessment of the entirety of the program's renewable energy procurement activities with respect to both state compliance mandates and Board-adopted

goals. This analysis, which includes qualitative and stochastic risk assessment, feeds into RCEA's renewable procurement timelines as well as two CPUC compliance filings: the RPS Procurement Plan and the RPS Compliance Report. The analysis is updated on an ad hoc basis throughout the year as a function of changing market dynamics or new procurement mandates.

### Carbon Free Energy

RCEA has Board-adopted goals regarding the procurement of Carbon Free Energy in addition to its renewable energy procurement. However, the majority of RCEA's renewable energy is also carbon-free, which means that the analysis that drives RCEA's renewable procurement decisions will also underlie RCEA's supplemental Carbon Free Energy procurement. Additionally, the Carbon Free Energy market is currently relatively illiquid due to drought conditions, and thus programmatic procurement of this product is may not be possible. For these reasons, RCEA staff intend to utilize the annual renewable procurement planning and analysis process to also plan for Carbon Free Energy procurement rather than utilizing programmatic hedging targets.

### Resource Adequacy

RCEA will use best reasonable efforts to comply with the filing requirements of the CAISO- and CPUC-administered Resource Adequacy (RA) program, currently:

- 90% of System and Flexible RA requirements procured prior to the year-ahead RA showing on October 31<sup>st</sup> of the year prior to the showing year.
- 100% of System and Flexible RA requirements procured prior to the month-ahead RA showings, due 45 calendar days prior to the first day of the showing month.

As of the 2023 RA compliance year, procurement of local RA is solely the responsibility of the Central Procurement Entity (CPE) in PG&E's service territory, the only territory in which RCEA serves load. Therefore, beyond 2022, RCEA no longer has a regulatory obligation to procure or show local RA to the state agencies. Instead, RCEA has the option to self-show or sell its local RA capacity to the CPE to obtain some value for it.

Due to the nature of RA markets, monthly products are often bundled with other products or "strips" of multiple months of RA, which may result in over-procurement for one or more months as a necessary condition to satisfy compliance requirements in one or more other months. Execution of long term PPAs can also lead to over-procurement of RA products for future years, and inclusion of a defined hedging matrix might require selling excess long-term RA to bring RCEA into hedging compliance, even though such action may not be in RCEA's best business and operational interest. Lastly, compliance guardrails exist at the regulatory level which guide the RA procurement schedule for RCEA and all other LSEs.