Policy Number: 23
Board Adoption: November 21, 2024

Peninsula Clean Energy Authority

Energy Risk Policy

Contents

1. Introduction

1.1. Background and Purpose

Peninsula Clean Energy (PCE) is committed to serving its local government members, as well as the residents and businesses within their respective communities. PCE's mission is to reduce greenhouse gas emissions by expanding access to sustainable and affordable energy solutions.

The Energy Risk Policy (ERP or Policy) is designed to ensure that PCE achieves its mission while adhering to the directives established by its Board of Directors (Board), industry best practices, its contractual obligations, and relevant laws and regulations.

PCE's energy procurement function is responsible for developing a supply portfolio that serves its customers' needs and preferences. PCE's Board and management acknowledge that certain risks are inherent in energy procurement operations.

To minimize risks, PCE procures energy in accordance with its Energy Procurement Objectives along with certain Board and Risk Oversight Committee (ROC) approved documents. In addition to this, PCE's energy procurement activities are bound by established limits and processes considered appropriate within the normal course of PCE's business.

1.2. Scope

The ERP is intended to govern transactions related to PCE's energy portfolio in order to meet customer needs and optimize energy transactions within applicable laws and regulations. The Policy administers the parameters for energy, capacity, Congestion Revenue Rights, and environmental attributes. The Policy applies to the Board, PCE staff, and consultants engaging in or supporting PCE's energy procurement activities.

1.3. Goals

As a not-for-profit organization, PCE does not engage in the risk-taking activities typical of for-profit organizations. However, certain risks are inherent to serving load. The ERP provides a framework for effectively managing risks associated with energy procurement and sales activities, to facilitate PCE meeting its strategic goals.

The goals and objectives of the ERP are as follows:

- Empower PCE to procure a portfolio of cost-effective and clean electricity sources, as outlined in its Integrated Resource Plan (IRP). This includes establishing guidelines to secure competitive prices for power supply, efficiently managing assets, and reducing exposure to market changes.

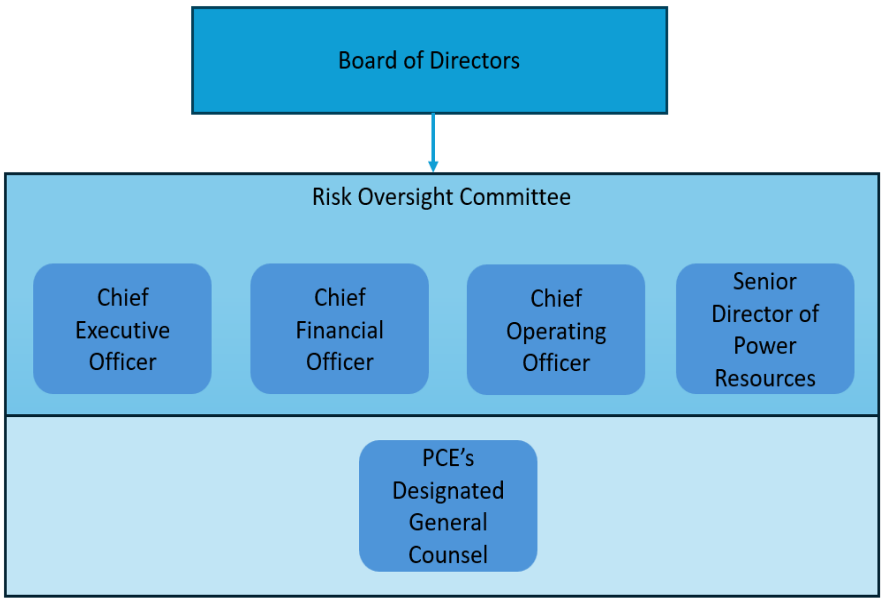
- Ensure that PCE's procured electricity sources align with its environmental goals and meet regulatory mandates, reinforcing a robust brand reputation and ensuring customer satisfaction and retention.
- Leverage PCE's existing organizational excellence to develop a compliance and risk culture. Use effective business practices and controls to identify, evaluate, and manage risks, maintaining transparency in PCE's risk management processes.

2. Governance

This section defines the overall roles and responsibilities for PCE's implementation of the ERP.

2.1. Risk Oversight Structure

Below is a high-level organization chart describing PCE's energy risk management governance.



2.1.1. Board of Directors

The Board understands and acknowledges that there is inherent risk in energy procurement. The ERP serves as a method to manage those risks. The Board is responsible for reviewing and approving the ERP. The ERP describes and quantifies PCE's risk exposure as a Community Choice Aggregator (CCA). The policies outlined in this document help PCE manage the associated risks with energy procurement.

The Board delegates the implementation and authority of the ERP and creation of the ROC to the Chief Executive Officer (CEO) and delegates the authority to the ROC to develop, implement, manage, and oversee the ERP.

The Board will review and approve changes to the Policy as needed. Additionally, the Board shall receive, at a minimum, bi-annual updates from the ROC on PCE's energy risk management activities.

2.1.2. Chief Executive Officer

The CEO holds overall responsibility for implementing the ERP. This responsibility includes ensuring the compliance of all affected PCE employees and contractors, communicating energy procurement identified risks and other relevant issues to the Board, establishing a ROC comprised of PCE staff, and delegating duties to the Risk Manager or other staff, as necessary.

2.1.3. Risk Oversight Committee

Under the ERP, the PCE Board of Directors (Board) delegates the formation and implementation of the Risk Oversight Committee (ROC) to the PCE CEO.

The ROC serves as the highest level of organizational risk management within PCE, and is responsible for developing, implementing, and maintaining the ERP. The ROC provides oversight of policy compliance and ensures that staff follow and integrate the ERP within PCE's programs, policies, and practices.

The CEO acts as the chair of the ROC. The voting members of the ROC include the CEO, Chief Financial Officer (CFO), Chief Operating Officer (COO), and the Senior Director of Power Resources, as shown in Section 2.1. PCE's General Counsel will be designated as a non-voting member of the ROC and their attendance to the ROC meetings is optional. The ROC meets quarterly, or as determined by the Risk Manager. The agenda and minutes for each meeting will be maintained by the Risk Manager. Each voting member of the ROC has one vote. A minimum of three voting members constitutes a quorum of the ROC and is required to hold a meeting and/or vote on any matter. Decisions will be made by majority vote. In addition to the voting members, the Risk Manager may serve as a voting member of the ROC as required in tie-breaker situations.

ROC voting and approval may be obtained via email. For email decisions, all voting members must submit their vote via email and decisions will be made by majority vote.

2.1.4. Risk Manager

The Risk Manager is the primary staff delegee of the CEO with responsibility for implementing the ERP. This includes educating PCE staff on energy risk management, overseeing internal controls and processes for energy procurement activities, and ensuring the compliance of all affected PCE employees and contractors with the ERP.

The Risk Manager's responsibilities also extend to communicating energy risk management issues to the Board, Executive Team[1], and division Directors; administrative and scheduling duties related to ROC meetings; and ensuring the timely provision of reports and review of metrics in compliance with this Policy.

The Risk Manager is also responsible for scheduling, creating agendas, and taking minutes for the ROC meetings.

2.1.5. Power Procurement and Finance Teams

The CFO and Senior Director of Power Resources, and their respective staff teams, are responsible for implementing the ERP at the operational level in PCE's Front Office, Middle Office, and Back Office, following the guidelines set out by the ERP, and reporting to the ROC as required.

2.2. Policy Administration

2.2.1. Policy Approval and Implementation

The Board is responsible for reviewing and approving the ERP. The Board delegates authority to the CEO to create a staff committee, the ROC, to implement the ERP under the supervision of the CEO.

2.2.2. Policy Review

An effective ERP requires responsiveness to dynamic market conditions and technology changes. The Board shall review and approve the ERP as needed to ensure the Policy aligns with PCE's energy risk management needs and energy procurement objectives.

2.2.3. Policy Distribution and Acknowledgement

This Policy shall be distributed to all PCE employees and third-party contractors participating in any activity or transaction within the scope of the ERP, and to other PCE employees providing oversight and support for these activities. The ERP will be posted and available on the Peninsula Clean Energy public website.

All identified PCE staff participating in any activity or transaction within the scope of the ERP, or in the case of a consultant, a delegated representative authorized to bind the consultant regarding ERP obligations, shall review and sign an acknowledgement of the ERP.

[1] PCE's Executive team consists of the CEO, CFO, and COO.

3. Energy Risk Exposures

3.1. Market Risk

The term Market Risk, as applied in this Policy, specifically pertains to the risk categories associated with PCE's involvement in wholesale and retail markets as a Load Serving Entity (LSE), as well as its stakes in long-term contracts. Market Risk includes fluctuation in market prices, locational prices, congestion, market liquidity, and line losses.

3.2. Counterparty Risk

Counterparty risk is defined as the potential for economic loss to PCE due to a counterparty's failure to meet contractual obligations. Counterparty risk affects both contracts requiring physical settlement and those specifying monetary settlement. Counterparty credit risk is the potential that a counterparty to PCE will fail to fulfill its obligations, causing an adverse effect to PCE's cash flow and operations. This includes the risk of a counterparty failing to pay for energy products delivered, and the risk that a counterparty refuses to extend credit to PCE, requiring PCE to allocate additional resources to meet collateral posting requirements, straining its cash reserves and lines of credit.

3.3. Concentration Risk

Concentration Risk occurs when heavily reliance on a small pool of counterparties or single counterparty increases an entity's vulnerability to counterparty non-performance or price fluctuations.

3.4. Operational Risk

Operational risk is the potential for loss or disruption caused by weaknesses in PCE's internal processes, people, or systems. It may include failures in internal business operations such as inadequate internal controls; personnel issues; the lack or failure of systems; human error; or internal fraudulent actions. Operational risk can lead to financial losses, reputational damage, or legal liabilities for the organization.

3.5. Liquidity Risk

Liquidity risk occurs when an entity struggles to meet its financial obligations, particularly on a short-term basis, due to a shortage of liquid assets or it being unable to quickly convert other assets into cash without significant loss. Potential effects of liquidity risk include the entity failing to make on-time payments or comply with collateral calls, a credit rating downgrade, the breach of credit covenants and thresholds, or declaration of default under a contract.

3.6. Regulatory Risk

Regulatory and legislative risks pose significant challenges to CCAs, driven by fluctuating state and federal regulations, legislative actions, and CAISO market developments. These risks include potential changes in market structure, threats to autonomy, increases in exit fees, and impacts on customer bases. Additionally, CCAs face competition with traditional utilities, potential stranded asset costs, and uncertainties regarding the allocation of these costs.

3.7. Volumetric Risk

Volumetric risk represents the risk of unforeseen changes in either the quantity of MWh that PCE may generate or procure to meet our customer's needs, or unforeseen changes in the quantity of MWh that our customers use.

Volumetric risk may occur on a short- or long-term basis, resulting in the over or under procurement of energy, which in turn may cause PCE financial harm. PCE faces a larger exposure to volumetric risk in its generation portfolio, compared with similarly sized and resourced CCAs, because of its focus on procurement from variable renewable assets, such as solar and wind.

Volumetric risk can be created by factors such as weather risk, hourly demand profile risk, technology risk, demographic risk, development risk, economic risk, and environmental risk.

4. Internal Energy Risk Controls

PCE's internal energy risk controls provide a framework for ensuring processes and procedures manage risk and prevent fraud. Controls are used in preventing errors and improprieties; identifying, measuring, monitoring, controlling, and tracking risk exposures; and ensuring accurate and timely reporting of results of energy portfolio positions, transactions, and other information pertinent to management. These processes and procedures provide critical information to inform actions and decisions that balance risks, costs, and benefits for PCE.

PCE's energy procurement processes and control systems are currently and shall remain fully integrated into all PCE activities and its strategic objectives, and are consistent with the following risk management control principles:

- Segregation of duties;
- Defined procurement authority and delegations;
- Ensuring adequate human and technological resources;
- Prevention of conflicts of interest;
- Accurate, timely, and effective energy procurement and risk reporting;
- Monitoring of compliance with and effectiveness of controls;
- Preserve integrity in PCE's procurement and contracting procedures;
- Complete and precise capture of transactions and other data; and
- Appropriate consultation with legal counsel.

4.1. Segregation of Duties

Segregation of duties is a key internal control which sets out to minimize error or fraud by ensuring that no person has the ability to both commit and conceal errors or fraud in the normal course of their duties. In PCE's case, segregation of duties ensures that no person responsible for engaging in a transaction on behalf of PCE is also responsible for reviewing or settling the same transaction.

PCE maintains a strong segregation of duties, with energy procurement and risk management functions segregated as detailed below. This structure provides independent and regular management oversight for both risk-taking and risk-control activities and allows for a clear separation of duties between the Front-Office transacting and Middle Office risk-control functions.

4.1.1. Front Office

PCE's Front Office is overseen by the Senior Director of Power Resources. Front Office activities include:

- Ensuring all transactions and activities adhere to the ERP;
- Forecasting PCE's load and generation;
- Preparing the energy procurement budget and Procurement Plan, IRP preparation, and hedging strategy development;
- Implementing procurement plans within approved parameters, including solicitation management, contract negotiation, recommendation, structuring and pricing, and contract execution;
- Oversight of SC functions and development of CAISO bidding and scheduling strategies;
- Recording transactions and maintaining accurate records per the ERP; and
- Compliance reporting.

4.1.2. Middle Office

PCE's Middle Office is overseen by the Chief Financial Officer. The Middle Office provides independent oversight of the risks assumed by the Front Office when transacting energy products and services. Middle Office activities include:

- Maintaining and managing the ERP;
- Scheduling and facilitating ROC meetings;
- Procurement and risk monitoring, measurement, and reporting;
- Onboarding new counterparties, including Edison Electric Institute (EEI) & Western Systems Power Pool (WSPP) Agreements, in coordination with Front Office staff;
- Credit risk oversight, issuance of collateral, maintenance of posted collateral, monitor and maintain collateral held, and counterparty credit review;
- Maintaining and managing approved counterparty list;
- Risk oversight and analysis to support the ROC;
- Investigating and reporting ERP breaches; and
- Compliance reporting.

4.1.3. Back Office

PCE's Back Office is overseen by the Senior Director of Power Resources and provides support with a wide range of administrative activities necessary to execute and settle transactions and support risk control efforts consistent with the ERP. Back Office activities include:

- Contract administration and counterparty management;

- Monitoring and enforcing counterparty performance;
- Onboarding developing and new projects;
- Recording and confirming new and amended contracts and transactions;
- Invoicing and settlement of energy procurement transactions; and
- Compliance reporting.

4.1.4. PCE Scheduling Coordinator Agent

PCE partners with experienced consultants to provide Scheduling Coordinator Agent (SC) services which support PCE's CAISO operations. The activities of the SC are managed, directed and held accountable by PCE's Front Office, and overseen by a combination of the Front, Middle, and Back Office teams.

PCE's SC is required to adhere to this ERP when providing services to PCE. In addition, the Scheduling Coordinator's activities executed on PCE's behalf will be governed by its own risk management policies and procedures, and prudent industry practices.

4.1.5. Auxiliary Functions

The Finance group is responsible for establishing the necessary financial reserves to support PCE's load and generation portfolio, and buffer PCE against credit risks related to counterparty credit.

4.2. Conflict of Interest

PCE Representatives are prohibited from personally participating in any transaction or similar activity that is within the coverage of this Policy and that is directly or indirectly related to the trading of energy products. In addition, PCE Representatives must also comply with PCE's Conflict of Interest Code.

Any voting member of the ROC must declare if a conflict of interest exists on a voting item(s) and abstain from voting on that specific item.

If there is any doubt as to whether a conflict of interest exists, it is the voting member's responsibility to document and discuss the possible conflict of interest with legal counsel prior to participation in discussions, meetings, or votes related to the transaction at issue.

4.3. Speculation Prohibited

Speculative buying and selling of any products in the ERP or maintenance of open positions that do not conform with the ERP is prohibited.

4.4. Contracting Procedures

PCE strives to use open and competitive solicitations where possible. With respect to energy transactions, this may include using Requests for Offer (RFOs) to collect and evaluate offers for short- and long-term transactions.

PCE's Board and management recognize that open solicitations are not a practical means for engaging in all energy transactions, and accordingly permits energy transactions through other channels.

5. Energy Procurement Objectives

The following objectives are prioritized by PCE in its energy procurement:

- Providing stable and affordable rates to PCE's customers;
- Meeting PCE's Renewable Energy Goals;
- Limiting exposure to risk;
- Complying with regulatory requirements; and
- Maintaining PCE's investment grade credit rating.

6. Energy Procurement Plan

The Energy Procurement Plan (Procurement Plan) is developed by PCE's Front Office annually, guided by certain documents and Board decisions which inform PCE's energy procurement strategy, as commercially feasible under current market conditions. Once approved by the ROC, PCE's compliance with the Procurement Plan is monitored by the Middle Office and included in periodic risk reports to the Board.

The following sections outline the documents in question, and the stakeholders responsible for approving those documents.

6.1. External documents governing PCE's Energy Procurement

Document	**Frequency**
CPUC Mid-Term Reliability Program	Per CPUC
CPUC Resource Adequacy Program	Per CPUC
CAISO Resource Adequacy Program	Per CAISO
CPUC Renewables Portfolio Standard Program (RPS)	Per CPUC
Senate Bill 100 (SB 100)	Per CEC
Other CPUC Mandated Procurement Programs[2]	Per CPUC

[2] State- or Fed-mandated procurement requirements, for example the CPUC's Mid-Term Reliability Procurement mandate and Resource Adequacy Program.

6.2. Board-Approved Documents Governing PCE's Energy Procurement

Document	**Frequency**
Integrated Resource Plan (IRP)	Bi-Annually
PCE's Strategic Plan[3]	As required
Annual Budget	Annually, or as required
Energy Risk Policy	As required
Board decisions prohibiting certain procurement	As required

6.3. ROC-Approved Documents Governing PCE's Energy Procurement

Document	**Frequency**
Forward Strategy Sheet	Quarterly, or as required

[3] Strategic Plan and associated Board documents.

7. Authority to Transact for Energy Procurement

To ensure proper controls for executing energy transactions and to facilitate the efficient operation of PCE in its ordinary course of business, the Board delegates authority to transact that is commensurate with responsibility and capability. Accordingly, by approving this Policy, the Board retains certain authority to transact, and delegates the following authorities to transact by product type, term, maturity, volume, and notional value to its ROC, staff, and Scheduling Coordinator (SC).

Authority delegated by the Board is subject to the transactions compliance with the limits, policies, and requirements outlined in the ERP.

7.1. Authority to Transact Retained by PCE's Board

Authority to transact retained by PCE's Board is detailed below:

Product Type	**Term (years)**[4]
Electricity Products	> 5
Resource Adequacy Products	> 5
Environmental Attribute Products	> 5
Other Approved Products	> 5
Contract Amendments (major)[5]	n/a

In addition to the above, the Board retains authority to approve any transactions not delegated to the CEO, ROC, and staff in this Policy.

[4] "Term" represents the number of years during which energy products will be delivered under the contract. When calculating the term of part-year contracts, PCE rounds up to the nearest full year.

[5] Amendments to a Board-approved contract that makes material changes to the terms of the contract including but not limited to, changes to price, volume, project size, counterparty security requirements, or other amendments that impact the evaluation criteria upon which a project was approved.

7.2. Authority to Transact Delegated to the ROC

Authority to transact delegated to PCE's ROC is detailed below:

Product Type	Term (years)	Maturity[6] (years)
Electricity Products	<= 5	<= 6
Resource Adequacy Products	<= 5	<= 6
Environmental Attribute Products	<= 5	<= 6
Other Approved Products	<= 5	<= 6

7.3. Authority to Transact, as Delegated to the CEO

The Board and ROC may delegate transaction authority to the CEO, as shown in Table 7 above. In addition to this, authority to approve contract amendments is delegated to PCE's CEO as detailed below:

Product Type	Term (years)	Maturity (years)
Contract Amendments (minor)[7]	any	any

[6] "Maturity" represents the number of years between the date on which a contract is signed, and the date on which a contract term ends. When calculating the term of part-year contracts, PCE rounds up to the nearest full year. For example: A contract is signed in January 2024 for delivery of power during calendar years 2025 and 2026. The contract term is two years, ending on December 31, 2026. The contract maturity is three years.

[7] Amendments or additional agreements to a Board-approved contract that are administrative in nature or arising from the counterparties effectuating their obligations related to the project under normal course of business and do not materially affect the terms of the agreements (e.g. implementing project financing, consent to collateral assignment, assignments, changes to forms, notice provisions, or subcontractors, insurance obligations, changes to commercial operation date, and other such administrative actions).

7.4. Authority to Transact, as Delegated to the CEO and Senior Director of Power Resources

Authority to transact delegated to PCE's CEO and Senior Director of Power Resources is detailed below:

Product Type	Term (years)	Maturity (years)
Electricity Products	<= 2	<= 3
Resource Adequacy Products	<= 2	<= 3
Environmental Attribute Products	<= 2	<= 3
CAISO Products	<= 1	<= 2
Other Approved Products	<= 2	<= 3

7.5. Authority to Transact Delegated to Authorized PCE Front Office Staff

Authority to transact delegated to authorized PCE Front Office staff is detailed below:

Product Type	Term (years)	Maturity (years)
Resource Adequacy Products	<= 1	<= 2
Electricity Products	Balance of the month (BOM), M+1	<= 2
CAISO Products	<= 1	<= 2

7.6. Delegation of Authority

The transaction authority detailed above may be sub-delegated in accordance with the following principles:

- The ROC may delegate transaction authority to the CEO.
- The CEO may delegate the approval of Minor Contract Amendments to the CFO or Senior Director of Power Resources.

Each instance of delegation of authority must be documented by the Front Office. The use of sub-delegations of authority will be considered by the ROC in its periodic review of the ERP, to ensure PCE's proper and efficient operation.

8. System of Record

PCE is required to capture complete and precise transaction data and maintain a set of records for all transactions executed in association with its procurement activities. All transaction records will be maintained in US dollars, and separately recorded and categorized by type of transaction and other characteristics, in line with standard industry practice.

PCE's System of Record shall be auditable and audited as appropriate, and records shall be retained by PCE consistent with its approved Records Retention Policy.[8]

[8] PCE Policy Number 20 d. See www.peninsulacleanenergy.com/key-documents.

9. Risk Reporting

Risk reports are provided in accordance with the procedures detailed below.

9.1. Reporting Breaches of the ERP

An ERP breach represents an event in which PCE staff or its Consultant failed to follow the conditions of the Policy, regardless of whether the breach was intentional. The proper reporting and resolution of breaches of the ERP are crucial to PCE's energy procurement risk monitoring and management processes. Breaches of the ERP are reported as follows:

<table>
<tr><th>Report Name</th><th>Reported By</th><th>Reported To</th><th>Timeline</th></tr>
<tr><td>Initial Breach Report:

Reports occurrence of breach and known facts. Initial Breach Report to contain the following information:
Brief description of the breach
Who made the breach
How the breach was discovered
Why the breach was made</td><td>Cognizant party</td><td>Risk Manager</td><td>Within 2 business days of knowledge of the breach</td></tr>
<tr><td>Follow-up Breach Report:

Middle Office collaborates with PCE staff and prepares report for the ROC.
Follow-up Breach Report to contain the following information:
Description of the breach, including who made the breach, how the breach was discovered, and why the breach was made
Is there anything that could have prevented the breach
Corrective action to ensure the type of breach does not occur again (i.e., training, changes to internal processes and procedures, updates to the ERP)</td><td>Middle Office</td><td>ROC</td><td>Middle Office to schedule</td></tr>
</table>

Board Breach Report: Summary of breaches and resolutions, including breaches already escalated to the Board by the ROC.	Middle Office	Board	At a minimum, annually

9.2. Reporting Exceptions to the ERP

The ROC has the authority to make exceptions to the ERP in limited circumstances. Exceptions are requested and reported as follows:

Report Name	Provided By	Provided To	Resolution Needed	Completion Timeline
Exception Request: Details the exception being requested and the business case for approving the exception. The business case should include any potential costs, potential credit exposure, potential increase to the budget, and potential avoidance of penalties/fines by approving the exception.	Requesting party	ROC, through Middle Office	Not applicable	Not applicable
Exception Review: Review and analysis of exceptions requested, granted, and/or denied.	Middle Office	ROC	Yes	<= 5 Business Days
Report to the Board: Summary of approved exceptions to the ERP, including exceptions already escalated to the Board.	Middle Office	Board	No	At a minimum, annually