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Risk Management Policy

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1 Overview

This Risk Management Procedures and Controls for Transactions in the California Independent System Operator (CAISO) Markets (Risk Management Policy or RMP) establishes criteria and processes for transacting in the CAISO markets. The CAISO markets in which Peninsula Clean Energy participates and to which these policies apply include the following:

- Energy and Ancillary Services Markets
 - Load Schedules
 - Inter-Scheduling Coordinator Trades (IST)
 - Import/Export Schedules
 - Generation Schedules
- Congestion Revenue Rights

The Risk Management policy consists of the following components:

- Objectives
- Roles and Responsibilities
- Risk Exposure and Controls
- Training
- Monitoring and Reporting

2 Objectives

The objectives of the RMP are to:

1. Establish the foundation for interacting in the CAISO markets for Peninsula Clean Energy's load, resources, trades and Congestion Revenue Rights (CRRs);
2. Ensure that participation in the CAISO markets are performed in compliance with established procurement authorities, the CAISO Tariff, applicable laws, regulations and orders;
3. Ensure that adequate funding is available to participate in CAISO markets;
4. Ensure that Peninsula Clean Energy staff and contractors are adequately trained to participate in the CAISO markets, understand associated risks and thoroughly comprehend and act in accordance with Peninsula Clean Energy's risk policies and procedures; and
5. Provide a mechanism to report and communicate CAISO market activity to Peninsula Clean Energy staff and management.

3 Roles and Responsibilities

Peninsula Clean Energy's Risk Management Policy ensures appropriate segregation of responsibility for policy approval, valuation and reporting, and trading.

The Peninsula Clean Energy Governing Board is responsible for approving the Risk Management policy and procedures.

The Enterprise Risk Management (ERM) Oversight Committee is comprised of the Chief Executive Officer and Chief Financial Officer and is responsible for overseeing modifications to and implementation of Peninsula Clean Energy's energy procurement, CAISO bidding/scheduling, and CRR management policy and processes.

The Trading Group (Front Office) is responsible for scheduling and bidding resources, load and counterparty transactions, and executing CRR transactions, consistent with this risk policy. In addition, the Front Office is tasked with complying with all controls, limits and procedures and immediately reporting to the Middle Office discrepancies or deviations from accepted practices, policies or procedures, including breaches of established trading and risk limits, unauthorized trading activities and failure of controls.

The Risk Group (Middle Office) is responsible for valuing and monitoring Peninsula Clean Energy's scheduling and bidding resources, load, counterparty transactions, and CRR positions. The Middle Office is also responsible for providing CAISO market and CRR activity reports to the ERM Oversight Committee and, within 24 hours of discovery, notifying the ERM Oversight Committee of transactions that are inconsistent with this policy. Middle Office supervision and management shall be independent from the Front Office.

The Settlement Group (Back Office) is responsible for confirming, verifying and settling CAISO market transactions, including CRRs executed by the Front Office. The Back Office is also responsible for immediately reporting to the Middle Office discrepancies or deviations from accepted practices, policies or procedures, including breaches of established trading and risk limits, unauthorized trading activities and failure of controls. Back Office supervision and management shall be independent from the Front Office.

The Front Office responsibilities will be primarily performed by SC agents. The Middle Office and Back Office responsibilities will be performed by PCE staff.

4 Risk Exposure and Controls

For day-ahead and intra-day scheduling and bidding into the CAISO markets, Peninsula Clean Energy's Scheduling Agent is authorized to submit load, supply and trades into the CAISO's markets consistent with expected load, contracted supplies and other resources owned or under control by Peninsula Clean Energy. Authorization is granted by Peninsula Clean Energy's Board of Directors which is responsible for approving the contractual arrangement between Peninsula Clean Energy and its Scheduling Agent.

Peninsula Clean Energy uses CRRs for the purpose of hedging congestion costs associated with serving its retail load. Peninsula Clean Energy participates in the CAISO CRR allocation process to obtain CRRs that protect against and minimize

congestion costs. CRR positions are limited to the Seasonal Eligible Quantity and Monthly Eligible Quantity caps as provided by the CAISO with all allocated CRRs sinking to PG&E DLAP or one of PG&E's corresponding SLAPs. All CRR transactions are executed and managed by Peninsula Clean Energy's Scheduling Agent, and confirmation of such transactions are provided to Peninsula Clean Energy personnel who are independent from the CRR trading function.

The table below lists authorized trading limits for personnel authorized to transact on behalf of Peninsula Clean Energy. The limits are expressed in terms of Value at Risk at the 95% confidence interval.

			Purchases	Sales		
Product	Transaction	Transaction	\$ Limit (Authorize	MW Limit (Authorize	\$ Limit (Authorize	MW Limit (Authorize
CAISO CRRs	Month	1 Month	\$1.0M	1,000MW	N/A	N/A
	Quarter	3 Months	\$3.0M	1,000MW		
	Year	1 Year	\$12.0M	1,000MW		
	Long Term	Up to 10 Years	Approval Required by Peninsula Clean	Approval Required by Peninsula Clean		

Peninsula Clean Energy’s policy addresses relevant risks as follows:

4.1 Counterparty Credit Risk

Counterparty credit risk refers to the potential for non-payment or default by the counterparty to a transaction. Peninsula Clean Energy’s load, resource, CRRs and trades are settled with the CAISO directly with Peninsula Clean Energy as a CAISO Scheduling Coordinator. Credit risk is mitigated due to the credit policies and procedures in place at the CAISO that require Peninsula Clean Energy to provide the CAISO with collateral consistent with market exposure.

4.2 Liquidity Risk

Liquidity risk refers to the potential inability of Peninsula Clean Energy to remit payment to the CAISO due to lack of funds readily available. Peninsula Clean Energy manages liquidity risk with the CAISO by ensuring that it has operational cash on hand and a reserve margin that accounts for funds if needed. In its normal course of business, Peninsula Clean Energy monitors its liquidity regularly. In addition, Peninsula Clean Energy performs scenario analyses to identify out-of-the-ordinary conditions that could potentially affect cash reserves and liquidity to preempt shortfalls.

4.3 Market Price Risk

Market risk refers to potential cost exposure resulting from changes in market prices for the underlying commodity.

In the CAISO energy and ancillary services markets, Peninsula Clean Energy manages market price risk by matching resources with forecast load within predetermined tolerances. Peninsula Clean Energy forecasts its load at an hourly granularity and procures supply on a forward basis via monthly, quarterly, annually and long-term bilateral contracts. Procurement is designed to off-set forecast load within tolerances designed to account for uncertainty in load forecast and supply availability. In this way, Peninsula Clean Energy limits its exposure to CAISO market prices by buying and selling nearly equal amounts of energy.

CRRs have positive value when congestion exists between the source and the sink associated with the CRR path, such that locational marginal prices are lower at the sources than at the sink. CRRs have negative value when the opposite is true. Peninsula Clean Energy uses CRRs to hedge against congestion costs, which are negatively correlated with CRR values, such that the potential adverse financial impacts of changes in CRR values and congestion costs are mitigated. Peninsula Clean Energy obtains CRRs through the CRR allocation process with the objective of attaining an allocation of CRRs that have consistently cleared with positive value.

4.4 Load and Resource Volumetric Risk

Peninsula Clean Energy manages energy delivery risks through portfolio diversity (varying resource type, geographical location, energy delivery pattern and optionality in its ability to dispatch resources to desired output levels). In addition, Peninsula Clean Energy supply contract provisions call for financial incentives or the ability to replace or substitute products in the event of non-delivery below a threshold. In that way, resources are incented to deliver energy per expectations, and Peninsula Clean Energy has the ability to dictate output as needed to match load or avoid negative priced settlement intervals.

Peninsula Clean Energy addresses load forecast accuracy risks by utilizing expertise from its scheduling and data management agents who have worked together to integrate historical usage data with forecasting algorithms to forecast and schedule load. Volume and financial accuracy are monitored daily and incorporated into future forecasts.

4.5 Operational Risk

Peninsula Clean Energy minimizes mistakes made by operators by ensuring that all operators (Peninsula Clean Energy staff and contractors) have read, understand and adhere to Peninsula Clean Energy's risk management policies and procedures, are trained and have experience sufficient to operate in CAISO markets and are staffed appropriately. In addition, Peninsula Clean Energy monitors CAISO market activity via reports and regular formal status updates and informal discussions and performs audits consistent with CAISO requirements and as deemed prudent by Peninsula Clean Energy.

Should an omission or accuracy mistake be made, Peninsula Clean Energy requires operators to notify appropriate personnel as soon as possible after discovery.

4.6 Market Change/Regulatory Risk

Peninsula Clean Energy manages market and regulatory change by actively monitoring CAISO stakeholder initiatives, CPUC proceedings, FERC activity and California and federal legislative activity. Peninsula Clean Energy relies on its own staff, contractors

and California Community Choice Association (CalCCA) to keep abreast of changes that could affect Peninsula Clean Energy.

5 Monitoring and Reporting

5.1 Monitoring

CRR values shall be monitored at regular intervals, with such intervals selected in consideration of the risk characteristics of Peninsula Clean Energy's CRR holdings, but no less frequently than monthly. CRR's shall be valued using prevailing industry practices including historical congestion analyses, forward pricing and volatility assessments, and auction clearing prices. Peninsula Clean Energy's Scheduling Agent will use its internal valuation systems to assess potential congestion and make recommendations to the Front Office for requesting CRRs in the monthly and annual allocation process. The Front Office shall enter all CRR transactions into a trade capture system, and the Back Office shall ensure that trade details recorded in the trade capture system are accurately reflected in the settlement system and shall report any discrepancies to the Middle Office and if necessary, the ERM Oversight Committee.

The value of Peninsula Clean Energy's CRR portfolio will be monitored by Peninsula Clean Energy Middle Office personnel using internal mark-to-market valuation models, run on a monthly basis. Value at Risk, or the amount that the value of the CRR can be expected to vary within a confidence interval, will be reported at the 95% Confidence interval. Changes in market value and Value at Risk shall be reported as set forth in 4.2. The Back Office will review and validate realized CRR value during the weekly settlement process, and include discrepancies relative to expected values, if any, in a weekly exception report.

Peninsula Clean Energy Middle Office personnel responsible for monitoring the value of Peninsula Clean Energy's CRR holdings shall be independent from those Front Office personnel engaged in transacting in the CAISO's CRR markets.

5.2 Reporting

The Scheduling Agent shall provide monthly reports on transactions in the CAISO market for the previous month. On an interval appropriate to each specific CAISO market, but in no circumstance on less than a monthly basis, the Middle Office shall monitor all CAISO transactions for conformance to expected outcomes. To the extent that the Middle Office identifies contingencies that are likely to result in an impact exceeding 5% of gross revenues, Peninsula Clean Energy shall report such contingencies and their proposed resolution to the ERM Oversight Committee. These contingencies shall include market value changes as well as consideration of credit risk and liquidity risk.

CRR positions shall be reported by the Scheduling Agent on a monthly basis to the ERM Oversight Committee. Reports shall include current CRR positions, changes in

CRR positions (volumes and dollar amounts) from the prior month, and the realized value of Peninsula Clean Energy's CRR portfolio in the prior month. Any material change in such CRR values or risks, including credit, liquidity, and market risks, shall be identified and summarized in the aforementioned report.

6 Training

Peninsula Clean Energy employees, contractors and agents' transactions in CAISO markets shall meet all training requirements set forth in the CAISO Tariff, Business Practices, or applicable CAISO Operating Agreement. Further, all such personnel shall certify that they have read and understand this Risk Management policy and the delegations of authority before being authorized to transact on behalf of Peninsula Clean Energy.

Reviewed and Approved by:

Jan Pepper – Chief Executive Officer, Peninsula Clean Energy

Date

