



Central Coast  
**Community  
Energy**

**CLEAN ENERGY. LOCAL CONTROL.**

# Energy Risk Management Policy

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## SECTION 1: POLICY OVERVIEW

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### 1:1 Background and Purpose

Central Coast Community Energy (“CCCE”), formerly Monterey Bay Community Power Authority, is a public joint powers agency located within the geographic boundaries of Monterey, Santa Cruz San Benito, San Luis Obispo, and Santa Barbara Counties. Member agencies of CCCE include the Counties of Monterey, Santa Cruz, San Benito, and Santa Barbara, as well as certain incorporated cities located within the member counties and San Luis Obispo County. Presently, CCCE’s CCA Members include the following local government entities:

| County of Santa Cruz  | County of Monterey    | County of San Benito      | City of San Luis Obispo | County of Santa Barbara |
|-----------------------|-----------------------|---------------------------|-------------------------|-------------------------|
| City of Santa Cruz    | City of Salinas       | City Hollister            | Morro Bay               | Santa Maria             |
| City of Watsonville   | City of Monterey      | City of San Juan Bautista | Paso Robles             | Solvang                 |
| City of Capitola      | City of Pacific Grove |                           | Pismo Beach             | Goleta                  |
| City of Scotts Valley | City of Carmel        |                           | Grover Beach            | Carpinteria             |
|                       | City of Seaside       |                           | Arroyo Grande           | Guadalupe               |
|                       | City of Marina        |                           |                         | Buellton                |
|                       | Sand City             |                           |                         |                         |
|                       | Soledad               |                           |                         |                         |
|                       | Greenfield            |                           |                         |                         |
|                       | Gonzales              |                           |                         |                         |
|                       | Del Rey Oaks          |                           |                         |                         |

CCCE members elected to implement and administer a community choice aggregation (“CCA”) program. The CCA program will give its members an opportunity to procure electricity supplies and implement local programs that meet the goals of the local communities. Electricity procured to serve customers will continue to be delivered over the Investor-Owned Utilities’ (PG&E & SCE) transmission and distribution systems.

Providing retail electric generation service to customers enrolled in the CCA program exposes CCCE to risks such as customer opt-out risk, market risk, regulatory risk, volumetric risk, model risk, operational risk, counterparty credit risk and reputation risk.

This Energy Risk Management Policy (“Policy”) establishes CCCE’s Energy Risk Management Program (“Program”) including risk management functions and procedures to manage the risks associated with power procurement activities.

The ultimate purpose of this Policy is to help CCCE manage its risks by specifying management responsibilities, organizational structures, risk management standards, and operating controls and limits necessary to properly identify and manage CCCE’s exposure to risk.

## 1.2 Scope

Unless otherwise explicitly stated in this Policy, or other policies approved by the Board, this Policy applies to all power procurement and related business activities that may impact the risk profile of CCCE. This Policy documents the framework by which management and staff will:

- Identify and quantify risk
- Develop and execute procurement strategies
- Create a framework of controls and oversight
- Monitor, measure, and report on the effectiveness of the Program

## 1.3 Energy Risk Management Objective

The objective of the Energy Risk Management Policy is to provide a framework for conducting procurement activities that will manage risks to support CCCE meeting the goals.

Pursuant to this Policy, CCCE will identify and measure the magnitude of the risks and take the necessary steps to manage and reduce that risk to acceptable levels.

## 1.4 Policy Administration

This Policy document shall be routinely reviewed and approved by the CCCE Operations Board of Directors (“Board”). The Risk Management Committee (“RMC”) and Operations Board must approve amendments to this Policy, except for the appendices, which may be amended with approval of only the RMC. The RMC must give notice to the Board of any amendment it makes to an appendix or a reference policy or procedure document.

## SECTION 2: STRATEGY/GOALS AND RISK EXPOSURES

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### 2.1 Policy Goals

CCCE operates in a dynamic, volatile environment and market. Prices for energy and its underlying drivers, such as natural gas, are susceptible to unpredictable and sometimes significant changes in short intervals. Regulatory and legislative changes can structurally change markets, market price levels, and procurement requirements. Low liquidity and financial dislocations may lead to counterparty distress. CCCE's Energy Risk Management Policy (ERM) is designed to address these challenges. Its overarching goals are the following:

- Preserving the financial health and stability of CCCE
- Providing rate stability
- Ensuring the long-term viability of CCCE

In furtherance of these goals CCCE strives to:

- Maintain a credit rating of A- or equivalent, as defined by S&P Global Ratings or an equivalent ratings agency
- Limit power supply cost variance to the annual budget to 10%, barring extraordinary circumstances
- Fund its Rate Stabilization Fund at levels that buffer customers from rate shock and maintain a 3-year rate trajectory which is competitive with Investor-Owned Utilities (IOUs)

The ERM Policy is a strategic document, not a prescriptive manual. The metrics, limits, and products used to measure and manage risk must continuously evolve to reflect industry best practices and ensure relevance and alignment with the policy's goals. CCCE is responsible for designing and executing specific plans, metrics, limits, hedging plans, and processes in accordance with the ERM Policy. CCCE will report regularly to the Risk Management Committee (RMC).

CCCE aims to achieve these goals by managing the key risks identified in the Risk Catalog at section 2.2 below. More specifically, the goals will be incorporated into the specific limits and metrics used to govern hedging activities and long-term procurement. It is important to note these goals are not intended to be a comprehensive list of CCCE's goals.

To ensure CCCE is implementing best practices for an energy supplier of its size and scope, CCCE will engage an outside third-party energy risk management expert to conduct an annual audit and benchmark CCCE's risk policy and internal processes. The results of audit will be presented to the RMC.

## 2.2 Risk Catalog

This Energy Risk Management Policy addresses the following key risks:

- a) Attrition: Customer Opt-Out risk
- b) Market risk
- c) Liquidity Risk
- d) Regulatory risk
- e) Volumetric risk
- f) Model risk
- g) Operational risk
- h) Counterparty & Generalized Credit risk

### 2.2.1 Attrition: Customer Opt-Out Risk

Customer opt-out risk includes any condition or event that creates the potential for significant reductions in the CCA's customer base, leading to the potential on higher retail rates, uncompetitive position, and further loss of customer base. Customer opt-out risk remains a primary risk for the CCA industry. Managing Opt-out risk requires the establishment of, and adherence to, certain metrics to limit optout risks, such as:

- Retail rate competitiveness
- Rate Stability Reserves Fund

### 2.2.2 Market Risk

Market (Energy Price) volatility risk of losses due to the movements in power market prices, interest rates, and credit market prices. Power market price risk includes the risk of adverse price movements in energy, capacity, power basis, renewable attributes, and underlying drivers such as natural gas market prices. Interest rate and credit market price risks are considered when evaluating financing structures associated with long-term hedges or contracts. CCCE will deploy a range of metrics to measure market risk, such as forward-looking stress tests based on multiple factors and Value-at-Risk (VaR) over multiple time periods. Limits – such as those on position size, tenor, product type and VaR - will be set based on market conditions and alignment with this policy's goals.

### 2.2.3 Liquidity Risk

Liquidity Risk is the risk of a lack of enough creditworthy buyers and sellers in a market to execute transactions at prices which reasonably reflect underlying fundamentals. This risk can make it difficult for CCCE to execute hedging transactions, such as exits, that reduce risk and maximize value. CCCE will monitor liquidity in markets and, where applicable, set limits on product types, tenor, and position size to reduce the risk of stranded positions.

#### 2.2.4 Regulatory Risk

Legislative and regulatory policy decisions, including technical market rule changes can have far-reaching impacts on prices, procurement requirements, asset values, and cash flows. CCCE will actively monitor and, where possible, shape legislative and regulatory policy to mitigate risk. CCCE will also quantify and forecast the financial impacts of proposed regulatory actions through scenario analysis. CCCE will mitigate potential regulatory risk by structuring procurement strategies and contracting practices to minimize potential policy change related impacts.

#### 2.2.5 Volumetric Risk

Volumetric risk is the risk of variance in the expected quantity of load served by CCCE. Volumetric risk may be driven by factors such as attrition, weather, and behind-the-meter generation. Attrition risk is explicitly modeled under this policy. Weather is the biggest short-term driver of volumetric risk. CCCE will develop load distributions that account for a wide range of weather outcomes and size positions accordingly. CCCE may set limits on open positions by tenor, as appropriate, to reduce volumetric risk.

#### 2.2.6 Model Risk

Model risk is variance from modeled or forecasted outcomes due to fundamental deficiencies in models and/or information systems. CCCE will validate models on an ongoing basis for robustness, update and/or patch models frequently, collaborate regularly with vendors, and exchange information & best practices with peers bilaterally or in trainings and conferences.

#### 2.2.7 Operational Risk

Operational risk is variance in financial performance due to weaknesses or failures in the quality, scope, content, and/or execution of hedging, procurement, and risk management functions. Operational risk also incorporates fraudulent actions by employees or third parties, particularly due to inadequate or ineffective controls. CCCE manages operational risk through a variety of methods, including regular reporting, segregation of functions, layered oversight, external audits, and staff training. Additional methods will be proposed to the RMC as appropriate.

#### 2.2.8 Counterparty & Generalized Credit Risk

Counterparty risk is the risk that a counterparty will fail to perform or adequately remedy its obligations in accordance with contractual and transactional terms. Generalized credit risk is the risk of a generalized reduction in credit to a sector, a set of counterparties, or a specific counterparty that results in an increase in counterparty risk. The impact of counterparty failure on CCCE's financials can be significant. CCCE will monitor counterparty risk based on a variety of metrics and analyses, including but not limited to an in-depth review of counterparty financials, exposure by credit rating, exposure by tenor and product type.

## SECTION 3: ORGANIZATIONAL STRUCTURE AND RESPONSIBILITIES

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### 3.1 Risk Management Organizational Structure

CCCE risk management is organizationally structured to ensure effective segregation of duties and multiple layers of oversight using a waterfall approach. Risk approval limits are contained in Exhibit D, the Risk Management Delegation of Financial Authority (DOFA).

The CCCE Operations Board of Directors (“Operations Board”) is responsible for approving the energy risk management policy. It reviews and approves this policy and approves risk exposures above those delegated to the RMC in the DOFA.

The Risk Management Committee (RMC) is responsible for overseeing strategic compliance with this policy and approving risk exposures above those delegated to the CEO.

The Front Office is responsible for energy short-term trading function and long-term negotiations of power supply contracts, mindful of the ERMP limits.

The Middle Office is responsible ensuring compliance with the policy and monthly reporting of risk exposure to RMC. This segregates the monitoring from trading functions ensure adherence to risk limits and provides an important check and balance.

The Back Office is responsible for processing payments ensuring adherence to contract terms and provide appropriate reporting regulatory agencies.

### 3.2 Risk Management Committee (RMC)

The CEO shall establish the RMC, set the agenda, and serve as its Chair. The RMC consists of the following voting members:

- Chief Executive Officer (CEO)
- Up to five (5) Members of CCCE’s Policy and/or Operations Board of Directors, selected by the CEO
- Chief Financial Officer
- Chief Operating Officer
- Director of Regulatory and Legislative Affairs

The RMC is responsible for overseeing strategic compliance with this policy and approving major risk exposures above those delegated to the CEO. This includes ensuring procurements and hedging are consistent with CCCE’s strategic goals.

Specifically, the RMC maintains the authority and responsibility to:

- Ensure that procurements are consistent with this policy and hedging plans based on CCCE’s

financial objectives and situation.

- Approve procurements and risk exposures above those delegated to the CEO and up to the limits specified in the DOFA, based on the strategic goals of this ERM Policy and CCCE's financial situation
- Understand and approve the limits, metrics, and product types necessary to ensure compliance with this policy
- Review risk management reports as described in this Policy.
- Review actual and projected risks and financial outcomes and review summaries of violations of this policy
- Refer to the Operations Board those exposures and risks above those delegated to the RMC in the DOFA

### 3.3 Segregation of Duties

CCCE shall maintain a segregation of duties, also referred to as "separation of function" to help manage and control the risks outlined in this Policy.

#### 3.3.1 Front Office

The Front Office is responsible for the procurement and hedging activities necessary to manage CCCE's wholesale power market positions and obligations. Specific responsibilities include:

- Develop long-term procurement strategies to reliably meet CCCE's load-serving obligation using a least-cost best-fit approach
- Develop annual, quarterly, and monthly hedge plans to prudently meet CCCE's load-serving obligation using a mix of market transactions and CCCE power assets, such as dispatchable generation
- Optimize CCCE's load-supply balance and asset management strategies to prudently maximize value for CCCE customers while adhering to all risk management processes and limits
- Develop and use fundamental and probabilistic analysis – such as power market supply-demand balances and transmission outages – to guide optimization, procurement, and hedging decisions
- Accurately record all transactions in the system of record
- Accurately track open positions and hedge performance across tenors
- Execute transactions and negotiate or amend contracts as needed to meet the above goals in accordance with the limits set out in the DOFA. Restructure previously approved transactions and contracts as needed in accordance with the DOFA limitations

### 3.3.2 Middle Office

The Middle Office is responsible for implementing, administering, and monitoring compliance with this policy. Specific responsibilities include:

- Developing market and transaction analytics that inform risk analyses of CCCE's hedging and procurement activities; providing Front Office with an independent view as needed
- Developing metrics and risk management processes for the risks identified in the Risk Catalog in this policy
- Designing and setting hedging and procurement limits, including but not limited to product types, tenors, delivery points, counterparties, and markets.
- Monitoring risk exposures and policy compliance on an ongoing basis, with monthly reporting to the RMC
- Developing limits with exchanges, brokers, and trading venues
- Analyzing risk of the hedging and procurement plans developed by the Front Office.
- Developing and maintaining demand forecasts
- Independently maintaining forward price curves for use in valuation, pricing, and monitoring. Developing internal estimates of forward prices where credible liquid data is not available
- Valuing CCCE positions and contracts
- Validating settlements
- Reporting limit violations to the CEO and the RMC
- Calculating and maintaining the net forward power positions of CCCE
- Assist Back Office in calculating Counterparty Credit Exposure

### 3.3.3 Back Office

The Back Office is responsible for the administrative activities necessary to execute and settle transactions and contracts and to support the Middle Office where necessary to monitor compliance with this Policy.

Specific responsibilities include:

- Confirming all transaction details (physical and financial) and reconciling differences with the trading counterparties
- Reviewing transaction confirmations for adherence to approved limits
- Validating trade entry and flow through the system of record
- Validating and reconciling physical and financial transaction flows
- Settling trades and calculating revenues and profit & loss
- Providing settlement, credit, and other data as needed to the Middle Office and Finance to support monitoring of risk exposures and budget processes

## SECTION 4: BUSINESS PRACTICES

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### 4.1 General Conduct

All personnel, including Members of the Operational and Policy Board of Directors, staff, and agents, adhere to standards of integrity, ethics, conflicts of interest, compliance with statutory law and regulations and with applicable CCCE standards of personal conduct while employed by, contracted by, or affiliated with CCCE.

### 4.2 Hedging & Trading Activities; Prohibition on Speculation

CCCE contracts and trades in energy markets to hedge positions, reduce risk, and, in compliance with this policy, prudently optimize the value of its portfolio of assets and market positions. Speculative trading is explicitly prohibited under this policy. Examples of speculative trading include trading a commodity where CCCE does not have an underlying position or risk, trading a product based solely on personal judgement about market direction, taking positions in volumes that deviate significantly from CCCE's underlying need etc. Should a question arise about speculative trading activities, CCCE's Middle Office will make an initial finding based on an analysis of the situation and present a written report to the CEO and the RMC. The RMC will make a final determination based on the situation.

### 4.3 Trading for Personal Accounts

All CCCE staff and agents are prohibited from trading the power and environmental products traded by CCCE.

### 4.4 Conflict of Interest

CCCE staff are expected to meet the highest standards for ethical conduct, beyond just the specific matters discussed in this section.

CCCE staff responsible for negotiating, reviewing, and/or approving hedging activities and procurements are obligated to provide written notice to CCCE of any real or potential conflict of interest in the matter. An example of such a conflict of interest may be negotiating with a counterparty while seeking employment for oneself or a relative with that counterparty.

CCCE staff are prohibited from trading on information gained during hedging and procurement activities. An example of such an activity would be a CCCE employee directly or indirectly purchasing stock in a developer prior to the announcement of CCCE awarding that developer a significant contract. Purchases of pooled vehicles such as broadly diversified mutual funds and ETFs are exempted from this policy.

CCCE Front Office staff are expected to seek best execution and least-cost best-fit from counterparties and intermediaries. Steering trades and contracts to counterparties based on potential financial gain or personal relationships is prohibited.

Additionally, Conflicts of Interest shall be identified and defined as set forth in the CCCE Conflict of Interest Code, as amended from time to time by the Policy Board, which incorporates the Political Reform Act requirements for all employees advising CCCE.

If there is any doubt as to whether a prohibited condition exists, then it is the employee's responsibility to discuss the possible prohibited condition with her/his manager or supervisor. Employees may seek an advisory position from the California Fair Political Practices Commission.

#### 4.5 Adherence to Statutory Requirements

Compliance is required with rules promulgated by the state of California, California Public Utilities Commission, California Energy Commission, Federal Energy Regulatory Commission (FERC), Commodity Futures Trading Commission (CFTC), and other regulatory agencies.

Congress, FERC, and CFTC have enacted laws, regulations and rules that prohibit, among other things, any action or course of conduct that actually or potentially operates as a fraud or deceit upon any person in connection with the purchase or sale of electric energy or transmission services. These laws also prohibit any person or entity from making any untrue statement of fact or omitting to state a material fact where the omission would make a statement misleading. Violation of these laws can lead to both civil and criminal actions against the individual involved, as well as CCCE. This Policy is intended to comply with these laws, regulations, and rules and to avoid improper conduct on the part of anyone employed by CCCE. These procedures may be modified from time to time by legal requirements, auditor recommendations, RMC requests and other considerations.

In the event of an investigation or inquiry by a regulatory agency, CCCE may provide legal counsel to employees. However, CCCE, with the consent of the Operations Board, will not appoint legal counsel to an employee if CCCE determine that representation of the employee will create an actual conflict between the employee and CCCE, or that the employee was not acting in good faith within the scope of employment.

#### 4.6 Authorized Products, Markets & Terms

Transactions are conducted bilaterally, using standard contracts such as the EEI or WSPP, or through exchanges such as the InterContinental Exchange (ICE). CCCE CEO or their designee must authorize all transactions.

New products, tenors, markets, delivery points, and transaction types can be authorized by the RMC. When seeking such approval, a New Product Approval Form, as shown in Appendix C, should be drafted describing all significant elements of the proposed product. This should include, at a minimum:

- A description of the benefit to CCCE, such as decreasing costs, managing volatility etc
- The role of the new product in CCCE's overall portfolio and risk management strategies
- Risk analysis that identifies the specific risks mitigated by the new product and illustrates its application
- Transaction process, initial risk limits and settlement process
- Proposed valuation methodology (including pricing model, where appropriate)
- Proposed accounting methodology

CCCE's CEO or their designee is responsible for requesting the RMC's approval. If approved, Appendix A to the Policy will be updated to reflect the new transaction type.

#### 4.7 System of Record

CCCE will maintain a set of records for all transactions executed in association with CCCE procurement activities. The records will be maintained in US dollars and transactions will be separately recorded and categorized by type of transaction. This system of record shall be auditable

#### 4.8 Transaction Valuation

Transaction valuation and reporting of positions shall be based on objective, market-observed prices. Whenever possible, mark-to-market valuations should be based on independent, publicly available market information and data sources. The Middle Office will be responsible for independently validating and reporting marks, valuations, and settlements.

#### 4.9 Policy Compliance

The Middle Office will provide a monthly report monitoring compliance with the limits established by this Policy.

## SECTION 5: TOLERANCES

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### 5.1 Hedging Tolerances

Hedging tolerances for Energy, renewable attributes, and capacity (Resource Adequacy) are shown below. From time to time, the middle office, in response to market conditions, may recommend adjustments to these ranges.

#### 5.1.1 Energy Procurement Tolerances

| Period                | Minimum Tolerance | Maximum Tolerance | Target         |
|-----------------------|-------------------|-------------------|----------------|
| Year 1 (Current Year) | 90% of Load       | 110% of Demand    | 100% of Demand |
| Year 2                | 70% of Load       | 110% of Demand    | 85% of Demand  |
| Year 3                | 50% of Load       | 90% of Demand     | 70% of Demand  |
| Year 4                | 30% of Load       | 60% of Demand     | 50% of Demand  |
| Year 5                | 20% of Load       | 50% of Demand     | 30% of Demand  |

#### 5.1.2 Renewable Energy Procurement Tolerances

| Period                | Minimum Tolerance                    | Maximum Tolerance  | Target          |
|-----------------------|--------------------------------------|--------------------|-----------------|
| Year 1 (Current Year) | 90% of mandate                       | 100% of demand     | 100% of mandate |
| Year 2                | 70% of mandate                       | 100% of demand     | 85% of mandate  |
| Year 3                | 50% of mandate                       | 90% of demand      | 70% of mandate  |
| Year 4                | 50% of mandate                       | 75% of CCCE demand | 65% of mandate  |
| Year 5                | 50% of CCCE RPS Procurement Strategy | 75% of demand      | 65% of mandate  |

#### 5.1.3 Capacity Procurement Tolerances

| Period                | Minimum Tolerance | Maximum Tolerance | Target           |
|-----------------------|-------------------|-------------------|------------------|
| Prompt Month          | 100% of required  | 100% of required  | 100% of required |
| Prompt Quarter        | 90% of required   | 100% of required  | 100% of required |
| Year 1 (Current Year) | 90% of required   | 100% of required  | 100% of required |
| Year 2                | 80% of required   | 100% of required  | 90% of required  |
| Year 3                | 50% of required   | 100% of required  | 70% of required  |
| Year 4                | 20% of required   | 70% of required   | 50% of required  |
| Year 5                | 0% of required    | 50% of required   | 40% of required  |

## 5.2 Monitoring, Reporting and Instances of Exceeding Risk Limits

The Middle Office is responsible for monitoring, and reporting compliance with, all limits within this Policy. If a limit or control is violated, the Middle Office will notify the CEO and the RMC. The RMC will discuss the cause and potential remediation of the exceedance to determine next steps for curing the exceedance.

## SECTION 6: CREDIT POLICY

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Counterparty and generalized credit risk are significant risks to CCCE's financial operations. The Middle Office will conduct a thorough analysis of all candidate counterparties prior to approving them to transact. This analysis will include but not be limited to analyzing the proposed counterparty's financial statements, credit rating, liquidity, hedge levels, market sensitivity, and business operations. The Middle Office will determine whether to extend an unsecured or secured credit line to the candidate counterparty, as appropriate. The maximum unsecured credit line that can be extended to any counterparty is \$50 Million.

In addition to individual counterparty limits, the Middle Office will set limits by credit rating, tenor, product, and, where appropriate, transaction type and delivery type. For example, it may set an overall limit of \$50 million for counterparties rated BB+ that supersedes the BB+ counterparties' individual credit approvals of \$100 million. This will limit concentration of credit risk.

Counterparty credit health and generalized credit conditions will be monitored on an ongoing basis. Individual counterparty limits or aggregate credit limits by tenor/product/credit rating may be adjusted up or down to reflect current conditions. Counterparties who exceed limits must promptly post enough collateral to come into compliance or have their positions liquidated.

## SECTION 7: POSITION TRACKING AND MANAGEMENT REPORTING

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Minimum reporting requirements are shown below. The reports outlined below will be made available to RMC members:

- **Monthly Financial Model Forecast**

Latest projected financial performance, marked to current market prices, and shown relative to financial goals

- **Monthly Net Position Report**

Prepare a forward net position report and report the results to the RMC

- **Monthly Counterparty Credit Exposure**

This report will show credit exposures for transactions executed by CCCE

- **Monthly Risk Analysis**

This will include a stress test of financial forecast relative to financial goals

## SECTION 8: POLICY REVISION PROCESS

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CCC's Energy Risk Management Policy will evolve over time as market and business factors change. At least on an annual basis, the RMC will review this Policy and associated procedures to determine if they should be amended, supplemented, or updated to account for changing business and/or regulatory requirements. If an amendment is warranted, the Policy amendment will be submitted to the CCCE Board for approval. Changes to appendices to this Policy may be approved by the RMC.

### 8.1 Acknowledgement of Policy

Any CCCE employee participating in any activity or transaction within the scope of this Policy shall sign on an annual basis or upon any revision, a statement approved by the RMC that such employee:

- Read CCCE's Energy Risk Management Policy
- Understands the terms of said Policy
- Will comply with said Policy
- Understands that any violation of said Policy shall be subject to employee discipline up to and including termination of employment.

### 8.2 Policy Interpretations

Questions about the interpretation of any matters of this Policy should be referred to the CEO. All legal matters stemming from this Policy will be referred to General Counsel.

## Appendix A: AUTHORIZED TRANSACTION TYPES, REGIONS, AND MARKETS

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All transaction types listed below must be executed within the limits set forth in this Policy. *(The following transaction types can be 'nonstandard' at CCCE subject to RMC approval)*

### **Over the Counter Products**

- CAISO Market Products
  - Day-ahead and Real-time Energy
  - Congestion Revenue Rights
  - Convergence bids
  - Inter Scheduling Coordinator Transactions
  - Tagging into and out of CAISO
- Physical Power Products
  - Power
  - Physical Over-the-counter Options
  - Physical Resource Adequacy Capacity
- Physical Transmission Products
  - Physical WECC transmission
- Physical Environmental Products
  - Renewable Energy Credits
  - Specified Source Power
  - Carbon Allowances and Obligations
- Financial Power Products
  - Power
  - Financial Over-the-counter Options

---

**New or Non-Standard Transaction Approval Form**

**Prepared By: Date:**

**New or Non-Standard Transaction Name:**

**Business Rationale and Risk Assessment:**

- A description of the benefit to CCCE, such as decreasing costs, managing volatility etc.
- The role of the new product in CCCE’s overall portfolio and risk management strategies
- Middle Office risk analysis that identifies the specific risks mitigated by the new product and illustrates its application
- Transaction process, initial risk limits and settlement process
- An assessment of the legal, tax, and regulatory aspects of the product
- Proposed valuation methodology (including pricing model, where appropriate)
- Proposed reporting requirements, including any changes to existing procedures and system requirements necessary to support the new transaction type
- Proposed accounting methodology

**Reviewed by:**

|                                |             |
|--------------------------------|-------------|
| _____                          | _____       |
| <b>Chief Operating Officer</b> | <b>Date</b> |
| _____                          | _____       |
| <b>Chief Financial Officer</b> | <b>Date</b> |
| _____                          | _____       |
| <b>General Counsel</b>         | <b>Date</b> |
| _____                          | _____       |
| <b>Chief Executive Officer</b> | <b>Date</b> |
| _____                          | _____       |

## Appendix C: DEFINITIONS

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**Back Office:** That part of a trading organization which handles transaction accounting, confirmations, management reporting, contract administration and working capital management, which reports to the Chief Operating Officer.

**Bilateral Transaction:** Any physical or financial transaction between two counterparties, neither of whom is an Exchange or market entity such as CAISO.

**Cash Flow at Risk:** A measure of the potential shortfall in cash flow from a specified level during a specified period of time at a specified confidence level.

**CAISO:** California Independent System Operator. CAISO operates a California bulk power transmission grid, administers the State's wholesale electricity markets, and provides reliability planning and generation dispatch.

**California Energy Commission (CEC):** CEC is the primary energy policy and planning agency for California.

**California Fair Political Practices Commission (FPPC):** FPPC is a five-member independent, non-partisan commission that has primary responsibility for the impartial and effective administration of the Political Reform Act.

**California Public Utilities Commission (CPUC):** CPUC is a regulatory agency that regulates privately owned public utilities in the state of California, including electric power, telecommunications, natural gas and water companies.

**Community Choice Aggregator (CCA):** CCAs allow local government agencies such as cities and/or counties to purchase and/or develop generation supplies on behalf of their residents, businesses, and municipal accounts.

**Commodity Futures Trading Commission (CFTC):** The CFTC is a U.S. federal agency that is responsible for regulating commodity futures and swap markets. Its goals include the promotion of competitive and efficient futures markets and the protection of investors against manipulation, abusive trade practices and fraud.

**Clearing:** Clearing is the process of reconciling purchases and sales of a commodity, as well as the direct transfer of funds from one financial institution to another. The process validates the availability of funds, records the transfer, and in the case of financial securities, ensure the delivery to the buyer.

**Commodity:** A basic good used in commerce that is interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers. When they are traded on an exchange, commodities must also meet specified minimum standards, also known as a basis grade.

**Confirmation Letter:** A letter agreement between two counterparties that details the specific commercial terms (e.g., price, quantity and point of delivery) of a transaction.

**Congestion Revenue Right:** A point-to-point financial instrument in the Day-Ahead Energy Market that entitles the holder to receive compensation for or requires the holder to pay certain congestion related transmission charges that arise when the transmission system is congested.

**Counterparty Credit Risk:** The risk of financial loss resulting from a counterparty to a transaction failing to fulfill its obligations.

**Counterparty Credit Exposure:** This measures the known exposures and is represented by the sum of both (a) Realized exposure and (b) Forward exposure, as those terms are defined below:

**Realized exposure:** payable or receivable amount owed between counterparties, is a measurement of cash flow for billed and unbilled transactions.

**Forward exposure:** measure of current unrealized exposure and includes the measure of a counterparty's incentive to fulfill contractual obligations. Forward exposure measures the risk associated with having a payment default or the need to replace a transaction in the event of delivery default.

**Edison Electric Institute (EEI):** EEI is an association that represents all U.S. investor-owned electric companies.

**Day-ahead Market:** The short-term forward market for efficiently allocating transmission capacity and facilitating purchases and sales of energy and scheduled bilateral transactions; conducted by CAISO prior to the operating day.

**Delivery point:** the point at which a commodity will be delivered and received.

**Federal Energy Regulatory Commission (FERC):** FERC is a federal agency that regulates the interstate transmission of electricity, natural gas, and oil. FERC also reviews proposals to build liquefied natural gas terminals, interstate natural gas pipelines, as well as licenses hydroelectric generation projects.

**Front Office:** That part of a trading organization which solicits customer business, services existing customers, executes trades and ensures the physical delivery of commodities, which reports to the Chief Operating Officer.

**Hedging products:** Hedging products means capacity, energy, renewable energy credits or other products related to a specific transaction.

**Hedging Transaction:** A transaction designed to reduce the financial exposure of a specific outstanding position or portfolio; "fully hedged" equates to complete elimination of the targeted risk and "partially hedged" implies a risk reduction of less than 100%.

**InterContinental Exchange (ICE):** ICE is an American company formed in 2000 that operates global financial exchanges, clearing houses and provides mortgage technology, data and listing services.

**Investor Owned Utility (IOU):** An IOU is a business organization providing electrical and/or natural gas services to both retail and wholesale consumers and is managed as a private enterprise. Pacific Gas & Electric Company (PG&E) and Southern California Edison (SCE) are examples of IOUs.

**Middle Office:** That part of a trading organization that measures and reports on market risks, develops risk management policies and monitors compliance with those policies, manages credit, and keeps management and the Board informed on risk management issues, which reports to the Chief Financial Officer.

**Speculation:** Speculation is the act of trading an asset with the expectation of realizing financial gain resulting from a change in price in the asset being transacted.

**Value-at-Risk (VaR):** VaR is a risk tolerance metric that quantifies the extent of possible financial losses within a firm, portfolio, or position over a specific time frame.

**Western Systems Power Pool (WSPP):** WSPP is an organization of electrical wholesale market entities that have developed and utilize a standardized agreement (WSPP Agreement) to execute trading opportunities, allowing WSPP members to manage power delivery and price risk.

## Appendix D: DELEGATION OF FINANCIAL AUTHORITY

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The Policy and Operations Boards of Directors (“Boards”) explicitly delegate approval of transactions to the CEO, RMC as outlined in the following table

| Position                  | Maturity Limit | Term Limit | Value Limit (\$)² |
|---------------------------|----------------|------------|-------------------|
| Risk Management Committee | 72 Months      | 60 Months  | 110,000,000       |
| Chief Executive Officer   | 48 Months      | 36 Months  | 65,000,000        |

These delegated authorities may be further delegated and used to set hedging and procurement limits necessary to manage CCCE’s portfolio. For example, the CEO could authorize the Front Office to trade up to 250 MW of Next-Week Heavy Load Hour Day-Ahead Power at NP15 on ICE.

Additionally, to adapt to changing market conditions and to facilitate the daily operations of CCCE, the Boards are delegating authority to CEO (or designee) to execute administrative amendments to duly approved transactions where such amendment does not exceed the CEO’s delegated authority as set forth above (for clarity, amendments exceeding Maturity, Term or Value limits shall require Operations Board approval) and further reduces CCCE’s risk in furtherance of this Policy. Such administrative amendments must be reported during the next RMC meeting and Operations Board meeting.

These authorities will be applied to wholesale power activity executed outside of the California Independent System Operator (“CAISO”) markets. These limits provide CCCE needed authorities to manage risks as they arise. Transactions falling outside the delegations above require Board approval prior to execution. Activity with CAISO is excluded from this table due to the nature of the market, where prices for activity may not be known until after transactions are committed.

All procurement executed under the delegation above, must align with the CCCE’s underlying risk exposure (locational, volume and temporal) that is being hedged consistent with the approved Procurement Strategy.

The point of delivery for all products must be at a location on the CAISO transmission grid.