

Butte Choice Energy Authority

Board of Directors Regular Meeting

Adjourned from Monday, July 13, 2020, 5:30 pm to
Monday, July 27, 2020
326 Huss Lane, Chico, CA 95928

Board members may be present via teleconference or in person.

Members of the Public may view the meeting and comment as set forth below.

Members of the public will NOT be permitted to enter the meeting site.

Coronavirus (COVID-19) Advisory Notice: The health and safety of community members, public officials and employees is a top priority for BCEA. In compliance with local and state Public Health stay at home orders currently in effect, and as authorized by Executive Orders N-25-20 and N-29-20, the members of the BCEA Board and BCEA staff will be participating in person, electronically, or via teleconference in this meeting. The public will not be permitted to attend at the meeting site to comply with Public Health Orders and social distancing rules. Members of the public are encouraged to participate remotely from a safe location in the manner described below. Please note: should the stay at home orders change prior to this regular scheduled meeting, this agenda will be updated. Please check back on July 13th for any changes.

Remote Public Participation:

A) How to watch the meeting via YouTube:

- a) From your on-line location,
<https://www.youtube.com/channel/UChidik5N5lu0dU8NwhK3hIw>. Please note there may be a several second delay when you view the livestream webcast.

B) How to provide public comment:

- a) Before the meeting: email your comments to ButteChoiceEnergyCOB@buttecounty.net no later than noon on Monday, July 13, 2020 and they will be forwarded to the Board and included in the public record. Be sure to include the agenda item number you are addressing, as well as your full name and address.
- b) During the meeting: email your comment to ButteChoiceEnergyCOB@buttecounty.net and your comment will be read verbatim into the record.

Individuals who need special assistance or a disability-related modification or accommodation to participate in this meeting, or who have a disability and wish to request an alternative format for the meeting materials, should contact ButteChoiceEnergyCOB@buttecounty.net as soon as possible to ensure arrangements for accommodation.

1. Call to Order

2. Public Comment For Items Not on the Agenda

This item is reserved for persons wishing to provide comment to the Board on any BCE-related matters that are not otherwise on this meeting agenda. Public comments on matters listed on the agenda shall be at the time the matter is called. Public comments from members of the public that are read at this meeting will be limited to 300 words.

3. **Consent Agenda**

a. **Minutes from June 8, 2020 Board Meeting**

Requested Action: Approve the Minutes from the June 8, 2020 Board Meeting

b. **Acknowledgement of Inadvertant Failure to Comply with Brown Act Noticing and Posting Requirements Regarding a Board Special Meeting and Cure**

4. **Regular Agenda**

a. **Operations and Administration Report from Interim Executive Officers**

Receive updates on various operational and administrative activities and file with this report.

Topics include:

- i. BCE Financial Update
- ii. Executive Search Update
- iii. Public Outreach/Marketing RFP
- iv. Cal-CCA Update

Requested Action: Receive for information and provide any necessary direction.

b. **California Energy Market Update**

Requested Action: Receive presentation from Pilot Power Group regarding status of current energy market, update on resource adequacy (RA) requirements and constraints, and procurement timing.

c. **Approval to Change Launch Date from April 2021 to Date To Be Determined in 2022**

Requested Action: Approve change in BCEA launch timing and provide authorization to take necessary steps and file with the CPUC to effectuate the change.

d. **Adopt BCEA FY 2020-2021 Budget**

Requested Action: Adopt Resolution approving BCEA's FY Budget commencing July 1, 2020-June 30, 2021.

e. **Adopt Energy Risk Management Policy and Delegation of Authority**

Requested Action: Approve Resolution authorizing BCE's Energy Risk Management Policy and Delegation of Authority.

5. **Board Member and Staff Announcements**

Board Members may briefly provide information to other members of the Board and the public, ask questions of staff, request an item to be placed on a future agenda, or report on conferences, events or activities related to BCE business. There is to be no action taken on comments made by Directors unless authorized by law.

6. **Adjournment**

Public records that relate to any item on the open session agenda for a regular Board meeting are available on the BCEA website at www.buttechoiceenergy.org. Public records that are distributed less than 72 hours prior to the meeting will be posted for public review at the same time they are distributed to all members, or a majority of the members of the Board.

Butte Choice Energy Authority

MINUTES

JUNE 8, 2020

1. CALL TO ORDER

Meeting called to order at 326 Huss Lane, Suite 100, Chico, California.

Present: Debra Lucero, Butte County Board of Supervisor, District 2
Alex Brown, Chico City Council, Vice Mayor
Scott Huber, Chico City Council
Doug Teeter, Butte County Board of Supervisor, District 5
Brian Ring, Interim Executive Director
Erik Gustafson, Interim Executive Director
Harriet Steiner, General Counsel
Ashley Snyder, Interim Clerk of the Board

CLERK'S NOTE: PURSUANT TO EXECUTIVE ORDER N-29-20 ON MARCH 17, 2020, RELATING TO THE CONVENING OF PUBLIC MEETINGS IN RESPONSE TO THE COVID-19 PANDEMIC, ALL MEMBERS OF THE BUTTE CHOICE ENERGY AUTHORITY BOARD OF DIRECTORS AS WELL AS THE BOARD'S GENERAL COUNSEL APPEARED TELEPHONICALLY AND PARTICIPATED IN THE MEETING TO THE SAME EXTENT AS IF THEY WERE PERSONALLY PRESENT. PURSUANT TO THE EXECUTIVE ORDER, AND TO MAINTAIN THE SOCIAL DISTANCING REQUIRED BY THE GOVERNOR'S SHELTER-IN-PLACE, THE CHAMBERS WERE CLOSED TO MEMBERS OF THE PUBLIC AND THE MEETING WAS LIVESTREAMED. MEMBERS OF THE PUBLIC WERE ABLE TO SUBMIT PUBLIC COMMENT VIA EMAIL TO BUTTECHOICEENERGYCOB@BUTTECOUNTY.NET.

2. PUBLIC COMMENT

PUBLIC COMMENT WAS OPENED AND CLOSED WITHOUT ANY SPEAKERS.

3. CONSENT AGENDA

**MOTION: APPROVE THE CONSENT AGENDA.
(MOTION: BROWN; SECOND: HUBER)**

**VOTE: MOTION PASSED UNANIMOUSLY
AYES: BROWN, HUBER, TEETER, AND LUCERO
NAYS: NONE**

- a. Minutes from May 11, 2020 Board Meeting
Board Action: Approved the Minutes from the May 11, 2020 Board Meeting

4. REGULAR AGENDA

a. Presentation from Butte County Fire Safe Council Regarding Local Biomass Power Production

Calli-Jane DeAnda, Executive Director, and Jim Broshears, and, Tad Mason, of the Butte County Fire Safe Council provided a report for the Board.

b. Operations and Administration Report from Interim Executive Officer

Interim Executive Officers Brian Ring and Erik Gustafson provided updates on various operational and administrative activities with respect to the implementation of BCE, which included an update on the financials; the Chief Executive Recruitment and pending special Board meeting on June 11th; marketing RFP and Cal-CCA. The time and place for the Special Board meeting was finalized with the Board.

Shawn Marshall, Executive Director, LEAN Energy U.S., provided an update on market and public outreach.

Public comment was opened and closed without any speakers.

Board Action: Received for information.

c. Continuance to July 13 of FY 2020-2021 Budget

Interim Executive Officer Brian Ring provided a report for the Board.

Public comment was opened and closed without any speakers.

**MOTION: APPROVE CONTINUANCE OF THE CONSIDERATION OF BCEA’S FY BUDGET TO JULY 13, 2020, AND APPROVE CONTINUING AUTHORIZATION TO THE INTERIM CHIEF EXECUTIVES TO CONTINUE TO EXPEND FUNDS NEEDED FOR THE OPERATIONS OF BCE CONSISTENT WITH AUTHORIZATIONS FOR FY 2019-2020.
(MOTION: HUBER; SECOND: LUCERO)**

**VOTE: MOTION PASSED UNANIMOUSLY
AYES: BROWN, HUBER, TEETER, AND LUCERO
NAYS: NONE**

d. Preview and Discussion of Energy Risk Management Policy and Delegation of Authority

Interim Executive Officer Brian Ring introduced the item, and Denis Vermette from Pilot Power group provided a report for the Board.

Public comment was opened and closed without any speakers.

Board Action: Directed staff to bring policy back for consideration on July 13, 2020 as well as a presentation on the current energy market.

e. Adopt Resolution and Policy Regarding Addition of New Member Agencies

Interim Executive Officer Brian Ring provided a report for the Board.

Public comment was opened and closed without any speakers.

MOTION: ADOPT POLICY REGARDING COST AND PROCESS FOR OTHER AGENCIES WISHING TO JOIN BUTTE CHOICE ENERGY.
(MOTION: LUCERO; SECOND: HUBER)

VOTE: MOTION PASSED UNANIMOUSLY
AYES: BROWN, HUBER, TEETER, AND LUCERO
NAYS: NONE

5. BOARD MEMBER AND STAFF ANNOUNCEMENTS

None.

6. ADJOURNMENT

There being no further business before the Butte Choice Energy Authority, the meeting adjourned. The Butte Choice Energy Authority will reconvene at the next regular meeting, scheduled for July 13, 2020.

ATTEST:
Ashley Snyder
Interim Secretary and
Interim Clerk of the Board

Debra Lucero, Chair
Butte Choice Energy Authority

BUTTE CHOICE ENERGY AUTHORITY

Staff Report – Item 3b

To: Butte Choice Energy (BCE) Board of Directors

From: Brian Ring, BCE Interim Co-Executive Officer and Assistant Chief Administrative Officer, County of Butte
Erik Gustafson, BCE Interim Co-Executive Officer and Public Works Director, City of Chico
Harriet Steiner, Legal Counsel, BB&K

Subject: Acknowledgement of Inadvertent Brown Act Violation and Cure

Date: July 13, 2020

Recommendation:

Acknowledge Brown Act violation as described in this memo and approve the proposed cure.

Analysis and Discussion:

As you will recall, at the duly noticed and called June 8, 2020 regular Board meeting, the Board and staff discussed the Executive search process and status. During this item, the Board and staff discussed the time and place for a special meeting to interview prospective chief executive officer candidates. A closed session for the interviews was to be the sole item for this special meeting. The Board determined that the special meeting for candidate interviews would occur at the City of Chico City Hall, Meeting Room #1, on June 11, 2020.

Due to the rush of business, staff did not formally notice/post this meeting; staff also did not prepare a written agenda for posting and noticing. The failure to notice, post and prepare a formal written agenda for posting was discovered just prior to the special meeting being held. In addition, the Clerk of the Board had not been asked to notice this meeting and so was also unaware that there was a failure to post and notice. Legal Counsel was also not aware that the meeting was not properly noticed and posted and was not present at the June 11 Special meeting. Since there was no formal notice (beyond the public disclosure made at the June 8 regularly scheduled meeting) and agenda, it is unknown whether there were members of the public that may have wanted to address the Board on the closed session item.

The special Board meeting was held on June 11, 2020 at the time and place noted above and the only item on the agenda was the closed session for candidate interviews. No action was taken at the meeting. And to date, no further action on the recruitment has been taken.

At this time, for reasons related to the launch date as set forth in Item 4c of the July 13, 2020 regular Board agenda, the Executive search and recruitment is now on an indefinite hold. This item will likely be taken up again at some point in 2021. At which time the Board may decide to initiate a new recruitment or use a different process for employment of a chief executive officer.

This memo is intended to acknowledge the inadvertent Brown Act violation and to inform the public that no action was taken at the Special meeting on June 11, 2020. As a cure, to the extent that a cure is required, when the Executive recruitment process is re-started, Board discussion and actions related to the recruitment process, including any closed session(s) for interviews and/or deliberations, will be held at duly noticed and posted regular or special Board meetings.

Further, the staff has put processes in place to assure that all future meetings will be properly notices and posted.

BUTTE CHOICE ENERGY AUTHORITY

Staff Report – Item 4a

To: Butte Choice Energy (BCE) Board of Directors

From: Brian Ring, BCE Interim Co-Executive Officer and Assistant Chief Administrative Officer, County of Butte
Erik Gustafson, BCE Interim Co-Executive Officer and Public Works Director, City of Chico

Subject: BCE Operations and Administration Report

Date: July 13, 2020

Recommendation

Receive update and provide direction and feedback as needed.

Background

Staff will provide regular updates to the Board of Directors regarding BCE organizational development, administration and start-up activities. These items are informational only.

Analysis and Discussion

i) BCE Financial Update

Implementation Expenses. Attached please find an updated expense spreadsheet of interim staff, consulting and other implementation expenses that will be reimbursed to Butte County and City of Chico once BCE is revenue positive. These costs are contemplated in the cooperative service agreements with BCE and will be tracked for reimbursement as noted.

Banking and Credit Services. Recent cost increases in the resource adequacy (RA) market prompted additional proforma updates which did not result in a favorable financial outlook in the program's anticipated 2021 launch year. Staff and consultants are continuing to monitor the market and update financial projections so that hopefully within a few months, staff can re-engage with the banks who remain interested in working with BCEA when the numbers bear out and a credit facility becomes more feasible.

ii) Executive Search Update

On June 11, the Board interviewed two finalist candidates for the CEO position, both of whom were very well qualified. Staff is recommending that the final selection/hiring process be placed on hold until there is a clear decision about launch date which will be discussed in item 4c on tonight's Board agenda. Avery and Associates, the recruitment firm that has been

coordinating the process, will remain available on an as-needed basis until BCEA is ready to fully engage in the final hiring decision. BCE does not plan to hire a CEO until its credit line is in place.

iii) Marketing RFP

BCEA's Marketing and Communications RFP was issued on May 18 and we received 6 proposals by the June 15 bid deadline. Marketing firms have been notified that proposal review is ongoing and that staff will be back in touch regarding next steps pending Board decision on BCEA's amended launch date. In any case, BCE does not plan to contract with a marketing firm until its credit line is in place.

iv) Cal-CCA Engagement

BCEA is a member of Cal-CCA, and the interim executives have begun to participate on various calls regarding CCA progress and regulatory matters throughout the State. Staff have been in touch with Cal-CCA to advise of BCEA's ongoing affiliate member status at the \$1500 annual membership rate.

Attachments:

- A. BCE Expense Spreadsheet as of July 9, 2020

2018 - 2020 Butte Choice Energy - Expense Detail Report

<u>Date</u>	<u>Vender</u>	<u>Tasks</u>	<u>Costs</u>
2018-19	EES Consulting	Feasibility Study (approximate costs) Development and filing of Butte Choice Energy Authority	\$85,000
2019	EES Consulting	Implementation Plan	\$28,505.00
6-Jan	LEAN Consulting	Technical support for 2019	\$9,388.78
12-Mar	EES Consulting/GDS Associates	Technical support 2020 through February	\$19,847.50
26-Mar	LEAN Energy	Technical support through March 26, 2020	\$9,437.50
30-Mar	Avery and Associates	CEO Recruitment work	\$8,900.00
7-Apr	EES Consulting/GDS Associates	Technical support for March 2020	\$15,870.76
5-May	EES Consulting/GDS Associates	Technical support for April 2020	\$8,797.50
14-May	BB&K	Legal services (Regulatory)	\$8,536.50
14-May	BB&K	Legal services (General Counsel)	\$16,116.00
Through June	Butte County Labor	Labor to support Butte Choice Energy implementation efforts	\$87,019.62
FYTD	City of Chico Labor	Labor to support Butte Choice Energy implementation efforts	\$7,500.00
4-Jun	LEAN Energy	Technical support through May 2020	\$19,524.48
31-May	BB&K	Legal services (Regulatory)	\$7,649.50
31-May	BB&K	Legal services (General Counsel)	\$7,348.00
9-Jun	EES Consulting/GDS Associates	Technical Support	\$5,000.00
Total Expenses			\$344,441.14

Contract Details

<u>Contracts</u>	<u>Balance Remaining on</u>
PFM	\$10,000.00
Avery and Associates	\$16,100.00
BB&K	\$80,350.00
EES Consulting/GDS Associates	\$484.24
LEAN Energy	\$45,649.24

\$210,271.52

BUTTE CHOICE ENERGY AUTHORITY

Staff Report – Item 4b

To: Butte Choice Energy (BCE) Board of Directors

From: Denis Vermette, President and CFO - Pilot Power Group, LLC

Cc: Brian Ring, BCE Interim Co-Executive Officer and Assistant Chief Administrative Officer, County of Butte
Erik Gustafson, BCE Interim Co-Executive Officer and Public Works Director, City of Chico

Subject: California Energy Market Update

Date: July 13, 2020

Recommendation

Receive energy market update presentation which provides context for BCEA launch timing. No action required.

Background

As a California Load-Serving Entity (LSE), BCE must procure various energy components to supply its customers and meet several compliance requirements focused on renewable energy and resource adequacy (RA). Energy components include base-load/system energy, renewable energy, and RA. The State of California administers the Renewables Portfolio Standard (RPS) Program to ensure that LSEs such as BCE procure sufficient quantities of renewable energy to advance the state's achievement of the currently 60 percent renewable energy mandate (measured as a percentage of total energy sales) by 2030. Furthermore, State regulators also administer the RA program to support reliable grid operation. Through the State's RA program, BCE must procure RA to meet 115 percent of expected peak demand (the point at which customer energy usage is projected to be at its highest). Under the state's RA program, reserve capacity is placed under contract and must remain available to produce electric power, if directed to do so by operators of the State's electric grid. It is important to note that resources placed under reserve capacity contracts with BCE may not necessarily deliver electric power to BCE, as electric energy and reserve capacity are often procured separately from a diverse fleet of generating resources.

Analysis & Discussion

There have been significant changes in California energy markets in the past several months, only some of which stem from COVID-19 and its impact on customer demand. In addition, peak demand has declined from forecasted peak load, as reported by the CAISO, and this has led to a downward shift in forward pricing curve for energy. This shift in energy prices implies BCE could procure its base load at a lower cost. However, any savings to be had on its baseload power is offset by increased costs for renewable energy due to increase in demand for renewables in California, as LSEs are required to fulfill long-term Category 1 (Bundled Electricity) requirements as outlined in SB 350. Furthermore, the scarcity of RA supply in BCEA service territory has increased local RA pricing dramatically.

Regulatory compliance requires LSE's to procure and contract a portion of their RA requirements, referred to as Year Ahead RA, before the Year-Ahead Compliance filing due in August. If BCE was to launch in April 2021, BCE is required to procure its local requirement now to meet the requirement outlined in the Year-Ahead Compliance filing due August 17, 2020. Meeting that timeline now looks to be extremely challenging since BCEA does not have established credit with which to enter the market.

PPG will be on-hand to deliver a slide presentation about these issues and to answer any questions the Board may have.

Fiscal Impact

None at this time

BUTTE CHOICE ENERGY AUTHORITY

Staff Report – Item 4c

To: Butte Choice Energy Authority (BCEA) Board of Directors

From: Brian Ring, BCE Interim Co-Executive Officer and Assistant Chief Administrative Officer, County of Butte
Erik Gustafson, BCE Interim Co-Executive Officer and Public Works Director, City of Chico
Shawn Marshall, LEAN Energy US

Subject: Approval to Change Launch Date from April 2021 to Date to be Determined in 2022

Date: July 13, 2020

Recommendation

Authorize change of BCEA launch from April 2021 to a date to be determined in 2022 (the exact launch month will be determined in early 2021). Authorize staff to take the necessary steps with PG&E, the CPUC and others to effectuate this change.

Background

BCEA's Implementation Plan submitted to the CPUC in late December 2019 indicated a target launch date of April 2021. Staff and consultants have been working toward that deadline on various aspects of implementation, including required filing of BCEA's anticipated load forecast in April 2020. In recent weeks as COVID has dragged on, new resource adequacy (RA) pricing and rulings have been issued and credit markets have tightened, the prospects for an April 2021 launch have weakened. Staff, attorneys and consultants have met multiple times in the past few weeks to explore timing, financial and regulatory impacts of these changes on BCEA's plans.

Analysis and Discussion

There are three key factors driving the recommendation to delay program launch to 2022. These include:

- 1. Resource Adequacy (RA).** The CPUC adopted a Resource Adequacy (RA) policy framework ([Public Utilities Code section 380](#)) in 2004 in order to ensure the reliability of electric service in California. The CPUC established RA obligations applicable to all Load Serving Entities (LSEs) including utilities and CCAs. The Commission's RA program establishes certain resource requirements (known as "capacity") so that adequate power supply is available to the California Independent System Operator (CAISO) when needed. There are

three types of RA that load serving entities, including CCAs, must procure: 1) System RA, 2) Local RA, and 3) Flexible RA.

With respect to BCEA, there are three relevant RA issues that have bearing on BCEA's launch timing.

- 1) **Location.** BCEA is located in the Sierra load pocket, one of the most resource constrained areas of the State. As noted above, BCEA is required to procure a significant level of 'Local RA,' a resource that is not only difficult to source but currently very expensive. However, we believe working directly with PG&E to procure the necessary Local RA versus procurement through an auction and competing with other buyers could alleviate some of the additional markups currently seen in the market.
 - 2) **Cost.** In recent months, the cost of Local RA has skyrocketed from a historical average of \$3.25-\$4.00 per kW-month to a current average of \$8.00/kW-month. As of July 7th, PPG has seen offers to sell Sierra Local as high as \$12.50/kW-month. These increased costs absorbed all remaining margin in BCEA's proforma and rendered it financially infeasible to proceed with an April 2021 launch. As mentioned above, transacting directly with PG&E and purchasing a calendar strip of RA could alleviate some of the elevated pricing.
 - 3) **New CPUC Ruling.** In early June, the CPUC issued a ruling (R.17-09-020) regarding the establishment of a new Central Procurement Entity for RA along with some other program changes. Although not in effect until 2023, this ruling has created some market fluctuations and confusion. More will be known about process and plans in the coming months.
2. **Unknown PCIA Costs.** Adding to the mix, the projected PCIA costs for 2021/2022 are not yet known which, when coupled with increased RA costs, creates the risk that Agency rates would not be competitive in 2021. Updated PCIA projections will be included in PG&E's Energy Resource Recovery Account (ERRA) forecast due out in November, which sets CCA exit fees for 2021.
 3. **Lack of Credit and Timing.** BCEA staff and consultants have been working for the past several months on bank terms and proforma updates with the intention of securing a line of credit by late spring/early summer. Unfortunately, the onset of COVID has resulted in credit providers and wholesale suppliers tightening credit availability as the pandemic continues to rattle the economy, customers, and businesses. Compounding the pandemic concerns, recent spikes in power and RA costs have put further pressure on credit availability during the initial launch period of BCEA. BCEA's proforma projections were adversely impacted by the increased power costs which has affected BCEA's ability to proceed with credit discussions. This has resulted in procurement timing impacts. In order to participate in PG&E's RA auction anticipated to be in early August, BCEA would need to have credit in place by this month, which isn't possible for the reasons stated above.

Proposed Next Steps

The following are some of the priority steps to be completed with Board approval.

Regulatory Filing: If the Board approves the change in timing, the BCEA team will meet with PG&E and the CPUC to amend the Agency's 2021 load forecast, for which a filing is due August 7th. The Commission will issue a final ruling in September, which should relieve BCEA of any RA obligations for 2021.

Vendor Notifications: BCEA's existing contractors/vendors are aware of the situation, and there are no negative financial implications for BCEA due to a delay in launch. If the Board approves the delay, the marketing firms who bid on BCEA's work in June will be notified and re-contacted in 2021 once a credit line is in place.

CEO Recruitment: Finalist candidates will be notified of the delay and re-contacted in 2021 when credit arrangements are in place. It may be necessary to re-open the recruitment, but we will assess the situation and availability of the finalists when the timing is closer.

Market Watch/ERRA Forecast: Staff and consultants will continue to monitor the power markets and RA pricing in the hopes of a downward trend. The November ERRA forecast will shed additional light on projected PCIA costs.

Financing: Staff recommends that financing discussions with potential lenders renew later this year or early next year once financial conditions have eased.

City of Oroville: Staff will update Oroville executive staff on BCEA's amended plans and continue to have discussions about possible JPA membership. The timing is such that if Oroville decides to join BCEA and the Board approves it by the end of 2020, Oroville customers could enroll in 2022 at the same time as Butte County and City of Chico customers. To be determined.

Staff will, of course, keep the Board apprised of the situation as things move forward and market forecasts for 2021/2022 are better known. Staff will also update the master timeline to reflect the amended launch timing as directed by the Board and as market conditions warrant.

Fiscal Impacts

Provided the CPUC allows BCEA to amend the 2021 load forecast from the proposed launch date change, there should be minimal financial impacts. Much of the staff and consultant work will pause until later this calendar year, when the proformas can be refreshed and staff can reassess the situation.

BUTTE CHOICE ENERGY AUTHORITY

Staff Report – Item 4d

To: Butte Choice Energy (BCE) Board of Directors

From: Brian Ring, BCE Interim Co-Executive Officer and Assistant Chief Administrative Officer, County of Butte
Erik Gustafson, BCE Interim Co-Executive Officer and Public Works Director, City of Chico
Gary Saleba, Executive Consultant, EES Consulting, Inc.

Subject: Adoption of Fiscal Year 2020/2021 Agency Budget

Date: July 13, 2020

Recommendation(s)

Adopt Resolution of the Board of Directors of Butte Choice Energy adopting the Fiscal Year 2020/2021 Agency Budget.

Background

Section 7.1 of the BCEA Joint Powers Agreement specifies that the Agency shall adopt an annual budget covering the period July 1 – June 30th of the following year.

The Agency's FY 2020/2021 Budget represents carry-over income from FY 2019/2020 and basic expenses for its continuing pre-launch period, which assumes BCEA begins serving customers in early spring 2022. All known revenues and expenditures impacting the Agency have been budgeted for FY 2020/2021; however, staff will provide a mid-term budget update and potential amendments in early 2021 once more is known about credit availability and energy market forecasts impacting Agency revenues and the final launch plan.

Discussion and Analysis

FY 20/21 Revenues (\$0): This is a pre-launch fiscal year. No ratepayer revenues are forecast and this budget does not include anticipated revenues from bank financing which remains TBD.

Expenses - General Operations and Administration (\$17,500): General Operations and Administration expenses include labor rates of staff allocated to BCEA. Current staff includes the Co-Interim-Executive Officers, Administrative Services Manager, Administrative Assistant, and a Staff Technician. Staffing expenses are being tracked by the member Agencies and will be repaid by BCEA once BCEA is operational. Those expenses are, therefore, not included in this FY

budget. General expenses are budgeted at \$17,500, which includes miscellaneous general office operational expenses, CalCCA affiliate membership dues, and general liability insurance.

Legal (\$120,000): Legal services will support Agency general counsel services and commercial contracting as may be needed. Providers of legal services are Best Best & Krieger. The budgeted amount is based on BB&K's annual contract amount.

Program Expense (\$0): Future program expenses will include notification and other programs at the discretion of the Board such as rate incentives and other energy-related programs.

Consulting Services (\$150,000): Consulting services anticipated in the coming fiscal year include BCEA implementation and start-up services, energy management-related services such as scheduling coordination, call center management, rate setting, energy portfolio management, financing and banking services, recruitment support and some marketing activity.

Staff anticipates continuing to work with the following firms: LEAN Energy US (implementation strategy and start-up), Pilot Power Group (power services and regulatory compliance), EES Consulting (budget/rates), Public Finance Management (bank financing), Calpine Energy Services (data management/call center), Z-Global (schedule coordination), Avery Associates (CEO recruitment), Marketing Firm TBD (marketing and outreach).

Budgeted expenses include 12 months of consulting services based on current contract balances and anticipated expenditures. Actual costs will depend on the timing of BCEA launch and potential participation of the City of Oroville (discussed under Other Considerations).

Finance and Interest Expense (\$0): Finance and interest expenses represent fees, borrowing, and letter of credit costs associated with BCEA's loan facilities. No fees are included in the budget as the amount and timing of a banking arrangement is as yet unknown.

CPUC Bond (\$0): Calpine paid the bond requirement to the CPUC for BCEA to complete its registration. This amount is included in both the transfers in and expense sections of the budget. BCEA will begin repayment of this loan once it begins serving customers in 2022 at a cost of 2% per annum. Repayment will be completed within 24 months. This budget assumes that payments for this loan will not begin until after FY20/21.

IOU Fees (\$0): PG&E charges for customer billing. The cost for billing is based on the number of customers. There are no fees for the FY20/21, which is a pre-launch fiscal year.

Power Supply (\$0): Power supply costs include expenses associated with the purchase of energy from wholesale suppliers, the California Independent Systems Operator (CAISO), and charges associated with CAISO for power and services performed by CAISO. Given the uncertainty of the BCEA launch, no power supply expenses are assumed in this fiscal year budget. Costs for power supply contracts will require revenue from a line of credit which is not included in this FY budget.

Other Considerations: While BCEA anticipates a balanced budget and is currently in stable financial condition, there are changes and additional activities that can impact the Agency in the short- and long-term. Some of these include:

City of Oroville: Depending on interest from the City of Oroville, BCEA may be able to add a new member agency for a 2022 launch. The cost of adding Oroville will include the cost of updating and filing the BCEA Implementation plan by December 31, 2020 for a 2022 launch. The timing of those expenses are assumed to occur in FY21/22 and will likely be paid by the City of Oroville.

Timing of BCEA Launch: At the time of this budget, it is assumed that BCEA will launch no sooner than March/April 2022. The state of credit markets has been less favorable due to COVID-19 impacts. Additionally forecast PG&E rates for BCEA customers launching later than July 2021 are unknown and are associated with significant uncertainty. These rate issues will become more clear in November 2020 when PG&E submits its final 2021 ERRA filing.

Power Supply Costs: Currently, power supply cost uncertainty is high due to many factors including Resource Adequacy market structure changes and restrained credit markets due to COVID-19 impacts. The California Public Utilities Commission has decided to pursue a central agency model for Resource Adequacy procurement and has placed the central procurement role on PG&E and Southern California Edison. The current model for local resource adequacy boundaries places BCEA in a high cost region. As proceedings around the Central Procurement Agency develop, future changes in the model may improve the economic outcome for BCEA; however, the timing and certainty of the needed changes are unknown at this time.

Fiscal Impact

All known revenues and expenditures impacting the Agency have been budgeted for Fiscal Year 2020/2021; however, staff will provide a mid-term budget update and potential amendments in early 2021.

Attachments

1. Fiscal Year 2020/2021 Agency Budget (see page 4 of this report)
2. Resolution of the Board of Directors of Butte Choice Energy Authority adopting the Fiscal Year 2020/2021 Agency Budget.

BCEA Fiscal Year 2020/2021 Budget¹

	Expenditure through 6/30/2020	Proposed Budget 6/30/2021
Revenues and Transfers In		
Fund Balance Carryover	\$0	\$350,078
Transfers in from Agencies	\$600,000	\$0
Calpine Loan	\$100,000	\$0
Total Revenues Transfers	\$700,000	\$350,078
Expenditures		
General Operations		
<i>General Operation and Admin</i>		
Program/Office Supplies	\$0	\$10,000
Event Support	\$0	\$0
Membership Dues	\$0	\$1,500
Meeting Support Services	\$0	\$0
Misc Household Expense	\$0	\$0
Insurance - Gen/Bus Liab	\$0	\$6,000
General Admin/Staffing ²	\$0	\$0
<i>Subtotal General Operation and Admin</i>	<i>\$0</i>	<i>\$17,500</i>
<i>Outside Services</i>		
Legal Services	\$39,650	\$120,000
Bank Fees, Interest Expense	\$0	\$0
Consulting Labor	\$210,272	\$150,000
Program Expense	\$0	\$0
CPUC Bond	\$100,000	\$0
IOU Charges	\$0	\$0
<i>Subtotal Outside Services</i>	<i>\$349,922</i>	<i>\$270,000</i>
Subtotal General Operating Expense	\$349,922	\$270,000
Power Supply		
Supplier Fees	\$0	\$0
System Energy	\$0	\$0
Hedged Energy	\$0	\$0
Renewable Energy	\$0	\$0
Resource Adequacy	\$0	\$0
CAISO Charges	\$0	\$0
Subtotal Power Supply Expense	\$0	\$0
Total Expenditures	\$349,922	\$287,500
Net Surplus	\$350,078	\$62,578

¹ Please note that this budget does not include anticipated line of credit or debt service, cost of power, data management/call center, scheduling, marketing costs, programs or other services that will be added as part of a budget amendment in early 2021 and/or included in the FY 21/22 budget.

² Interim Agency staffing provided by the City/County to be reimbursed after commencement of service in 2022.

RESOLUTION NO. 2020-__

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF BUTTE CHOICE ENERGY AUTHORITY
ADOPTING THE FISCAL YEAR 2020/2021 AGENCY BUDGET**

WHEREAS, The Butte Choice Energy Authority (“BCEA”) fiscal year shall be twelve (12) months commencing July 1 of each year and ending June 30 of the succeeding year; and

WHEREAS, Section 4.4 of the BCEA Joint Powers Agreement states that the Board of Directors of BCEA (the “Board”) shall establish the budget for the BCEA, and may from time to time amend the budget to incorporate additional income and disbursements that might become available to BCEA for its purposes during a fiscal year; and

WHEREAS, the Board has reviewed and wishes to approve the adoption of the BCEA Fiscal Year 2020/2021 Agency Budget.

NOW, THEREFORE, THE BUTTE CHOICE ENERGY AUTHORITY BOARD OF DIRECTORS DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:

1. The Board has determined that the recitals herein are true and correct.
2. The Board approves and adopts the BCEA Fiscal Year 2020/2021 Agency Budget attached hereto as Exhibit “A.”

PASSED AND ADOPTED by the Board of Directors on July 13, 2020.

Debra Lucero, Board Chair
Butte Choice Energy Authority

Brian Ring, Interim Executive Director
Butte Choice Energy Authority

Erik Gustafson, Interim Executive Director
Butte Choice Energy Authority

Approved as to form:

Harriet Steiner
Butte Choice Energy Authority Legal Counsel

AYES: _____ NAYS: _____ ABSENT: _____ ABSTAIN: _____

BUTTE CHOICE ENERGY AUTHORITY

Staff Report – Item 4e

To: Butte Choice Energy (BCE) Board of Directors

From: Denis Vermette, President and CFO - Pilot Power Group, LLC

Cc: Brian Ring, BCE Interim Co-Executive Officer and Assistant Chief Administrative Officer, County of Butte
Erik Gustafson, BCE Interim Co-Executive Officer and Public Works Director, City of Chico

Subject: Adopt Energy Risk Management Policy and Delegation of Authority

Date: July 13, 2020

Recommendation

Adopt the BCEA Energy Risk Management Policy, including the Delegation of Authority for energy product contract approvals.

Analysis and Discussion

The Energy Risk Management Policy (ERMP) establishes policies and procedures to manage the risks associated with power procurement activities. These risks include customer opt-out, market/pricing, regulatory, volumetric, modeling, operational, counterparty credit, customer credit, EDI data, and reputation. The ERMP will identify and explain in detail each of these risks and how to manage them effectively. The ultimate purpose of this Policy is to help BCE increase the likelihood of achieving its goals through the management of risk, including specifying management responsibilities, organizational structures, risk management standards, and operating controls and limits.

Furthermore, the ERMP outlines and defines transaction types and markets (territory), risk limits, maturity limits, term limits, volume limits, and value limits. Moreover, the ERMP outlines the Delegation of Authority (DOA) for the CEO in consultation with the future Risk Oversight Committee, the Board, and its future Power Resources Manager.

The Delegation of Authority is intended to streamline the procurement decision-making process in order to ensure timely and efficient transactions. Most transactions will be presented to the Board for approval in advance of executing contract confirmations. However, there will be a number of short-term supply transactions needing to be confirmed within a few hours (often 1-2 hours) before pricing is refreshed by the supplier. The DOA attempts to provide a balance between control and efficiency, allowing the Chief Executive Officer and the Power Manager to approve time-sensitive transactions with a lower notional value. In all cases, the Board will be kept informed of BCEA procurement activities during updates at regularly scheduled Board meetings.

A summary of the proposed delegation transaction execution authorities outlined in the ERMP is shown in the table below.

Position	Maturity Limit	Term Limit	Volume Limit (MWh) ¹	Value Limit ²
Chief Executive Officer in consultation with the Board (RPS PPA SB 350)	20 Year	10-20 Year	N/A	N/A
Chief Executive Officer in Consultation with the Board	60 months	48 months	3,000,000	\$10,000,000
Chief Executive Officer	36 months	24 months	2,000,000	\$5,000,000
Power Manager	24 months	12 months	1,000,000	\$2,000,000

1 Volume limit applies only to energy purchases, including index-based renewable and carbon-free energy purchases.

2 Value limits apply to non-energy product transactions (e.g., Resource Adequacy).

These authorities will be applied to wholesale power procurement executed outside of the California Independent System Operator (“CAISO”) markets. These limits provide the Board, Chief Executive Officer, and the Power Manager the needed authorities to manage risks as they arise. Transactions falling outside the delegations above require Board approval before the execution of the transaction confirmation.

At its meeting in June, the BCEA Board received a presentation outlining the key aspects of the ERMP and a copy of the draft/proposed ERMP for consideration. Attached is a copy of the proposed ERMP for BCEA approval, which includes some minor non-substantive changes as well as one edit involving prohibition of derivative transactions, which will be discussed.

Fiscal Impact

None at this time

Attachments

A: BCEA Energy Risk Management Policy

BUTTE CHOICE ENERGY

Energy Risk Management Policy

Version: 06/2020

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Chapter 1: Policy Overview

BACKGROUND AND PURPOSE

Butte Choice Energy (“BCE”) is a public agency located within Butte County, formed for the purpose of implementing a community choice aggregation program (“CCA”). Member Agencies of the BCE includes the City of Chico, a municipality located within the County of Butte (“County”) as well as the unincorporated areas of the County itself (together, the “Members” or “Member Agencies”), which have elected to allow BCE to provide electric generation service within their respective jurisdictions.

Currently, the following Member Agencies comprise BCE:

- County of Butte (unincorporated area)
- City of Chico

Providing retail electric generation service to customers enrolled in the CCA program exposes BCE to risks such as retail load uncertainty (due to weather, customer opt-out, and other factors), energy market price, counterparty credit, power supplier generation, PCIA rate competitiveness and other regulatory risks. The Energy Risk Management Policy (“Policy”) establishes policies and procedures to manage the risks associated with power procurement activities. The ultimate purpose of this Policy is to help BCE increase the likelihood of achieving its goals through the management of risk, including specifying management responsibilities, organizational structures, risk management standards, and operating controls and limits.

OBJECTIVE

The Policy objective is to provide a framework for conducting procurement activities that maximizes the probability of BCE meeting the goals listed in Section 1.3.

PROGRAM GOALS

To help ensure long term viability of BCE, the following Policy goals have been developed. These goals establish metrics that will be used for modeling and measuring risk.

- BCE will target competitive retail rates and utility programs after adjusting for the PCIA and Franchise Fee
- BCE will target, during the initial 8 years of operation, to fund financial reserves with the following objectives:
 - Establish long-term business sustainability
 - Build collateral for power procurement activities
 - Establish an investment grade credit rating
 - Develop a source of funds for investment in generation and other local programs
 - Stabilize rates and dampen year-to-year variability in procurement costs

The goals outlined above are incorporated into the financial models that are used in modeling and measuring risk exposures. It is important to note that the goals listed above are not intended to be a comprehensive list of goals for BCE. Rather, the above reflect a subset of goals critical to long-term business viability of BCE.

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 BCE. The Policy documents the framework by which management, staff, consultants and power management service providers 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
- Provide the key performance indicators to measure the effectiveness of consulting and power management activities

To ensure successful operation, BCE has partnered with experienced consultants to provide energy-related services. BCE may contract with an external provider for power procurement services or may self-provide procure power services. Any external power procurement provider shall be considered the Power Manager as set forth in Section 2. At the outset of BCE, the Power Manager will be executing the preponderance of front- (transacting), middle- (monitoring) related activities on BCE's behalf as discussed at Section 2.4. In providing these services for BCE, the Power Manager will adhere to and be governed by this Policy. The Power Manager may maintain its own risk management policies and procedures, following industry practices regarding the segregation of duties, which also govern activities executed on BCE's behalf. BCE is not bound by the Power Manager's internal risk policy, however the Power Manager must adhere to this Policy when performing power management services on behalf of BCE. In the event of a conflict between this Policy and a Power Manager's risk policy, the Power Manager must inform the CEO as soon as practicable.

POLICY ADMINISTRATION & INTERPRETATION

This Policy document has been reviewed and approved by the BCE Board of Directors (Directors). The Board must approve amendments to this Policy, except for the appendices, which may be amended by the Chief Executive Officer. The Chief Executive Officer must give notice to the Board of any amendments made to an appendix or a reference policy or procedure document.

This Policy shall be distributed to all BCE employees and third-party contractors who are engaged in the planning, procurement, sale and scheduling of electricity on BCE's behalf and/or in other

BCE departments providing oversight and support for these activities. All such employees and contractors are required to confirm in writing on an annual basis that they have:

- Read BCE's Policy
- Understand the terms and agreements of said Policy, and
- Will comply with said Policy
- Understand that any violation of said Policy shall be subject to employee discipline up to and including termination of employment.

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

Chapter 2: Organizational Structure and Responsibilities

BOARD OF DIRECTORS

The BCE Board of Directors has the responsibility to review and approve the Policy. With this approval, the Board assumes responsibility for understanding the risks BCE is exposed to and how the policies outlined in this document help BCE manage those risks.

The Board of Directors is also responsible to:

- Determine BCE strategic direction
- Understand the procurement strategy employed
- Remain apprised of the performance of the Policy, the Chief Executive Officer and the Power Manager

RISK MANAGEMENT GUIDANCE

The Chief Executive Officer is responsible for implementing, maintaining and overseeing compliance of this Policy. The Chief Executive Officer will receive input from staff and BCE's consultants on procurement activities. The primary goal is to ensure that the procurement activities of BCE are executed within the guidelines of this Policy and are consistent with Board directives.

The Chief Executive Officer maintains the responsibility to:

- Approve and ensure that all procurement strategies are consistent with this Policy
- Determine if changes in risk and procurement strategies, processes or structures are warranted
- Approve new transaction types, regions, markets and delivery points
- Understand financial and risk models used by the Power Manager and BCE's consultants
- Understand counterparty credit review models and methods for setting and monitoring credit limits
- Receive and review reports as described in this Policy
- Meet to review actual and projected financial and risk management activities
- Escalate to the Board of Directors with any risks beyond the Chief Executive Officer's authority
- Review summaries of limit violations and recommend corrective actions, if necessary
- Review the effectiveness of BCE's energy risk measurement methods
- Maintain this Policy through regular review, administration and enforcement
- Monitor regulatory and legislative activities

- Foster an environment that is supportive of BCE risk management goals and structure

POWER MANAGER

BCE may contract externally for a power manager or may internally appoint one. The Power Manager must maintain a strong segregation of duties, also referred to as "separation of function" that is fundamental to manage and control the risks outlined in this Policy. The Power Manager will provide education to the Chief Executive Officer on the risk and credit models, methods and processes that it uses to fulfill its obligations under this Policy. Individuals responsible for legally binding BCE to a transaction will not also perform confirmation, or settlement functions.

The Power Manager's responsibilities are divided into front-middle-back office activities, as described below.

Power Manager and Schedule Coordination - Front Office

The Front Office has overall responsibility for:

1. Managing all commodity and transmission activities related to procuring and delivering resources needed to serve BCE's load, analyzing fundamentals affecting load and supply factors that determine BCE's net position, and
2. Transacting within the limits of this Policy, and associated policies, to balance loads and resources, and maximize the value of BCE's assets through the exercise of approved optimization strategies

Other duties associated with these responsibilities include:

1. Assist in the development and analysis of risk management hedging products and strategies, and bring recommendations to the Chief Executive Officer
2. Prepare a monthly operating plan for the prompt months that gives direction to the day-ahead and real-time trading and scheduling staff regarding the bidding and scheduling of CCA's resource portfolio in the CAISO market
3. Develop, price and negotiate hedging products
4. Forecast day-ahead and monitor/ forecast same-day loads
5. Accurately input, administer, schedule and track all power and transmission transactions

Power Manager – Middle/Back Office

The Middle and Back Offices are functionally and organizationally separate from the Front Office.

The Middle Office provides independent market and credit risk oversight.

The Back Office provides support with a wide range of administrative activities necessary to execute and settle transactions and to support the risk control efforts (e.g. transaction entry and/or checking, data collection, billing, etc.).

The Middle and Back Offices have primary responsibility for trading controls and for ensuring agreement with counterparties regarding the terms of all trades, including forward trading, including:

1. Estimating and publishing daily forward monthly power and natural gas price curves for a minimum of the balance of the current year through the next calendar year
2. Calculating and maintaining the net forward power positions of BCE
3. Ensuring that BCE adheres to all risk policies and procedures of both BCE and the Power Manager in letter and in intent
4. Maintaining the overall financial security of transactions undertaken by the Power Manager on behalf of BCE
5. Implementing and enforcing credit policies and limits
6. Handling confirmation of all transactions and reconciling differences with the trading counterparties
7. Reviewing trade tickets for adherence to approved limits
8. Ensuring all trades have been entered into the appropriate system of record
9. Ensuring that both pre-schedule and actual delivery volumes and prices are entered into the physical database
10. Carrying out month-end checkout of all transactions each month
11. Reviewing models and methodologies and recommending Chief Executive Officer approval.

Chapter 3: Risk Exposures

RISK EXPOSURES

BCE faces a range of risks during launch and ongoing operation. The following are components of BCE's energy risk that will be assessed, monitored and managed. For this Policy, risk exposure is assessed on all transactions (energy, environmental attributes, capacity, etc.) executed by Power Manager on behalf of BCE, or by BCE unilaterally, as well as the risk exposure of open positions and the impacts of these uncertainties on the BCE's load obligations.

- Customer Opt-Out risk
- Market price and supply risk
- Regulatory risk
- Volumetric risk
- Model risk
- Operational risk
- Counterparty credit risk
- Customer credit risk
- EDI Data risk
- Reputation risk

Customer Opt-Out Risk:

Customer opt-out risk is the primary risk BCE faces and includes any condition or event that creates uncertainty within, or a diminution, of BCE's customer base, thereby increasing the potential for BCE to not meet its Policy goals.

BCE will manage opt-out risk by:

- Having increased marketing into the communities
- Hiring an Energy Account Program Manager
- Attending community events
- Providing regular updates to members City Councils
- Maintaining strong relationships with the local community including elected leaders, stakeholders and all the customers BCE serves
- Actively monitoring and a for the interests of BCE and its customers in PG&E ratemaking proceedings, California Public Utilities Commission (CPUC) proceedings that potentially affect exit fees paid by BCE customers, as well as all regulatory and legislative proceedings where an adverse outcome may challenge the ability of BCE to deliver on customer commitments
- Regularly monitor and report actual and projected financial results including probability-based and stress-tested financial results assuming a range of possible future outcomes with respect to:
 - Future power supplier generation and PCIA rates
 - Future market costs for energy, environmental attributes and capacity

- Anticipated or threatened regulatory actions, when appropriate
- Adopt, implement and update, as needed, a formal Energy Risk Hedging Strategy (Appendix B) describing the strategy that BCE will follow for engaging in procurement activities
- Evaluate expansion of BCE's customers base through incorporation of other eligible communities

Market Risk

Market risk is the uncertainty of BCE's financial performance due to variable commodity market prices (market price risk), uncertain price relationships (basis risk) and the volume of power available in the market (supply risk). Variability in market prices creates uncertainty in BCE's procurement costs and can materially impact BCE's financial position.

BCE will manage market risk by:

- Regular measurement of market conditions
- Execution of approved procurement and Congestion Revenue Right strategies
- Strict adherence to the Energy Risk Management Policy
- Employ a hedging policy with up to date strategies that protect BCE from both extreme market highs and long term high price exposure during market troughs.

Regulatory Risk

CCAs remain comparatively new legal entities in the State of California and are subject to an evolving legal and regulatory landscape. Additionally, CCAs are in direct competition with Investor Owned Utilities (IOUs) in retail electricity, which face the risk of stranded investments in generating assets and power purchase agreements procured in the past to serve now departing CCA loads. The way the stranded costs of these legacy power supplies are allocated to departing CCA loads is the subject of regulatory proceedings at the CPUC, through the Power Charge Indifference Adjustment (PCIA). Continuing new and evolving regulations result in retail rate competitiveness risks that are unique to CCAs.

BCE will manage regulatory risk by:

- Regular monitoring and analysis of legislative and regulatory proceedings impacting CCAs
- Actively participating in and representing BCE customer interests during regulatory and legislative proceedings
- Regular monitoring and reporting of actual and projected financial results including probability based and stressed financial results assuming a range of market and retail rate scenarios (both BCE and PG&E)
- Structuring procurement strategies with the objective function of maintaining a favorable retail rate savings relative to PG&E and other neighboring retail providers

Volumetric Risk

Volumetric risk is the uncertainty of BCE's financial performance due to variability in the quantity of retail load served by BCE. Retail load uncertainty results from customer opt-outs, temperature deviation from normal, unforeseen adoption of behind the meter generation by BCE customers, as well as local, state and national economic conditions.

BCE will manage volume risk by:

- Quantifying anticipated power supplier generation and PCIA rates, and variability therein
- Quantifying variability in procurement costs
- Monitor and adjust for non-regulatory factors driving volumetric uncertainty (e.g., weather, economy)
- Adopting a formal procurement strategy
- Implementing a key accounts program and maintain strong relationships with the local community
- Monitoring trends in customer onsite generation, economic shifts, and other factors that affect electricity customer consumption and composition
- Expanding BCE's customer base by incorporating other eligible jurisdictions
- Proactively engage with customers in developing distributed energy resources and behind-the-meter generation and energy efficiency programs to better forecast changes in load

Model Risk

Model risk is the uncertainty of BCE's financial performance due to potentially inaccurate or incomplete characterization of a transaction or power supply portfolio elements due to fundamental deficiencies in models and/or information systems.

BCE will manage model risk by:

- Approval and ratification of financial and risk models
- Ongoing review of model outputs as part of controls framework
- Ongoing BCE and the Power Manager's staff education and participation in CCA industry forums
- Ongoing updates and improvements of models as additional information and expertise is acquired

Operational Risk

Operational risk is the uncertainty of BCE's financial performance due to weaknesses in the quality, scope, content, or execution of human resources, technical resources, and/or operating procedures within BCE. Operational risk can also be exacerbated by fraudulent actions by employees or third parties or inadequate or ineffective controls.

BCE will manage operational risk by:

- Strict adherence to the Energy Risk Management Policy
- Chief Executive Officer oversight of procurement activity

- Timely and effective management reporting
- Ensuring adequate staff resources, expertise and/or training are reinforcing a culture of compliance
- Ongoing and timely internal and external audits

Counterparty Credit Risk

Counterparty credit risk is the potential that a counterparty will fail to perform or meet its obligations in accordance with terms agreed to under contract.

BCE will manage counterparty credit risk by:

- Strict adherence to the Energy Risk Management Policy

Customer Credit Risk

BCE Customer credit risk is the potential that a customer will fail to pay their invoices provided by PG&E and BCE's power supplier. Customer credit risk can be mitigated by establishing a customer bad debt reserve as a percentage of revenues. In addition, tracking, monitoring, and follow-up action on delinquent active and closed accounts.

BCE will manage BCE Customer credit risk by:

- Strict adherence to the Energy Risk Management Policy
- Chief Executive Officer oversight of customer account aging
- Timely and effective customer aging reporting
- Ongoing communication with PG&E's CCA customer relationship manager and BCE's power supplier
- Prudent disconnection of delinquent customers back to the utility to minimize outstanding credit exposure

EDI Data Risk

Operations of a CCA is highly dependent on Electronic Data Interchange (EDI) transactional data. There are several risks and associated controls associated with EDI data: security and confidentiality, processing integrity, and system/information availability. EDI Data risk can be mitigated with the use of system validation tools to verify and identify invalid data prior to entering into the customer management systems and computer logs to ensure a transactional trail. Furthermore, in today's environment of virus, worm and hacker attacks, the data manager must provide business continuity plans, backup data and system recovery plans to ensure the CCA business continues. Most importantly, as BCE is a holder of customer information, controls and procedures must be maintained to ensure customer information integrity.

BCE will manage CCA EDI Data risk by:

- Strict adherence to the Energy Risk Management Policy
- Data Manager to maintain a strict Data Management Provider Security Breach Policy

- Data Manager to maintain a Disaster Recovery (DR) plan and periodic testing
- Data Manager to maintain a Cyber Security Insurance Policy

Reputation Risk

Reputation risk is the potential that BCE's reputation is harmed, causing customers to opt-out of BCE's service and migrate back to PG&E.

BCE will manage reputation risk by:

- Implementation and adherence to this Energy Risk Management Policy
- Establishment and adherence to industry best practices including both those adopted by other CCAs, as well as those adopted by traditional municipal electric utilities

RISK MEASUREMENT METHODOLOGY

A vital element in the Policy is the regular identification, measurement and communication of risk. To effectively communicate risk, all risk management activities must be monitored on a frequent basis using risk measurement methodologies that quantify the risks associated with BCE's procurement-related business activities and performance relative to identified goals.

Risk measurement of BCE's position will be performed using a method that calculates projected procurement costs on an annual basis at various probabilities and that further provides a comparison of projected BCE retail rates to those of PG&E and other neighboring retail providers.

The rate comparison will be adjusted for actual and projected PCIA and Franchise Fee charges. Risk measurement methodologies will be re-evaluated on a periodic basis to ensure BCE and the Power Manager adjust its methods to reflect the evolving regulatory and competitive landscape. The implementation of these methods shall be overseen and validated by the Power Manager and ratified by the Chief Executive Officer.

Chapter 4: Business Practices

GENERAL CONDUCT

It is the Policy that all personnel, including the Directors, management, and agents, adhere to standards of integrity, ethics, conflicts of interest, compliance with statutory law and regulations and other applicable BCE standards of personal conduct while employed by BCE affiliated with BCE.

CONFLICTS OF INTEREST

All BCE Directors, management, employees, consultants, and agents participating in any transaction or activity within the coverage of this Policy are obligated to give notice in writing to BCE of any interest such person has in any counterparty that seeks to do business with BCE, and to identify any real or potential conflict of interest such person has or may have with regard to any existing or potential contract or transaction with BCE. Further, all persons are prohibited from personally participating in any transaction or similar activity that is within the coverage of this Policy, or prohibited by California Government Code § 1090, and that is directly or indirectly related to the trading of electricity and/or environmental attributes as a commodity.

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.

TRADING FOR PERSONAL ACCOUNTS

All BCE Directors, management, employees, consultants, and agents participating in any transaction or activity within the coverage of this Policy are obligated to give notice in writing to BCE of any interest such person has in any counterparty that seeks to do business with BCE, and to identify any real or potential conflict of interest such person has or may have with regard to any existing or potential contract or transaction with BCE. Further all persons are prohibited from personally participating in any transaction or similar activity that is within the coverage of this Policy, or prohibited by California Government Code § 1090, and that is directly or indirectly related to the trading of electricity and/or environmental attributes as a commodity. 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.

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 BCE. This Policy is intended to comply with these laws, regulations and rules and to avoid improper conduct on the part of anyone employed by BCE. These procedures may be modified from time to time by legal requirements, auditor recommendations, Chief Executive Officer requests, and other considerations.

BCE employees are prohibited from working for another transmission provider, system operator, balancing authority, power supplier, CCA, or utility in a related position while they are simultaneously employed by BCE unless an exception is authorized by the Directors. For clarity, this prohibition is not intended to prevent BCE staff from performing non-CCA activities on behalf of BCE in the normal course of its business.

In the event of an investigation or inquiry by a regulatory agency, BCE will provide legal counsel to employees. However, BCE will not appoint legal counsel to an employee if BCE's General Counsel and Chief Executive Officer determine that the employee was not acting in good faith within the scope of employment. BCE employees are prohibited from working for another power supplier, CCA or utility in a related position while they are simultaneously employed by BCE unless an exception is authorized by the Board. For clarity, this prohibition is not intended to prevent BCE staff from performing non-CCA activities on behalf of BCE in the normal course of its business.

TRANSACTION TYPE, REGIONS AND MARKETS

Authorized transaction types, regions and markets are listed in Appendix A to this Policy. These transaction types, regions and markets are and shall continue to be focused on supporting BCE's financial policies, including approved procurement strategies. New or non-standard transaction types may provide BCE with additional flexibility and opportunity but may also introduce new risks.

Therefore, transaction types, regions and markets not included in Appendix B, or transactions within already approved transaction types that are substantially different from any prior transaction executed by BCE, must be approved by the Chief Executive Officer prior to execution using the process defined below. When seeking approval for a new or non-standard transaction type, region, and/or market, a New Transaction Approval Form, as shown in Appendix C, is to be drafted describing all significant elements of the proposed transaction.

The proposal write-up will be prepared by Power Manager and will, at a minimum, include:

- A description of the benefit to BCE, including the purpose, function and expected impact on costs (i.e.; decrease costs, manage volatility, control variances, etc.)

- Identification of the in-house and/or external expertise that will manage and support the new or non-standard transaction type
- Assessment of the transaction’s risks, including any material legal, tax or regulatory issues
- How the exposures to the risks above will be managed by the limit structure
- 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
- Proposed work flows/methodology (including systems)

It is the responsibility of Power Manager’s Middle Office to ensure that relevant departments have reviewed the proposed transaction and that material issues are resolved prior to submittal to the Chief Executive Officer for approval. If approved, Appendix A to the Policy will be updated to reflect the new transaction type.

COUNTERPARTY SUITABILITY

Counterparty credit limits and approval processes will govern counterparty suitability for all transactions executed by Power Manager on behalf of BCE. The Power Manager will provide a credit review and recommendation, consistent with the credit policies described in Section 6, for any counterparty with whom BCE contracts directly.

SYSTEM OF RECORD

The Power Manager’s Middle Office will maintain a set of records for all transactions executed in association with BCE 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.

TRANSACTION VALUATION

Transaction valuation and reporting of positions shall be based on objective, market-observed prices. Open positions will be valued (marked-to-market) monthly, based on consistent valuation methods and data sources. Whenever possible, mark-to-market valuations should be based on independent, publicly available market information and data sources.

TRADING PRACTICES

It is the expressed intent of this Policy to prohibit the acquisition of risk beyond that encountered in the efficient optimization of BCE’s generation portfolio and execution of procurement strategies. Prohibited transactions are those transactions that are not related to serving retail electric load and/or reducing financial exposure. Speculative buying and selling of energy products or maintenance of open positions that do not conform with agreed upon thresholds is prohibited. Speculation is defined as buying energy in excess of forecasted load

plus reasonable planning reserves, intentionally under procuring energy relative to minimum load hedging targets or selling energy or environmental attributes that are not yet owned by BCE. In no event shall speculative transactions be permitted. Any financial derivatives transaction including, but not limited to futures, swaps, options, and swap options are also prohibited. During developing operating plans and conducting procurement activities, BCE recognizes that expertise must be employed by the Power Manager's staff, and it is not the intent of this Policy to restrain the legitimate application of analysis and market expertise in executing procurement strategies intended to minimize costs within the constraints of this Policy. If any questions arise as to whether a proposed transaction(s) constitutes speculation, the Power Manager shall conduct an analysis of the transaction and the Chief Executive Officer shall review the transaction(s) to determine whether the transaction(s) would constitute speculation and document its finding in the meeting minutes.

Staff and consultants engaged in procurement activities will also observe the following practices:

- Persons shall conduct business in good faith and in accordance with all applicable laws, regulations, tariffs and rules
- Persons shall not arrange or execute wash trades (i.e. offsetting transactions where no financial risk is taken)
- Persons shall not disseminate known false or misleading information or engage in transactions to exploit such information
- Persons shall not game or otherwise interfere with the operation of a well-functioning competitive market
- Persons shall not collude with other market participants
- Persons shall immediately report any known or suspected violation of the ERMP

Chapter 5: Delegation of Authority

RISK LIMITS

The following limits apply to all BCE procurement activities. These limits are Board-approved and define the limits that BCE must operate within. The metrics and management of risk within these limits are further described in the Energy Risk Hedging Strategy.

Delegation Authority

Through its approval of the Policy, the Board has delegated operations and oversight to the Chief Executive Officer, in consultation with the Chief Executive Officer, as outlined through the Policy.

Specifically, to facilitate daily operations of BCE, the Board has delegated transaction execution authorities shown in the table below.

Position	Maturity Limit	Term Limit	Volume Limit (MWh) ¹	Value Limit ²
Chief Executive Officer in Consultation with the Board (RPS PPA SB 350)	20 Year	10-20 Year	N/A	N/A
Chief Executive Officer in Consultation with the Board	60 months	48 months	3,000,000	\$10,000,000
Chief Executive Officer	36 months	24 months	2,000,000	\$5,000,000
Power Manager	24 months	12 months	1,000,000	\$2,000,000

¹Volume limit applies only to energy purchases, including index-based renewable and carbon-free energy purchases.

²Value limits apply to non-energy product transactions (e.g., Resource Adequacy).

These authorities will be applied to wholesale power procurement executed outside of the California Independent System Operator (“CAISO”) markets. These limits provide both BCE and Power Manager 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 CAISO 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 BCE’s underlying risk exposure (load requirements, locational, and temporal) that is being hedged consistent with the approved Energy Risk Hedging Strategy.

Volume Limits

Transactions should not be executed that exceed BCE's load (energy and capacity), renewable or Carbon Free Energy requirements. If there is an adjustment to BCE requirements resulting in the volume of existing transactions exceeding 100% of BCE's requirements, the Chief Executive Officer will determine the offsetting strategy deployed in enough proportion to mitigate the encroachment.

Exception

An exception to the above limits may be made by the Chief Executive Officer if executing a transaction exceeding load will minimize costs or is necessary to ensure compliance. For example, procuring Resource Adequacy (RA) for the entire year could cause BCE to hold excess RA in certain months. Such a transaction would be acceptable if a lower cost alternative transaction or set of transactions that more closely matches monthly needs is unavailable.

Locational Limits

The delivery location for all transactions must support the requirements of BCE's source or sink locations (the point of exit from the transmission system).

CAISO Submission Limits

BCE shall bid at least 90% of its forecast load requirements in the Day-Ahead Market and bids shall not exceed 100% of forecast load requirements.

BCE shall offer no more than 100% of the forecasted generation capability in the Day-Ahead Market. BCE shall follow CAISO protocols for all activity within CAISO.

MONITORING, REPORTING AND INSTANCES OF EXCEEDING RISK LIMITS

The Power Manager's Middle Office is responsible for monitoring and reporting compliance with all limits within this Policy. If a limit or control is violated, the Power Manager's Middle Office will send notification to the Power Manager's trader responsible for the violation and the Chief Executive Officer. The Chief Executive Officer will discuss the cause and potential remediation of the violation to determine next steps for curing the violation.

Chapter 6: Credit Policy and Counterparty Suitability

MASTER ENABLING AGREEMENTS AND CONFIRMATIONS

Transactions are governed by master agreements, the forms of which must be prepared by General Counsel and approved by the Board. No transactions may be executed without a fully executed master agreement, or a long-form confirmation with agreeable commercial terms and conditions, being on file. Written confirmations of each transaction will contain standard commercial terms and provisions. Material modifications or additions to standard commercial terms in confirmations require approval by legal counsel.

It is the Policy to confirm all transactions in writing. All confirmations received from counterparties will be matched against trades in the system of record. Any discrepancies between a confirmation and the system of record may be handled by the Front Office representative that executed the transaction, or if necessary, a Middle Office representative will seek resolution with the counterparty. All confirmations will be kept on file.

Prior to execution of any transaction, the Front Office will verify that BCE has executed a master agreement with the counterparty, that the counterparty has been evaluated for creditworthiness, and that an approved Credit Limit has been established. No transactions may be executed without first ensuring the transaction falls within the unutilized Credit Limit for the counterparty.

Exceptions

It is standard industry practice to not provide written confirmation of certain short-term transactions with a term of one day or less. Additionally, BCE may agree with certain counterparties to alternative methods for confirming certain transactions. Transactions executed in a recorded telephone conversation or recorded instant message in which the offer and acceptance shall constitute the agreement of the parties must be confirmed in writing after-the-fact, with notice being provided to the counterparty within 72 hours.

COUNTERPARTY SUITABILITY

All counterparties shall be evaluated for creditworthiness by the Middle Office prior to execution of any transaction and no less than annually thereafter. Additionally, counterparties shall be reviewed if a change has occurred, or is perceived to have occurred, in market conditions or in a company's management or financial condition. This evaluation, including any recommended increase or decrease to a Credit Limit, shall be documented in writing and include all information supporting such evaluation in a credit file for the counterparty.

A Credit Limit for a counterparty will not be recommended or approved without first confirming the counterparty's senior unsecured or corporate credit rating from one of the nationally recognized rating agencies (S&P, Moody's, and/or Fitch) and/or performing a credit review or analysis of the counterparty's or guarantor's financial statements. The credit analysis shall

include, at a minimum, current audited financial statements or other supplementary data that indicates financial strength commensurate with an investment grade rating and consider factors such as:

- Liquidity
- Leverage (debt)
- Profitability
- Net worth

Trade and banking references, and any other pertinent information, may also be used in the review process. Once a counterparty has been determined to be creditworthy, the Middle Office will propose a Credit Limit for approval by the Chief Executive Officer, in consultation with staff and BCE's consultants. Although a counterparty may qualify for a certain maximum Credit Limit, the types of products to be transacted, as well anticipated transaction volumes, terms and other business factors may prompt BCE to select a lower limit that is considered more appropriate.

Counterparties that do not qualify for an unsecured Credit Limit must post an acceptable form of credit support or prepayment prior to the execution of any transaction. A counterparty may choose to provide a guarantee from a third party, provided the third party satisfies the criteria for a Credit Limit as outlined herein.

MAXIMUM CREDIT LIMIT

Each new counterparty Credit Limit or increase to an existing limit will be reviewed by the Chief Executive Officer. The maximum amount of any Credit Limit extended to a counterparty shall not exceed \$25 Million unless approved in writing by the Board.

CREDIT REVIEW EXCEPTIONS

Counterparties not subject to the above credit review criteria include those associated with Day-Ahead and current day purchases where risks associated with market movements is minimal.

CREDIT LIMIT AND MONITORING

The Middle Office will monitor the current credit exposure for each counterparty with whom BCE transacts and include such information in the Current Counterparty Credit Risk Report. This report will be submitted to the Chief Executive Officer for review pursuant to the reporting requirements outlined in Section 7.

Current credit exposure is a measure of the known exposures and composed of two primary exposures – (1) realized exposure, and (2) forward exposure. Realized exposure, a payable or receivable amount owed between counterparties, is a measurement of cash flow for billed and

unbilled transactions. Forward exposure is a measure of mark-to-market, or fair value, of contracted volumes not yet delivered.

Chapter 7: Position Tracking and Management Reporting

REPORTING REQUIREMENTS

A vital element in the Policy is the regular identification, measurement, and communication of risk. To effectively communicate risk, all risk management activities must be monitored on a frequent basis using risk measurement methodologies that quantify the risks associated with BCE's procurement-related business activities and performance relative to identified goals.

Minimum reporting requirements are shown below. The reports outlined below will be made available to the Chief Executive Officer, staff and BCE's consultants:

- Weekly 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, not less frequently than monthly, and report the results to the Chief Executive Officer.
- Monthly Pass-through Counterparty Credit Exposure
- This report will show how the credit exposures for transactions that the Power Manager executes on behalf of BCE will pass-through the Power Manager to BCE.
- Quarterly Board Report
- Update on activities and projected financial performance to be presented quarterly at BCE Board meetings.

Chapter 8: Policy Revision Process

REVIEW

BCE's Energy Risk Management Policy will evolve over time as market and business factors change. On an annual basis, or more frequently if needed, the Chief Executive Officer will review the Policy and associated procedures to determine if they should be amended, supplemented, or updated to account for changing business conditions and/or regulatory requirements.

If an amendment is warranted, the Policy amendment will be submitted to the BCE Board of Directors for approval. Changes to appendices to this Policy may be approved and implemented by the Chief Executive Officer.

Appendix A: Authorized Transaction Types, Regions, And Markets

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

Over the Counter (OTC) Products:

- CAISO Ancillary Products
- Day-ahead and Real-time Energy
- Congestion Revenue Rights
- Convergence
- Inter Scheduling Coordinator Transactions
- Tagging into and out of CAISO
- Physical Power Products
- Short and Long-Term Power
- Physical Resource Adequacy Capacity
- Physical Environmental Products
- Renewable Energy Credits
- Specified Source Power
- Carbon Allowances and Obligations

Appendix B: ENERGY RISK HEDGING STRATEGY

INTRODUCTION

BCE is routinely exposed to commodity price risk and volume variability risk in the normal conduct of serving the power supply requirements of its customers. This Energy Risk Hedging Strategy (ERHS) describes the strategy and framework that BCE will use to hedge the power supply requirements of its customers during the prompt calendar year (the calendar year after the current calendar year) plus the following four calendar years. Specific focus is on procurement of the following market-based products:

- Fixed Priced Energy
- Portfolio Content Category 1 Renewable Energy
- Portfolio Content Category 2 Renewable Energy
- Carbon Free Energy
- Resource Adequacy Capacity

In addition to market-based transactions entered into pursuant to this ERHS, BCE will also enter into longer-term power purchase agreements (PPAs) pursuant to statutory requirements (e.g., SB 350 mandate to, by 2021, procure a minimum of 65 percent of RPS requirements under a 10-year or longer power purchase agreement)), as well as voluntary long-term resource acquisition decisions made independently by BCE pursuant to its Integrated Resource Plan or other approved Board-approved strategies. Long-term Power Purchase Agreements (PPAs) will count as hedges as described later in this ERHS. Furthermore, pursuant to SB 100 mandate to, by 2045, procure renewable energy and zero-carbon resources supply 100 percent of electric retail sales to end-use customers.

GOVERNANCE

This ERHS shall be updated, as necessary, from time to time and governed by the Energy Risk Management Policy (EMRP) approved by the BCE Board of Directors.

HEDGING PROGRAM GOALS

The overall goal of the ERHS is to limit financial losses, identify exposure to commodity prices, quantify the financial impact variability in commodity prices, load requirements and generation output may have on the ability of BCE to meet its financial program goals, and manage the associated risk. The primary goals that guide this ERHS are:

- Acquire a portfolio of resources with lower greenhouse gas emissions and higher renewable content than PG&E
- Meet reliability requirements established by the state of California, and operate in a manner consistent with prudent utility practice

- Maintain competitive retail rates with PG&E after adjusting for exit fees (currently the Power Charge Indifference Adjustment or PCIA) and Franchise Fees paid by BCE customers
- Build financial reserves to ensure the BCE’s long-term financial objectives are achieved.

All hedging activities will be conducted to achieve results consistent with the above goals and to meet the power supply requirements of BCE’s customers. Any transaction that cannot be directly linked to a requirement of serving BCE’s customers, or that serves to reduce risk as measured by the Power Supply Cost at Risk (PSCaR) described below is prohibited.

HEDGING TARGETS AND STRATEGIES

Fixed Price Energy Fixed Price

Energy purchases provide for suppliers to deliver energy – for which BCE will receive energy market revenues – to BCE at a fixed price. They are used to manage the electricity commodity price risk that the BCE faces as a Load Serving Entity. Specific to BCE’s customers, Fixed Price Energy hedges are used to provide cost certainty, retail rate competitiveness and rate stability.

In the near-term, BCE will predominantly employ Fixed Price Block Energy contracts, which provide for suppliers to deliver a predetermined volume of energy at a constant delivery rate. As BCE enters into long-term, fixed price contracts for renewable and/or carbon-free energy, these will likewise hedge BCE’s market risk and, subsequently, reduce the required volume of Fixed Price Block Energy purchases.

When assessing its requirements for Fixed Price Energy, the BCE will forecast the monthly energy requirements of its customers during heavy and light load hours¹ each month. Forecast load will be determined through use of an econometric model that forecasts both total energy usage and peak demand by customer load class. The model will use historical data to estimate relationships between energy consumption and economic, demographic and/or weather variables. The econometric model will be refined through time as additional load data is acquired through BCE operations.

BCE will observe the following schedule when hedging its Fixed Priced Energy Requirements:

Time Period	Minimum Hedge % ²	Maximum Hedge %
Prompt Month	90	100

¹ Heavy load hours in wholesale energy markets are 6am to 10pm, Monday through Saturday, excluding New Years Day, Memorial Day, 4th of July, Labor Day, Thanksgiving and Christmas. Light load hours are all non-heavily load hours.

² BCE will exclude the estimated amount of hedge provided to BCE’s customers by PG&E’s portfolio under the current PCIA construct when calculating compliance with the hedge schedule.

Prompt Calendar Year	70	90
CY + 1	0	70
CY + 2	0	50
CY + 3	0	50
CY + 4	0	50

The hedge schedule for the Prompt Month will be measured as of 5 days prior to the first day of the month. The hedge schedule for the Prompt Calendar Year (CY), as well as subsequent 2 calendar years, will be measured as of the first day of each new calendar year.

For Example, on April 1, 2021, BCE will have hedged 90 to 100 percent of its projected energy requirements during May 2021. On January 1, 2022, BCE will have hedged 70 to 90 percent of its forecast energy requirements for CY 2022; 50 to 70 percent of its forecast energy requirements for CY 2023 and 30-50 percent of its forecast energy requirements for CY 2024.

The minimum hedge level will be achieved by implementing a time-driven programmatic strategy. Time driven programmatic hedges are executed at a predetermined rate pursuant to a time schedule and without regard for market conditions. The purpose of these hedging transactions is to achieve a reduction in variability in power supply costs by gradually increasing the amount of energy hedged as the actual date of consumption approaches. Time-driven strategies avoid the inherent impossibility of trying to consistently and accurately “time the market” to purchase energy at least cost when making hedging decisions. Additionally, a load serving entity the size of BCE needs to spread its procurement efforts over time to effectively manage the potential negative price impacts of procuring a large volume of energy, over a short period of time, in an illiquid market.

Hedging decisions to reach targets between the minimum and maximum hedge levels will be based on price-driven or opportunistic strategies. The purpose of price-driven or opportunistic strategies is to capitalize on market opportunities when conditions are favorable. BCE will base its decision to execute opportunistic hedges on the anticipated impact to projected power supply costs and the resulting reduction in PSCaR.

Opportunistic hedges may be executed when energy price levels are favorable to lowering the cost of power relative to established program goals and financial projections; alternatively, opportunistic hedges can be executed in adverse market conditions relative to financial goals in order to reduce the potential negative impact of continued upward or downward trending commodity prices relative to established goals.

In executing this ERHS, Fixed-Price Energy hedges may be modified, repositioned or unwound for the purpose of maintaining hedge coverage that matches changes in forecast electric load. This includes the ability of the BCE to use liquid market products to hedge

average loads over a defined time period and then later modify its hedges to more precisely match load.

Portfolio Content Category 1 Renewable Energy

In order to cost-effectively meet its GHG-reduction and renewable energy goals, BCE intends to meet a growing share of its energy supply requirements with renewable energy, a large portion of which will be Product Content Category 1 (PCC1) renewable energy. PCC1 renewable energy is sourced from a renewable generator that is either directly interconnected to the California Independent System Operator (CAISO) or another California Balancing Authority or directly scheduled into CAISO without use of substitute energy.

In order to manage price risk of long-term renewable energy, and to allow BCE to prudently and methodically build a portfolio of long-term assets, BCE intends to meet its PCC1 energy targets with a blend of short and long-term contracts. In the 2021 period, this balance will include a relatively higher share of short-term contracts as the BCE focuses on launching its CCA and establishing a strong financial foundation. While hedging its PCC1 requirements during the next one to two years with contracts that are primarily shorter in term, BCE will observe the following schedule. The hedge schedule percentages shall be measured such that a 100% hedge position equals 75%³ of the RPS energy BCE will need to serve all customers at their chosen rate option (e.g. 50% RPS). The hedge schedule shall be measured on December 1 of each year for the Prompt Calendar year and the four subsequent calendar years.

PCC1 Hedge Targets Applicable During Calendar Year 2021

Time Period	Minimum Hedge %	Maximum Hedge %
Prompt Calendar Year	75	100
CY + 1	0	80
CY + 2	0	70
CY + 3	0	70
CY + 4	0	70

Between 2022 and 2023, BCE will increase its focus to longer-term PCC1 contracts, particularly for Calendar Year 2022 and beyond. This shift is necessary to comply with the renewable procurement requirements of SB 350, as well as the fact that new renewable generating facilities typically require long-term PPAs with terms that can range from ten to twenty-five years. BCE’s strong interest in renewable generation may eventually require voluntary execution of long-term PPAs beyond what is mandated by SB 350.

³ SB350 requires a minimum of 75% of RPS product used for compliance to come from PCC1 resources.

BCE’s eventual goal is to reach a steady state of procurement in which it contracts for four to eight percent of its projected annual PCC1 requirements each year via long-term contract. Doing so will i) allow BCE to steadily reduce its exposure to renewable energy and energy market price risks in a fashion similar to the programmatic hedging approach for Fixed-Price Block Energy and ii) ensure that BCE is in a position to make strategic procurement decisions and, if appropriate, commitments every year.

As BCE’s PCC1 portfolio is increasingly comprised of long-term contracts in line with long-term contracting requirements mandated under SB 350, in 2022 and thereafter, BCE shall observe the following schedule while hedging its PCC1 requirements. This hedge schedule shall first be measured on December 1, 2021 and then on December 1 of each subsequent year for the Prompt Calendar year and the two following calendar years.

PCC1 Hedge Targets Applicable Beginning in Calendar Year 2022-2023

Time Period	Minimum Hedge %	Maximum Hedge %
Prompt Calendar Year	65	100
CY + 1	60	95
CY + 2	55	90
CY + 3	55	90
CY + 4	55	90

Portfolio Content Category 2 Renewable Energy

BCE shall diversify its renewable energy portfolio further by incorporating Portfolio Content Category 2 (PCC2) renewable energy purchases. PCC2 renewable energy is sourced from renewable generators located outside the state of California where that generation is “firmed and shaped” for delivery into California. PCC2 purchases are typically less expensive and shorter in term than PCC1, so they provide a cost-effective and flexible method of augmenting BCE’s renewable energy purchases to meet renewable portfolio content commitments to customers.

BCE will observe the following schedule when hedging its PCC2 renewable energy requirements. The hedge schedule percentages shall be measured such that a 100% hedge position equals 25%⁴ of the RPS energy BCE will need to serve all customers at their chosen rate option (e.g. 50% RPS). In other words, if BCE’s PCC2 position is 100% hedged, then 75% of the RPS energy will come from PCC1 resources. The hedge schedule shall be measured on December 1 of each year for the Prompt Calendar year and the two subsequent calendar years.

⁴ SB 350 allows a maximum of 25% of RPS product used for compliance to come from PCC2 resources.

Time Period	Minimum Hedge % ⁵	Maximum Hedge %
Prompt Calendar Year	50	100
CY + 1	0	75
CY + 2	0	50
CY + 3	0	25
CY + 4	0	10

It should be noted that there is currently a proceeding underway at the California Public Utility Commission to implement California legislature’s AB 1110, which may impact the reporting and accounting methodologies that apply to PCC2 renewable energy, so the hedging schedule above is subject to change as BCE gains clarity regarding any potential revised methodology.

Carbon Free Energy

In pursuit of its GHG-reduction objections, BCE shall augment its renewable energy purchases outlined above with energy purchases from carbon-free energy generating facilities, which are typically hydro- 31 electric resources located in California that are too large to qualify as Eligible Renewable Resources (30 MW or greater) or located outside of California. Similar to PCC2 renewable energy contracts, carbon-free energy purchases are typically short-term, most frequently one to three years in length.

BCE will observe the following schedule when hedging its Carbon-Free renewable energy requirements. The hedge schedule shall be measured on December 1 of each year for the Prompt Calendar year and the two subsequent calendar years.

Time Period	Minimum Hedge % ⁶	Maximum Hedge %
Prompt Calendar Year	75	100
CY + 1	0	75
CY + 2	0	50
CY + 3	0	25
CY + 4	0	10

In setting the above targets, it is important to note that the purchase of Carbon Free Energy is a voluntary requirement set by the BCE Board to exceed PG&E’s GHG emissions goals. In

⁵ RPS compliance rules set minimum requirements for PCC1 procurement and maximum limits for PCC2 procurement as a percentage of the total RPS compliance portfolio. If insufficient PCC2 product is available in the market, the Executive Director may approve shifting volumes from the PCC2 hedge schedule into the PCC1 hedge schedule

⁶ RPS compliance rules set minimum requirements for PCC1 procurement and maximum limits for PCC2 procurement as a percentage of the total RPS compliance portfolio. If insufficient PCC2 product is available in the market, the Executive Director may approve shifting volumes from the PCC2 hedge schedule into the PCC1 hedge schedule

determining the total volume of Carbon Free Energy to be hedged, the BCE Board may elect to increase or reduce the total quantity of Carbon Free Energy included in BCE’s portfolio as it seeks to balance multiple program objectives, including financial goals such as targets for financial reserves and retail rates. The Board will determine BCE’s target quantity of Carbon Free Energy annually during the rate-setting process.

Resource Adequacy Capacity

As a Load-Serving Entity (LSE) in California, BCE is required to demonstrate both annually and monthly that it has secured sufficient energy capacity to provide for its share of California’s energy load; this capacity is referred to as Resource Adequacy (RA). Because BCE serves customers in PG&E’s service territory, BCE has local RA requirements specific to the Sierra LARA local area, as well as general RA requirements for Northern California (“North Path of Path 26 System”), a portion of which must be Flexible RA. Flexible RA requirements ensure resources are available on the grid to provide ancillary services such as ramping and regulation.

RA is typically transacted via contracts that vary in length from one month to three years, and it is currently bought and sold via a bilateral market, which not only provides cost-effective contracting opportunities but also proves at times to be fragmented and volatile. While a waiver process exists to excuse LSEs from their RA requirements, it is the goal of BCE to meet its requirements and not use the RA waiver process.

BCE will observe the following schedule when hedging its RA requirements. The hedge schedule shall be measured for each RA product that BCE is required to procure on December 1 of each year for the Prompt Calendar year and the two subsequent calendar years.

Time Period	Minimum Hedge % ⁷	Maximum Hedge %
Prompt Calendar Year	90	100
CY + 1	50	90
CY + 2	0	80
CY + 3	0	30
CY + 4	0	15

HEDGE PROGRAM METRICS

The success of the Energy Risk Hedging Strategy will be measured by realizing power supply costs in line with the budgeted power supply costs used to set customer rates, as well as by

⁷ RPS compliance rules set minimum requirements for PCC1 procurement and maximum limits for PCC2 procurement as a percentage of the total RPS compliance portfolio. If insufficient PCC2 product is available in the market, the Executive Director may approve shifting volumes from the PCC2 hedge schedule into the PCC1 hedge schedule

reducing BCE's exposure to commodity price risk. The following two metrics will be utilized to manage the Energy Risk Hedging Strategy:

- Current projected power supply costs will be compared to budgeted power supply costs where budgeted costs will be based on the assumptions used at the time customer generation rates are set. Current power supply costs shall use all fixed priced contracts executed as of the date of the report. All open positions will be marked to market and compared to the budgeted power supply costs.
- Power Supply Cost at Risk (PSCaR). PSCaR represents a statistical view of what could happen to BCE's power supply costs assuming that no action is taken to manage its portfolio from the date of the analysis through the end of the period of time being analyzed. The potential cost will be calculated using a historical sampling methodology that considers on- and off-peak periods separately over the remaining life of the transactions. The PSCaR calculation will consider potential variability in load and generation supply. The PSCaR will be calculated by rank ordering the portfolio cost and measuring the difference between the 95th percentile and the expected power cost outcome.

These metrics will be reviewed when making price-driven or opportunistic hedging decisions to ensure that the transactions are consistent with the goals of the Energy Risk Hedging Strategy. These metrics will be updated and reported by the Power Manager to the BCE on a monthly basis.

REPORTING REQUIREMENTS

The following reports are required to manage the hedge program and to ensure its success:

- Net Position Report for each product
- Current Projected Power Supply Costs compared to budget
- Power Supply Cost at Risk
- GHG intensity

Appendix C: New Transaction Approval Form

New Transaction Type Approval Request

Prepared By:

Date:

New Transaction Type Name:

Business Rationale and Risk Assessment:

- Product description – including the purpose, function, expected impact on net revenues (i.e., increase, manage volatility, control variances, etc.) and/or benefit to BCE
- Identification of the in-house or external expertise that will be relied upon to manage and support the new or non-standard transaction
- Assessment of the transaction’s risks, including any material legal, tax or regulatory issues
- How the exposures to the risks above will be managed by the limit structure
- 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 product
- Proposed accounting methodology
- Proposed Middle Office work flows/methodology, including systems
- Brief description of the responsibilities of various departments within CPA who will have any manner of contact with the new or non-standard transaction

Reviewed By:

[Power Manager Front-Office Representative]

Date

[Power Manager Mid-Office Representative]

Date

Chief Executive Officer – BCE

Date

Appendix D: Definitions

Back Office: That part of a trading organization which handles transaction accounting, confirmations, management reporting, and working capital management.

Bilateral Transaction: Any physical or financial transaction between two counterparties, neither of which is an exchange or market entity (e.g., MISO).

Cash Flow at Risk (CFaR): A measure of the potential shortfall in cash flow from a specified level during a specified period of time at a specified confidence level. The CFaR of any Portfolio is equal to the Portfolio's current Mark-to-Market value less its Terminal Value.

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.

CCA: Community Choice Aggregator. 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.

CFTC: Commodity Futures Trading Commission. 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.

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.

CPUC: California Public Utilities Commission 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 an Organized Market prior to the operating day.

Delivery point: The point at which a commodity will be delivered and received. Energy Risk Management Policy: Energy Risk Management Policy is defined on page 3 of this document.

FERC: Federal Energy Regulatory Commission. 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.

Franchise Fee: A franchise fee is a percentage of gross receipts that an IOU pays cities and counties for the right to use public streets to provide gas and electric service. The franchise fee surcharge is a percentage of the transmission (transportation) and generation costs to customers choosing to buy their energy from third parties. IOUs collect the surcharges and pass them through to cities and counties.

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

IOU: An Investor Owned Utility (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.

Limit structure: A set of constraints that are intended to limit procurement activities.

Limit violation: Any time a defined limit is violated. Mark to Market Value: the value of an asset based on its current market price.

Mark-to-Market (MTM): is a measure of the fair value of accounts that can change over time, such as purchases or sales of power. Mark-to-market aims to provide a realistic appraisal of a firm's replacement value of forward power contracts.

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 contract administration and credit, and keeps management and the Board informed on risk management issues.

Net Forward Position: A forecast of the anticipated electric demands of a load serving entity compared to existing resource (generation and/or power purchase agreements) commitments.

Nonstandard: Nonstandard refers to any product that is not commonly transacted among market participants in forward markets. The nonstandard attribute of the product could be a function of several factors such as volume, delivery period and/or term.

Opt-out Rate: Typically expressed as a percentage, the Opt-out Rate measures the ratio of eligible customers of a CCA that have elected to remain a bundled service customer of the IOU rather than take generation services from the CCA.

PCIA: Power Cost Indifference Adjustment. The PCIA is intended to compensate IOUs for their stranded costs when a bundled customer departs and begins taking generation services from a CCA.

Schedule: Schedule or Scheduling means the actions of the counterparts to a transaction, and/or their designated representatives, of notifying, requesting and confirming to each other the quantity and type of product to be delivered on a given day.

Separation of function: Separation of function, also referred to as “segregation of duties,” is part of a complete risk control framework. Individuals responsible for legally binding the organization to a transaction should not also perform confirmation, clearance or accounting functions. BCE will maintain appropriate segregation of duties in its organization and activities.

Settlement: Settlement is the process by which counterparties agree on the dollar value and quantity of a commodity exchanged between them during a particular time interval.

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.

Stranded cost: Stranded costs commonly refer to generation costs that an IOU (although could be any load serving entity) can collect from customers through retail rates but that will not be recovered if the generation is sold in wholesale electricity markets.

Stress testing: Stress testing is the process of simulating different financial outcomes to assess potential impacts on projected financial results. Stress testing typically evaluates the effect of negative events to help inform what actions may be taken to lessen the negative consequences should such an event occur.

Terminal Value: The Terminal Value is the present value of all future cash flows.