

Power Services Policy C.1

SCPA Energy Risk Management Policy

1. Introduction

It is the policy of the Sonoma Clean Power Authority (“SCPA”) to operate Sonoma Clean Power (“SCP”) to provide electric energy and energy-related programs to customers consistent with our Board-approved IRP. SCPA also has a duty to make financially sound and timely investments, and to safeguard the Authority against adverse conditions.

This Energy Risk Management Policy (“Policy”) recognizes that there are risks inherent in participating in energy markets, and establishes the key control structures and policies to prudently manage risk:

- Clearly defined segregation of duties and delegation of authority
- Organizational structure for risk management controls
- Policies setting acceptable risk parameters and risk limits
- Procedures for risk reporting
- Permitted transactions and product types

The scope of this Policy addresses SCPA’s electric supply and participation in energy markets. It does not address operational details such as the prudent handling of data, deal entry, settlement validation, accuracy of load and generation forecasts, and myriad other detailed tasks. It also does not address general business risks, insurance, legislative or policy risks.

SCPA recognizes that risks are inherent in the electric energy business. SCPA therefore seeks to use the prudent management of energy market transactions to minimize the risks to SCPA and its customers.

2. Energy Risk Management Objectives

The primary objectives of energy risk management activities are to balance the business objectives of (1) providing stable electric rates to customers, (2) maintaining the on-going financial viability of the agency, and (3) managing business processes to allow the staff of SCPA to work efficiently and cost effectively while achieving standards in our Integrated Resource Plan (“IRP”).

2.1. Retail Rate Stability

Stable rates are of high value to the citizens and businesses in Sonoma and Mendocino Counties, and yet energy commodity market prices are extremely volatile. Therefore, a key objective is to manage the risks inherent in the energy commodity markets to limit customer exposure to large swings in rates. This is done by mitigating both market risk and credit risk. Reserve balances maintained by SCPA per Financial Policy B2 provide financial credit for entering into long-term contracts and financial liquidity for entering into shorter-term contracts and purchases of energy in the spot and forward market as needed to meet the projected load.

2.2. Maintain Financial Viability of the Agency

SCPA seeks to: (a) reduce exposure to potential adverse energy price movements; (b) control costs by optimizing SCPA contracts; and (c) offering commodity products that address customer needs and recover costs through rate setting Board adopted financial policies.

2.3. Efficient and Cost-Effective Business Processes

SCPA staff will utilize business practices and controls that are sufficient to identify, evaluate, and manage risks, and are designed to streamline recording, analysis and reporting requirements. Staff will strive to improve the risk management procedures to enhance productivity, reduce the cost of conducting risk management activities, and maintain transparency and value of the risk management process.

3. General Transacting Policy

3.1. Anti-speculation

Speculative buying and selling of energy products are prohibited. SCPA will not speculate in the energy market. Purchases of power products are only allowed where there is expectation of receiving delivery/utilizing the financial product. Selling of products is only allowed when SCPA owns the underlying products. Financial transactions that financially protect SCPA from major swings in market pricing are allowed.

3.2. Consistency with Integrated Resource Plan

Any transaction that is not consistent with the Board's most recently adopted Integrated Resource Plan must be reported by the CEO at the next Board meeting together with the reasons for the transaction.

3.3. Open and Competitive Process

Whenever possible, SCPA will seek to obtain multiple bids when making a purchase or sale transaction and select the best value transaction consistent with SCPA's Board-adopted IRP.

3.4. Adherence to all Required Registrations and Certifications

Note: The following may be updated by staff periodically to reflect changing requirements:

SCPA aims to comply with all applicable compliance regulations. For instances where SCPA does not meet compliance obligations, the nature of the action will be presented to the Board along with any resulting penalties or consequences.

a) California Public Utilities Commission (CPUC)

SCPA shall maintain its certification to operate a CCA through an Implementation Plan and maintain a functional relationship for customer billing with a CPUC-certified Service Agreement between SCPA and the investor-owned utility.

b) California Independent System Operator (CAISO)

SCPA is a Market Participant in the CAISO Federal Energy Regulatory Commission filed tariff, which includes Scheduling Coordination, energy imbalance settlement, congestion revenue rights, settlements and other rights and responsibilities as determined by CAISO. SCPA's market participation shall strictly comply with the laws, rules and regulations governing CAISO operation, including but not limited to, the FERC approved CAISO Tariff, CAISO Business Practice Manuals, and any successors; be consistent with SCPA Board adopted Policies; and continuously seek the lowest cost, least risk impact to SCPA customers.

c) Western Renewable Energy Generation Information System (WREGIS)

SCPA is a WREGIS account holder where SCPA has the right to purchase, transfer and retire certificates. WREGIS certificates are required for compliance with state requirements for renewable energy.

d) California Energy Commission (CEC)

SCPA engages with the California Energy Commission to ensure compliance in areas including adhering to renewable energy mandates, Resource Adequacy load forecasting, Integrated Energy Policy Report and power content reporting.

e) California Air Resources Board (CARB)

SCPA engages with CARB to ensure compliance in areas including Low Carbon Fuel Credits.

3.5. Operational Risk Assessment

The Board has directed staff to ensure that standard procedures are maintained to address portfolio valuation risk, counterparty credit and default risk, risks associated with forecasting error, risks of overconcentration on technologies, location or specific counterparties, and other related market risks as determined by the Risk Oversight Committee ("ROC").

4. Oversight Bodies

4.1. Sonoma Clean Power Authority Board of Directors

The SCPA Board of Directors has the primary oversight responsibility, governing SCPA's preferred resources through the Integrated Resource Plan, selecting customer programs, establishing customer rates and ensuring SCPA is responsibly managed by hiring, reviewing and potentially terminating its CEO. The Board receives advice from its Community Advisory Committee and the public. The Board also establishes and reviews this policy from time to time and reviews staff reports on risk.

4.2. Chief Executive Officer

The CEO has responsibility for executing and ensuring compliance with policies adopted by the Board of Directors. The CEO shall establish a staff “ROC” which shall consist of the CEO, COO, Director of Regulatory Affairs, Managing Director of Power Procurement and Senior Risk Officer. The CEO shall report annually to the Board regarding energy risk management activities. The CEO shall maintain clear delegations of energy market contracting authority for each type of transaction and each staff position within SCPA.

4.3. Risk Oversight Committee (ROC)

The ROC shall advise the CEO on prudent risk management and aid in ensuring compliance with this and other Board policies. Any transaction or activity requiring the approval of the CEO or SCPA’s Board Chair or Vice Chair shall first be reviewed by the ROC.

The ROC shall serve in an oversight and advisory role which governs and ensures adherence to the Policy. The ROC is responsible for making recommendations to approve or reject transactions based on the Policy, reviewing hedge tolerance bands, seeking input on recommended transactions prior to seeking Board approval to execute, reviewing PPA and long-term transactions including seeking input on RFOs prior to issuance, reviewing RFOs, verifying term sheets details and confirming final contracts prior to execution.

The ROC will define internal controls, strategies and processes for managing market risks such as those incurred through wholesale trading, retail marketing, long-term contracting, Congestion Revenue Rights (“CRR”) trading and load and generation scheduling.

In addition to the above-mentioned responsibilities, the ROC will evaluate energy market transactions for consistency with SCPA’s procurement strategy and targets (i.e. Renewable Portfolio Standard (“RPS”), Greenhouse Gas (“GHG”), Resource Adequacy (“RA”), energy storage) and established risk tolerances. The ROC will also validate that risk management controls and practices are sufficient to monitor and manage SCPA’s risk exposure.

The ROC also approves counterparties based on Section 5 of this Policy.

The ROC reviews risk management reports provided by the Power Services Team’s Middle Office including SCPA’s Net Open Position (“NOP”), market exposure, credit exposure, counterparty credit ratings, transaction compliance, and other relevant market data and portfolio parameters.

The ROC shall recommend updates to the Board for this Policy as needed. At a minimum, this Policy will be reviewed and updated by the ROC at least every two years.

4.4. *Management Responsibility*

Risk management oversight is accomplished through supervisory review and approval and appropriate separation of duties as follows:

f) Front Office – Planning and Procurement

The Front Office is primarily responsible for resource planning and procuring energy supplies and services. The Front Office management responsibility is accomplished through supervisory review and using appropriate transaction approval processes.

g) Middle Office – Controls and Reporting

The Middle Office provides the primary independent management responsibility. The Middle Office oversees all risk management activities including portfolio exposure, credit and counterparty exposure, and compliance. The Middle Office responsibilities provides checks and balances while monitoring SCPA's risk exposures and ensuring compliance with policies, guidelines, and procedures. The functions of the Middle Office can be broadly defined as risk analysis, compliance tracking and review, credit analysis, and management reporting.

i. Risk Analysis

The Middle Office performs rigorous risk analysis to evaluate the risk exposure on both a transaction and portfolio basis.

ii. Confirmations

Confirmations ensures transactions have gone through appropriate approval, legal review and proper signing authority for execution.

iii. Compliance Tracking and Review

The Middle Office monitors all compliance obligations and transactions to ensure compliance of transactions with SCPA policies and state regulations.

iv. Credit Analytics

The Middle Office monitors and analyzes counterparty creditworthiness. The Middle Office objectively measures and monitors credit limits and credit histories, and may temporarily or permanently halt trading, upon recommendation of the ROC. Credit will provide guidelines and transaction limitations and actively monitor counterparty risk to minimize the potential adverse financial impacts on SCPA in the event of a defaulting counterparty. Credit will implement a mechanism to monitor and report on supply portfolio related counterparty credit exposures. Counterparty credit exposures and transaction volumes relative to the established limits are to be monitored on an ongoing basis and reported to the ROC by the Middle Office. Credit will also analyze and track exposure to margin call, collateral tracking, Letters of Credit and anything related to SCPA's financial exposure for credit purposes.

v. Management Reporting

The Middle Office administers reports to the ROC related to risk management.

h) Back Office - Settlement and Recording

The Back Office is primarily responsible for counterparty checkouts, settlement of invoices, bookkeeping and accounting, and contract administration. The Back Office roles in oversight are ensuring that invoices reflect purchases or sales, independently monitoring transactions in the tracking database, and verifying and reporting on compliance with procedures. Back Office is responsible for compliance reporting functions including but not limited to WREGIS retirement, RPS retirement reporting, retail sales, and LCFS.

5. Authorized Forms of Agreement

The Board authorizes the CEO to develop and maintain such standard forms of agreement necessary to fulfill SCPA's compliance obligations and generally supply all of SCPA's energy and energy-related services. The CEO shall utilize legal counsel with specific expertise in each type of agreement in the development of the standard forms and in reviewing any potential exceptions. The Middle Office and SCPA's General Counsel maintains the authorized forms of agreement and ensures that exceptions are reviewed by expert counsel prior to execution.

6. Authorized Transacting Products

Products allowed for electric transactions include energy, capacity, transmission, financial hedges and ancillary services. All transactions must:

1. be committed to by authorized transacting personnel;

2. be with approved counterparties;
3. use an authorized form of agreement;
4. be committed over recorded phone lines, via electronic mail or in writing;
5. be recorded into SCPA's deal book within 24 hours of execution; and
6. be consistent with this Policy.

Failure to observe the above minimum requirements when executing energy transaction is a violation of this Policy and is subject to disciplinary action.

7. Transacting Authority

The CEO is authorized to make all necessary energy product expenditures which meet all of the following criteria:

1. In the best interest of SCPA's customers;
2. Consistent with this Policy and all other Board policies;
3. Less than 10 years in duration;
4. Less than \$250 million in notional value.

The table below shows further detail for specific categories of procurement, and the individuals who are authorized to execute agreements, confirmations, and other documents relating to the procurement.

PROCUREMENT CATEGORY	SIGNATURE REQUIREMENTS	COUNSEL REVIEW REQUIREMENTS
Spot Transactions	The current head of Power Procurement and one additional staff member in Power Procurement as designated by the CEO.	None
Non-Spot Transactions of Duration Less Than 3 Years and Having Notional Value Equal to or Less Than \$5,000,000	The current head of Power Procurement and either the CEO or COO.	Outside Counsel
Transactions Less Than 10 Years and Notional Value of Equal to or less than \$250,000,000	The current head of Power Procurement and the CEO.	Outside Counsel

Transactions of 10 Years or More Duration or Having Notional Value Greater Than \$250,000,000	The current head of Power Procurement, the CEO, and Chair and Vice Chair of Board of Directors	Outside Counsel
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8. Conflict of Interest

In accordance with the Municipal Code and California law, personnel involved in transacting and oversight of SCPA's supply resources may not engage in financial conflicts of interest, unless SCPA is duly informed, and it elects to waive such conflicts. Certain conflicts cannot be waived, including conflicts related to the Political Reform Act and Government Code Section 1090. All personnel in procuring or selecting counterparties for contracting or transacting are required to complete, on an annual basis, the Form 700 Disclosure forms and submit these forms to the Clerk.