



MARIN COUNTY | NAPA COUNTY | UNINCORPORATED CONTRA COSTA COUNTY
BENICIA | CONCORD | DANVILLE | EL CERRITO | LAFAYETTE | MARTINEZ | MORAGA
OAKLEY | PINOLE | PITTSBURG | RICHMOND | SAN PABLO | SAN RAMON | WALNUT CREEK

**Board of Directors Meeting
Thursday, April 19, 2018
7:00 P.M.**

**The Charles F. McGlashan Board Room
1125 Tamalpais Avenue
San Rafael, CA 94901**

**One Concord Center
2300 Clayton Road, Suite 650
Concord, CA 94520**

Agenda Page 1 of 2

ROLL CALL/QUORUM

1. Board Announcements (Discussion)
2. Public Open Time (Discussion)
3. Report from Chief Executive Officer (Discussion)
4. Consent Calendar (Discussion/Action)
 - C.1 Approval of 3.15.18 Meeting Minutes
 - C.2 Approved Contracts Update
5. Proposed Amendment to MCE Policy 014: Investment Policy (Discussion/Action)
6. Proposed MCE Policy 015: Energy Risk Management Policy (Discussion/Action)



Agenda material can be inspected at 1125 Tamalpais Avenue, San Rafael, CA 94901 on the Mission Avenue side of the building. The meeting facilities are in accessible locations. If you are a person with a disability and require this document in an alternate format (example: Braille, Large Print, Audiotape, CD-ROM), you may request it by using the contact information below. If you require accommodation (example: ASL Interpreter, reader, note taker) to participate in any MCE program, service or activity, you may request an accommodation by calling (415) 464-6032 (voice) or 711 for the California Relay Service or by e-mail at djackson@mceCleanEnergy.org not less than **four work days** in advance of the event.



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Agenda Page 2 of 2

7. Proposed Electric Vehicle Rates for FY 2018/19 (Discussion/Action)
8. Policy Update on Regulatory and Legislative Items (Discussion)
9. Board Member & Staff Matters (Discussion)
10. Adjourn



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DRAFT

MCE BOARD MEETING MINUTES
Thursday, March 15, 2018
7:00 P.M.

One Concord Center
2300 Clayton Road, Suite 650
Concord, CA 94520

MCE Charles F. McGlashan Board Room
1125 Tamalpais Avenue
San Rafael, CA 94901

Roll Call: Director Kate Sears called the regular Board meeting to order at 7:05 p.m. By roll call, an established quorum was met.

Present: Denise Athas, City of Novato (*San Rafael*)
Sloan Bailey, Town of Corte Madera (*Concord*)
Edi Birsan, City of Concord (*Concord*)
Lisa Blackwell, Town of Danville (*Concord*)
Ford Greene, Town of San Anselmo (*San Rafael*)
Sue Higgins, City of Oakley (*Concord*)
Greg Lyman, City of El Cerrito (*San Rafael*)
Bob McCaskill, City of Belvedere (*San Rafael*)
Andrew McCullough, City of San Rafael (*San Rafael*)
Sashi McEntee, City of Mill Valley (*San Rafael*)
Teresa Onoda, Alternate, Town of Moraga (*Concord*)
Scott Perkins, City of San Ramon (*Concord*)
Ada Recinos, Alternate, City of Richmond (*Concord*)
P. Rupert Russell, Town of Ross (*San Rafael*)
Alan Schwartzman, City of Benicia (*Concord*)
Kate Sears, Chair, County of Marin (*San Rafael*)
Don Tatzin, City of Lafayette (*Concord*)
Maureen Toms, City of Pinole (*Concord*)
Ray Withy, City of Sausalito (*San Rafael*)

Absent: Rich Carlston, City of Walnut Creek
Barbara Coler, Town of Fairfax
Arturo Cruz, City of San Pablo
Federal Glover, County of Contra Costa
Kevin Haroff, City of Larkspur
Pete Longmire, City of Pittsburg
Rob Schroder, City of Martinez
Brad Wagenknecht, County of Napa
Jon Welner, Town of Tiburon

Staff: Jesica Brooks, Board Assistant (*San Rafael*)
John Dalessi, Operations and Development (*Concord*)
Kirby Dusel, Resource Planning and Renewable Energy Programs (*Concord*)

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Brian Goldstein, Resource Planning and Implementation (*Concord*)
Darlene Jackson, Board Clerk (*Concord*)
Sam Kang, Resource Planning (*Concord*)
Elizabeth Kelly, General Counsel (*San Rafael*)
David McNeil, Manager of Finance (*San Rafael*)
Enyonam Senyo-Mensah, Operations Assistant (*Concord*)
C.C. Song, Senior Policy Analyst (*San Rafael*)
Maira Strauss, Customer Programs Assistant (*San Rafael*)
Justine Parmelee, Operations Manager (*Concord*)
Alice Stover, Manager of Customer Programs, Policy and Planning (*San Rafael*)
Jamie Tuckey, Director of Public Affairs (*San Rafael*)
Dawn Weisz, Chief Executive Officer (*Concord*)
Sandra Zelaya, Public Affairs Assistant (*Concord*)

1. Board Announcements (Discussion)

There were none.

2. Public Open Time (Discussion)

Chair Sears opened the public comment period and there were comments from member of the public, Greg Murray.

3. Report from Chief Executive Officer (Discussion)

CEO, Dawn Weisz, reported on the following:

- Hard copies of the second enrollment notices were distributed to the Board. The notices will be landing in mailboxes weekly starting today and over the next three weeks. Enrollment starts April 1.
- Ms. Weisz provided the following enrollment figures as of 3/9/18 (ending the final week of the first round of mailers) in addition to the chart shown below:
 - Opt Out Rate: 4.06%
 - Residential Rate: 4.28%
 - Commercial Rate: 1.68%
 - Total Opt Outs processed: 9,653
 - Total Deep Green Enrollments: 636
 - Total Local Sol Enrollments: 3
 - Call Center Statistics as of 3/9/18
 - Total calls since 2/1/18: 8,669
 - Current Call Volume: 2,500 per week
 - Average Time to Answer since 2/1/18: 37 seconds
 - Current Average Time to Answer (staffing was increased two weeks ago): 29 seconds
 - MCE's Public Affairs team has participated in 93 events so far in 2018

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- C.1 Approval of 2.15.18 Meeting Minutes
- C.2 Approved Contracts Update
- C.3 Tenth Agreement with Maher Accountancy
- C.4 First Amendment to the Fifth Agreement with Community Media Center of Marin
- C.5 Second Agreement with Loud & Clear Audio Visual
- C.6 Sixth Addendum for Data Manager Services to Master Professional Services Agreement between Calpine Energy Solutions (formerly Noble Americas Energy Solutions LLC) and Marin Clean Energy (formerly Marin Energy Authority)
- C.7 AT&T Agreements for Internet Services for Concord and San Rafael Offices

Chair Sears opened the public comment period and there were no speakers.

ACTION: It was M/S/C (Tatzin/Lyman) to **approve Consent Calendar**. Agenda Item C.7 was removed from the Consent Calendar. Motion carried by unanimous roll call vote. (Absent: Directors Carlston, Coler, Cruz, Glover, Haroff, Longmire, Schroder, Wagenknecht and Welner).

5. New Residential Time-of-Use Rate (Discussion/Action)

Justin Kudo, Deputy Director of Account Services, introduced this item and addressed questions from Board members.

Chair Sears opened the public comment period and there were no speakers.

ACTION: It was M/S/C (Tatzin/Blackwell) to **adopt the Residential Time-of-Use generation rates set forth set in the staff report, retroactive to March 1, 2018**. Motion carried by unanimous roll call vote. (Absent: Directors Carlston, Coler, Cruz, Glover, Haroff, Longmire, Schroder, Wagenknecht and Welner).

6. Updating Procurement Authorities (Discussion/Action)

- a. **Adopting Resolution No. 2018-03 Rescinding Resolution No. 2017-02 and Delegating Energy Procurement Authority**
- b. **Adopting Resolution No. 2018-04 Designating the Chief Executive Officer as Purchasing Agent Pursuant to Government Code 25500 and Delegating Purchasing Agent Authority**

Elizabeth Kelly, General Counsel, introduced this item and addressed questions from Board members.

Chair Sears opened the public comment period and there were no speakers.

ACTION: It was M/S/C (Bailey/Higgins) to 1) **adopt proposed Resolution No. 2018-03 Rescinding Resolution No. 2017-02 and Delegating Energy Procurement Authority**, and 2) **adopt proposed Resolution No. 2018-04 Designating the Chief Executive Officer as Purchasing Agent and Delegating**

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Purchasing Agent Authority. Motion carried by unanimous roll call vote. (Absent: Directors Carlston, Coler, Cruz, Glover, Haroff, Longmire, Schroder, Wagenknecht and Welner).

7. Proposed Amendment to MCE Policy 013: Reserve Policy (Discussion/Action)

David McNeil, Manager of Finance, introduced this item and addressed questions from Board members.

Chair Sears opened the public comment period and there were no speakers.

ACTION: It was M/S/C (Perkins/Birsan) to **approve the proposed MCE Policy 013: Reserve Policy.** Motion carried by unanimous roll call vote. (Absent: Directors Carlston, Coler, Cruz, Glover, Haroff, Longmire, Schroder, Wagenknecht and Welner).

8. Proposed Amendment to MCE Policy No. 005 – Risk Management Procedures and Controls for Transactions in the California Independent System Operator Markets (Discussion/Action)

ACTION: This item was removed from the agenda.

9. New Board Member Additions to Committees (Discussion/Action)

CEO, Dawn Weisz, introduced this item and shared with the Board that new ad hoc committees are formed each year and the invitation is opened at Board meetings for Board members to volunteer to serve. Ms. Weisz explained that the 2017 Ad Hoc Audit Committee held its last meeting on July 12, 2017 and invited Board members to volunteer to serve on the 2018 Ad Hoc Audit Committee.

The following persons volunteered to serve on the 2018 Ad Hoc Audit Committee:

- Bob McCaskill
- Andrew McCullough
- Don Tatzin

Chair Sears opened the public comment period and there were no speakers.

ACTION: It was M/S/C (Perkins/Onoda) to **approve the 2018 Ad Hoc Audit Committee consisting of the following members: Bob McCaskill, Andrew McCullough, and Don Tatzin.** Motion carried by unanimous roll call vote. (Absent: Directors Carlston, Coler, Cruz, Glover, Haroff, Longmire, Schroder, Wagenknecht and Welner).

10. Streamlining Public Works Contracting (Discussion/Action)

a. Second Reading and Adoption of Ordinance No. 2018-01 Establishing Informal Bidding Procedures under the Uniform Public Cost Accounting Act

Elizabeth Kelly, General Counsel, introduced this item and addressed items from Board members.

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Chair Sears opened the public comment period and there were no speakers.

ACTION: It was M/S/C (McCullough/Greene) to adopt Ordinance No. 2018-01 of the Board of Directors of Marin Clean Energy Establishing Informal Bidding Procedures under the Uniform Public Cost Accounting Act. Motion carried by unanimous roll call vote. (Absent: Directors Carlston, Coler, Cruz, Glover, Haroff, Longmire, Schroder, Wagenknecht and Welner).

11. Policy Update on Regulatory and Legislative Items (Discussion)

Elizabeth Kelly, General Counsel, introduced this item and addressed questions from Board members.

Chair Sears opened the public comment period and there were no speakers.

ACTION: No action required.

12. Board Member & Staff Matters (Discussion)

There were no announcements.

13. Adjournment

Director Kate Sears adjourned the meeting at 8:20 p.m. to the next scheduled Board Meeting on April 19, 2018.

Kate Sears, Chair

Attest:

Dawn Weisz, Secretary



April 19, 2018

TO: MCE Board of Directors
 FROM: Troy Nordquist, Contracts Manager & Legal Assistant
 RE: Report on Approved Contracts (Agenda Item #04 – C.2)

Dear Board Members:

SUMMARY: This report summarizes agreements entered into by the Chief Executive Officer and if applicable, the Chair of the Technical Committee since the last regular Board meeting in February. This summary is provided to your Board for information purposes only.

Review of Procurement Authorities

In March 2018, your Board adopted Resolution 2018-03 which included the following provisions:

The CEO and Technical Committee Chair, jointly, are hereby authorized, after consultation with the appropriate Committee of the Board of Directors, to approve and execute contracts for Energy Procurement for terms of less than or equal to five years. The CEO shall timely report to the Board of Directors all such executed contracts.

The CEO is authorized to approve and execute contracts for Energy Procurement for terms of less than or equal to 12 months, which the CEO shall timely report to the Board of Directors.

The Chief Executive Officer is required to report all such contracts and agreements to the MCE Board of Directors on a regular basis.

Summary of Agreements

Month	Purpose	Contractor	Maximum Annual Contract Amount	Term of Contract
March 2018	<i>Purchase Bundled Renewable Energy, 2018-2019</i>	<i>Con Edison</i>	<i>\$1,700,000</i>	<i>20 Months</i>
March 2018	<i>Purchase Resource Adequacy, April 2018</i>	<i>Shell Energy North America</i>	<i>\$200</i>	<i>5 Days</i>

Month	Purpose	Contractor	Maximum Annual Contract Amount	Term of Contract
<i>March 2018</i>	<i>Purchase Resource Adequacy, April 2018</i>	<i>PG&E</i>	<i>\$13,000</i>	<i>12 Days</i>
<i>March 2018</i>	<i>Purchase Flex Resource Adequacy, 2019-2023</i>	<i>Calpine Energy Solutions</i>	<i>\$3,900,000</i>	<i>5 Years</i>
<i>March 2018</i>	<i>Purchase Resource Adequacy, 2019-2023</i>	<i>Calpine Energy Solutions</i>	<i>\$1,990,000</i>	<i>5 Years</i>
<i>March 2018</i>	<i>Purchase Resource Adequacy, April 2019</i>	<i>Malaga Power</i>	<i>\$600,000</i>	<i>1 Year</i>

Fiscal Impact: Expenses associated with these Agreements that are expected to occur during FY 2017/18 are included in the FY 2017/18 Operating Fund Budget. Expenses that are expected to occur during FY 2018/19 are included in the FY 2018/19 Operating Fund Budget. Expenses associated with future years will be incorporated into budget planning as appropriate.

Recommendation: Information only. No action required.



April 19, 2018

TO: MCE Board of Directors

FROM: David McNeil, Manager of Finance

RE: Proposed Amendment to MCE Policy 014: Investment Policy (Agenda Item #05)

ATTACHMENTS: A. MCE Policy 014: Investment Policy
B. Proposed Amended MCE Policy 014: Investment Policy
C. Proposed Resolution 2018-05 Authorizing Investment of Monies in the Local Agency Investment Fund

Dear Board Members:

SUMMARY:

In April 2016, your Board approved MCE Policy 014: Investment Policy to guide the investment of MCE's cash and investments. The objectives of the Investment Policy are to ensure the safety and liquidity of MCE funds while earning a market rate of return. MCE's current Investment Policy allows for the investment of funds in commercial bank checking and savings accounts, certificates of deposit, and in the California State Treasury's Local Agency Investment Fund (LAIF). To date, all of MCE's funds have been invested in savings and checking accounts at River City Bank.

In March 2018, your Board approved the Fiscal Year (FY) 2018/19 Operating Fund Budget which is expected to increase funds available for investment from approximately \$10 million in April 2018 to \$60 million by December 2018.

The proposed amendments to MCE's Investment Policy would expand eligible investments to include US Treasury obligations and Federal Deposit Insurance Corporation insured certificates of deposit with terms to maturity not exceeding five years. Treasury obligations are safe and liquid investments and are expected to provide a rate of return above rates offered by River City Bank or LAIF. Other proposed changes to the Investment Policy relate to the purchase and custody of US Treasury obligations, reporting and audit requirements.

The proposed amendments to MCE's Investment Policy would also limit the average remaining term to maturity of all funds (including bank deposits, certificates of deposit and Treasury obligations) to 36 months. The Manager of Finance would allocate funds between eligible investments in a manner that ensures safety, liquidity and a market return on investments.

Market Risk

In general, when interest rates rise, prices of US Treasury obligations fall. Increasing the average term to maturity of MCE's investments increases the risk that the market value of MCE's investments in Treasury obligations may fall below their purchase price. Should MCE sell Treasury obligations prior to their maturity, MCE may incur a loss. This risk is inherent in investments in Treasury obligations.

As part of the treasury management function, MCE intends to hold a minimum of 30 days of cash in bank deposits, which is more than adequate to meet its working capital requirements. MCE also has a \$25 million bank line of credit which is currently unused. Investments in Treasury obligations would be purchased with the intent of holding them to maturity and would only be sold prior to maturity should an unexpected or emergency event occur. Staff believe that Treasury obligations offer an acceptable risk-adjusted rate of return. Investing in these instruments would enable MCE to diversify its investment holdings and reduce custodial credit risk arising from the concentration of investments with a single party.

Proposed Resolution 2018-05 Authorizing Investment of Monies in LAIF

The California State Treasury requires the adoption of the attached proposed Resolution in order for MCE to transact with LAIF. The proposed Resolution is administrative in nature.

MCE's Executive Committee reviewed the proposed amendments to the Investment Policy and proposed Resolution 2018-05 at its April 2018 meeting and recommend approval of the proposed amended Investment Policy and Resolution 2018-05 to your Board.

Fiscal Impacts: Interest rates vary on a daily basis and the incremental return on investments arising from amendments to the Investment Policy cannot be determined with certainty. Based on current market interest rates, the proposed amendments to the Investment Policy could result in incremental returns of \$425,000 in FY 2018/19 and over \$1 million in FY 2019/20.

Recommendation: Approve (i) proposed amended MCE Policy 014: Investment Policy and (ii) Proposed Resolution 2018-05 Authorizing Investment of Monies in the Local Agency Investment Fund.



POLICY 014: Investment Policy

This Investment Policy establishes guidelines for the management of cash, deposits and investments (together, “funds”) at MCE. When managing funds, MCE’s primary objectives, in order of importance, shall be to safeguard the principal of the funds, meet the liquidity needs of MCE and achieve a return on investment on funds in MCE’s control.

Safety: Safety of principal is the foremost objective of cash and investment management activities. The investment of funds shall be undertaken in a manner that seeks to ensure the preservation of principal.

Liquidity: The funds of the agency shall remain sufficiently liquid to meet all operating needs that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the investment of funds in deposits or instruments available on demand is recommended.

Return on Investment: The deposit and investment portfolio shall be designed with the objective of attaining a market rate of return throughout the economic cycle taking into account risk and liquidity constraints. The return on deposits and investments is of secondary importance compared to the safety and liquidity objectives described above.

Standard of Care

MCE will manage funds in accordance with the Prudent Investor Standard pursuant to California Government Code 53600.3.1: “Governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.” The responsibility to manage is delegated to the Finance and Project Manager or in lieu thereof the Chief Executive Officer.

Authorized Investments

The following types of investments are permitted;

Deposits at Bank(s): Funds may be invested in non-interest bearing depository accounts to meet MCE’s operating and collateral needs and grant requirements. Funds not needed for

these purposes will be invested in interest bearing depository accounts or certificates of deposit with maturities not to exceed six months.

Banks eligible to receive deposits will be federally or state chartered and will conform to Government Code 53635.2 which requires that banks "have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code."

FDIC Insurance coverage in the United States is \$250,000 per Tax ID Number. As per California Government Code 53652, banks must collateralize the deposits of public agencies in an amount equal to no less than 110% of the value of the deposits.

Local Agency Investment Fund (LAIF): Funds may be invested in the Local Agency Investment Fund. The LAIF was established by the California State Treasurer for the benefit of local agencies. Statutory requirements of the Local Agency Investment Fund include:

California Government Code 16429.1

- a. There is in trust in the custody of the Treasurer the Local Agency Investment Fund, which fund is hereby created. The Controller shall maintain a separate account for each governmental unit having deposits in this fund.
- e. The local governmental unit, the nonprofit corporation, or the quasi-governmental agency has the exclusive determination of the length of time its money will be on deposit with the Treasurer.
- j. Money in the fund shall be invested to achieve the objective of the fund which is to realize the maximum return consistent with safe and prudent treasury management.
- i. Immediately at the conclusion of each calendar quarter, all interest earned and other increment derived from investments shall be distributed by the Controller to the contributing governmental units or trustees.... An amount equal to the reasonable costs incurred in carrying out the provisions of this section, not to exceed a maximum of 5 percent of the earnings of this fund and not to exceed the amount appropriated in the annual Budget Act for this function, shall be deducted from the earnings prior to distribution.

California Government Code 16429.4

The right of a city, county, city and county, special district, nonprofit corporation, or qualified quasi-governmental agency to withdraw its deposited moneys from the Local Agency Investment Fund, upon demand, may not be altered, impaired, or denied, in any way, by any state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year.

Annual Review

The Investment Policy will be reviewed annually by the Finance and Project Manager. Any changes to the Investment Policy will be submitted to the Board for approval.



POLICY 014: Investment Policy

This Investment Policy establishes guidelines for the management of cash, deposits and investments (together, “funds”) at MCE. When managing funds, MCE’s primary objectives, in order of importance, shall be to safeguard the principal of the funds, meet the liquidity needs of MCE and achieve a return on investment on funds in MCE’s control.

Safety: Safety of principal is the foremost objective of cash and investment management activities. The investment of funds shall be undertaken in a manner that seeks to ensure the preservation of principal.

Liquidity: The funds of the agency shall remain sufficiently liquid to meet all operating needs that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the investment of funds in deposits or instruments available on demand is recommended.

Return on Investment: The deposit and investment portfolio shall be designed with the objective of attaining a market rate of return throughout the economic cycle taking into account risk and liquidity constraints. The return on deposits and investments is of secondary importance compared to the safety and liquidity objectives described above.

Standard of Care

MCE will manage funds in accordance with the Prudent Investor Standard pursuant to California Government Code 53600.3.1: “Governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

The responsibility to manage funds is delegated to the ~~Finance and Project~~ Manager of Finance or in lieu thereof the Chief Executive Officer.

Authorized Investments

The following types of investments are permitted;

Deposits at Bank(s): Funds may be invested in non-interest bearing depository accounts to meet MCE’s operating and collateral needs and grant requirements. Funds not needed for these purposes ~~will~~ may be invested in interest bearing depository accounts or Federal Deposit

Insurance Corporation (FDIC) insured certificates of deposit with maturities not to exceed ~~six months~~ five years.

Banks eligible to receive deposits will be federally or state chartered and will conform to Government Code 53635.2 which requires that banks "have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code."

FDIC insurance coverage in the United States is \$250,000 per Tax ID Number. As per California Government Code 53652, banks must collateralize the deposits of public agencies in an amount equal to no less than 110% of the value of the deposits. The Manager of Finance will monitor the credit quality of eligible banks to ensure the safety of MCE deposits.

Local Agency Investment Fund (LAIF): Funds may be invested in the Local Agency Investment Fund. The LAIF was established by the California State Treasurer for the benefit of local agencies. Statutory requirements of the Local Agency Investment Fund include:

California Government Code 16429.1

- a. There is in trust in the custody of the Treasurer the Local Agency Investment Fund, which fund is hereby created. The Controller shall maintain a separate account for each governmental unit having deposits in this fund.
- e. The local governmental unit, the nonprofit corporation, or the quasi-governmental agency has the exclusive determination of the length of time its money will be on deposit with the Treasurer.
- j. Money in the fund shall be invested to achieve the objective of the fund which is to realize the maximum return consistent with safe and prudent treasury management.
- i. Immediately at the conclusion of each calendar quarter, all interest earned and other increment derived from investments shall be distributed by the Controller to the contributing governmental units or trustees.... An amount equal to the reasonable costs incurred in carrying out the provisions of this section, not to exceed a maximum of 5 percent of the earnings of this fund and not to exceed the amount appropriated in the annual Budget Act for this function, shall be deducted from the earnings prior to distribution.

California Government Code 16429.4

The right of a city, county, city and county, special district, nonprofit corporation, or qualified quasi-governmental agency to withdraw its deposited moneys from the Local Agency Investment Fund, upon demand, may not be altered, impaired, or denied, in any way, by any state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year.

US Treasury Obligations: Funds may be invested in United States Treasury obligations with a term to maturity not exceeding 5 years subject to the limitations set forth in Sections 53601 et seq. and 53635 et seq. of the California Government Code.

Investment Portfolio Management

The average term to maturity of funds shall not exceed 36 months. The Manager of Finance will allocate funds among authorized investments consistent with the objectives and standards of care outlined in this Policy.

Bids and Purchase of Securities

Prior to the purchase of an investment pursuant to this Policy the persons authorized to make investments shall assess the market and market prices using information obtained from available sources including investment services, broker/dealers, and the media. A competitive bid process, when practical, will be used to place all investment purchases and sales transactions.

Brokers

Broker/dealers shall be selected by the Chief Executive Officer upon recommendation by the Manager of Finance. Selection of broker/dealers shall be based upon the following criteria: the reputation and financial strength of the company or financial institution and the reputation and expertise of the individuals employed. The Chief Executive Officer shall be prohibited from selecting any broker, brokerage firm, dealer, or securities firm that has, within any 48-consecutive month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board to any member of the MCE Board, or any candidate for those offices. The broker/dealers shall be provided with and acknowledge receipt of the Investment Policy.

Losses

Losses are acceptable on a sale before maturity and may be taken if required to meet the liquidity needs of the agency or if the reinvestment proceeds will earn an income flow with a present value higher than the present value of the income flow that would have been generated by the original investment, considering any investment loss or foregoing interest on the original investment.

Delivery and Safekeeping

The delivery and safekeeping of all securities shall be made through a third party custodian when practical and cost effective as determined by the Manager of Finance. The Director of Operations or their designee shall review all transaction confirmations for conformity with the original transaction.

Conflict of Interest

In accordance with state law, staff shall not accept honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other person with whom the MCE conducts business.

Audits

MCE's funds shall be subject to a process of independent review by its external auditors. MCE's external auditors shall review the investment portfolio in connection with the annual audit for compliance with the statement of investment policy pursuant to Government Code Section 27134. The results of the audit shall be reported Manager of Finance and the Ad Hoc Audit Committee.

Reports

The Manager of Finance and designated staff will perform a monthly review of the investment function. The Manager of Finance shall prepare periodic reports listing all funds, the average days to maturity and yield of investments and provide such reports to the Executive Committee.

Annual Review

The Investment Policy will be reviewed annually by the ~~Finance and Project~~ Manager of Finance. Any changes to the Investment Policy will be submitted to the Board for approval.

RESOLUTION NO. 2018-05

**A RESOLUTION OF THE BOARD OF DIRECTORS OF
MARIN CLEAN ENERGY AUTHORIZING INVESTMENT OF MONIES IN THE LOCAL
AGENCY INVESTMENT FUND**

WHEREAS, Marin Clean Energy (MCE) is a joint powers authority established on December 19, 2008, and organized under the Joint Exercise of Powers Act (Government Code Section 6500 et seq.); and

WHEREAS, MCE members include the following communities: the County of Marin, the County of Napa, the City of American Canyon, the City of Belvedere, the City of Benicia, the City of Calistoga, the Town of Corte Madera, the City of El Cerrito, the Town of Fairfax, the City of Lafayette, the City of Larkspur, the City of Mill Valley, the City of Napa, the City of Novato, the City of Richmond, the Town of Ross, the Town of San Anselmo, the City of San Pablo, the City of San Rafael, the City of Sausalito, the City of St. Helena, the Town of Tiburon, the City of Walnut Creek, and the Town of Yountville; and The City of Concord, The Town of Danville, The City of Martinez, The Town of Moraga, The City of Oakley, The City of Pinole, The City of Pittsburg, The City of San Ramon and Unincorporated Contra Costa County; and

WHEREAS, the Local Agency Investment Fund (LAIF) is established in the State Treasury under Government Code section 16429.1 et. seq. for the deposit of money of a local agency for purposes of investment by the State Treasurer; and

WHEREAS, the MCE Board of Directors hereby finds that the deposit and withdrawal of money in the LAIF in accordance with Government Code section 16429.1 et. seq. for the purpose of investment as provided therein is in the best interests of MCE;

NOW, THEREFORE, BE IT RESOLVED, by the MCE Board of Directors:

- A. The Board of Directors hereby authorizes the deposit and withdrawal of MCE monies in the LAIF in the State Treasury in accordance with Government Code section 16429.1 et. seq. for the purpose of investment as provided therein and under the guidelines established in MCE Policy No. 14: Investment Policy.
- B. The following MCE employees holding the title(s) specified hereinbelow or their successors in office are each hereby authorized to order the deposit of withdrawal of monies in the LAIF and may execute and deliver any and all documents necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby:

Dawn Weisz
(NAME)
Chief Executive Officer

(TITLE)

(SIGNATURE)

David McNeil
(NAME)
Manager of Finance

(TITLE)

(SIGNATURE)

C. This resolution shall remain in full force and effect until rescinded by the MCE Board of Directors by resolution and a copy of the resolution rescinding this resolution is filed with the State Treasurer’s Office.

PASSED AND ADOPTED at a regular meeting of the MCE Board of Directors on this 19th day of April, 2018, by the following vote:

	AYES	NOES	ABSTAIN	ABSENT
City of American Canyon				
City of Belvedere				
City of Benicia				
City of Calistoga				
City of Concord				
Unincorporated Contra Costa County				
Town of Corte Madera				
Town of Danville				
City of El Cerrito				
Town of Fairfax				
City of Lafayette				
City of Larkspur				
County of Marin				
City of Martinez				
City of Mill Valley				
Town of Moraga				
City of Napa				
County of Napa				
City of Novato				
City of Oakley				
City of Pinole				
City of Pittsburg				
City of Richmond				
Town of Ross				
Town of San Anselmo				
City of San Pablo				
City of San Rafael				
City of San Ramon				
City of Sausalito				
City of St. Helena				

Town of Tiburon				
City of Walnut Creek				
Town of Yountville				

CHAIR, MCE

Attest:

SECRETARY, MCE



April 19, 2018

TO: MCE Board of Directors
FROM: David McNeil, Manager of Finance
RE: Proposed MCE Policy 015: Energy Risk Management Policy (Agenda Item #06)
ATTACHMENT: Proposed Policy 015: Energy Risk Management Policy

Dear Board Members:

SUMMARY:

During the normal course of business, MCE manages risks arising from its participation in California's wholesale energy markets. The Board, Staff and MCE contractors use a variety of practices and processes to identify, measure and manage these risks. The successful management of wholesale energy market risk is essential for ensuring MCE's financial strength and enabling the agency to continue to deliver on its mission.

The proposed Policy 015: Energy Risk Management Policy (Policy) describes MCE's risk management goals and principles, identifies and describes various energy market risks, defines a framework to manage risks, and outlines roles and responsibilities of those charged with managing risk.

Examples of energy market risks include, but are not limited to, the following:

- Market Price Risk
- Counterparty Credit and Performance Risk
- Load and Generation Volumetric Risk
- Operational Risk
- Liquidity Risk
- Regulatory and Legislative Risk

MCE manages these risks in accordance with internal control principles which include segregation of duties, checks and balances between the different functional areas of the agency, delegation of authority commensurate with responsibility and capability, and limiting activities to defined products and transactions. The proposed Policy documents MCE's current risk management practices and provides a framework for MCE to continue to identify, measure and manage energy market risks consistent with the proposed Policy, other Board policies, plans and resolutions, legal and regulatory requirements and good utility practice.

MCE's Technical Committee reviewed the proposed Policy at its April meeting and recommend approval of the proposed Policy to your Board.

Fiscal Impacts: None

Recommendation: Approve proposed MCE Policy 015: Energy Risk Management Policy.



Policy 015: Energy Risk Management Policy

**Energy Risk Management Policy
Table of Contents**

1.0	General Provisions	3
1.1	Background and Purpose of Policy.....	3
1.2	Scope of Business and Related Market Risks	3
1.3	Policy Administration	4
1.4	Policy Distribution	4
2.0	Risk Management Goals	4
3.0	Risk Management Principles.....	4
4.0	Definitions of Market Risks.....	5
4.1	Market Price Risk.....	5
4.2	Counterparty Credit and Performance Risk.....	5
4.3	Load and Generation Volumetric Risk.....	6
4.4	Operational Risk	6
4.5	Liquidity Risk.....	7
4.6	Regulatory/Legislative Risk	7
5.0	Internal Control Principles	7
6.0	Risk Management Business Practices.....	8
6.1	Risk Measurement Metrics and Reporting	8
6.2	Market Price Risk.....	9
6.3	Counter Party Credit and Performance Risk.....	10
6.4	Load and Generation Volumetric Risk.....	10
6.5	Operational Risk	10
6.6	Liquidity Risk.....	11
6.7	Regulatory/Legislative Risk	11
7.0	Risk Management Governance.....	11
7.1	MCE Board of Directors.....	11
7.2	Technical Committee	11
7.3	Risk Oversight Committee (ROC)	11

Energy Risk Management Policy

1.0 General Provisions

1.1 Background and Purpose of Policy

Marin Clean Energy's (MCE) mission is to address climate change by reducing energy-related greenhouse gas emissions through the use of renewable energy supply and energy efficiency programs at stable and competitive rates for customers while providing local economic and workforce benefits.

This Energy Risk Management Policy (Policy) has been developed to help ensure that MCE achieves its mission and adheres to policies established by the MCE Board of Directors (Board), power supply and related contract commitments, good utility practice, and all applicable laws and regulations.

This Policy defines MCE's general energy risk management framework and provides management with the authority to establish processes for monitoring, measuring, reporting, and controlling market and credit risks to which MCE is exposed in its normal course of business.

1.2 Scope of Business and Related Market Risks

MCE provides energy to retail customers in its service territory that entails business activities such as; bilateral purchases and sales of electricity under short, medium and long term contracts; scheduling of load and generation of electricity into California Independent Systems Operator (CAISO) markets; retail marketing of electricity to consumers within its service territory; compliance with voluntary objectives and regulatory requirements as it relates to carbon free and renewable portfolio standard (RPS) compliant energy; participation in CAISO Congestion Revenue Rights ("CRRs") market; managing the balance of load and generation over short, medium and long term horizons; and compliance with California Public Utilities Commission (CPUC) Resource Adequacy (RA) requirements.

Examples of energy market risks include, but are not limited to, the following:

- Market Price Risk
- Counter party Credit and Performance Risk
- Load and Generation Volumetric Risk
- Operational Risk
- Liquidity Risk
- Regulatory/Legislative Risk

This Policy focuses on the following:

- Risk Management Goals and Principles
- Definitions of Risks
- Internal Control Principles
- Risk Management Business Practices
- Risk Management Governance

This Policy does not address the following types of general business risk, which are treated separately in other official policies, ordinances and regulations of MCE: fire, accident and casualty; health, safety, and workers' compensation; general liability; and other such typically insurable perils. The term "risk management," as used herein, is therefore understood to refer solely to market risks as herein defined, and not those other categories of risk.

1.3 Policy Administration

This version of the Energy Risk Management Policy adopted by the MCE Board of Directors the XXth day of XXX, 20XX, will be reviewed and updated as needed every two calendar years by the Technical Committee. This Policy may be amended as needed by MCE's Technical Committee.

1.4 Policy Distribution

This Policy shall be distributed to all MCE employees and third-party contractors who are engaged in the planning, procurement, sale and scheduling of electricity on MCE's behalf and/or in other MCE departments providing oversight and support for these activities.

2.0 Risk Management Goals

The goals of energy risk management shall be to:

- [1] assist in achieving the business objectives in the Integrated Resource Plan (IRP) and Reserve Policy including retail rate stability and competitiveness and the accumulation of financial reserves;
- [2] avoid losses and excessive costs which would materially impact the financial condition of MCE;
- [3] establish the parameters for energy procurement and sales activity to obtain the best possible price while ensuring compliance with Board-approved risk limits;
- [4] assist in assuring that market activities and transactions are undertaken in compliance with established procurement authorities, applicable laws, regulations and orders; and
- [5] encourage the development and maintenance of a corporate culture at MCE in which the proper balance is struck between control and facilitation and in which professionalism, discipline, technical skills and analytical rigor come together to achieve MCE objectives.

3.0 Risk Management Principles

MCE manages its energy resources and transactions for the purpose of providing its customers with low cost renewable, carbon free and other energy while at the same time minimizing risks. Undue exposure to CAISO or bilateral energy market volatility for the purpose of potentially achieving lower costs but at the risk that costs may, in fact, be much higher, will not be accepted. Procurement and hedging strategy will be determined by analytical methods supplemented by experienced judgement. MCE will use that experienced judgement and its analytical tools to assess system cost drivers such as weather, short term energy prices, load variation and operational constraints to manage timing and quantity of purchases and sales of energy and related services, consistent with the limits identified in this policy. When actions are taken that are consistent with this Policy and for the purpose of the combined goal of low costs and optimized risk, those actions are considered to be consistent with the

objectives of this policy. MCE will not engage in transactions, without proper authorization, whose purpose is not tied to managing costs and risks or are outside of the limits identified in this policy.

4.0 Definitions of Market Risks

The term “market risks,” as used here, refers specifically to those categories of risk which relate to MCE’s participation in wholesale and retail markets as Load Serving Entity (LSE) and its interests in long-term contracts. Market risks include market price risk, counterparty credit and performance risk, load and generation volumetric risk, operational risk, liquidity risk, and regulatory and legislative risk. These categories are defined and explained as follows.

4.1 Market Price Risk

Market Price risk is the risk that wholesale trading positions, long-term supply contracts and generation resources may move “out of the money,” that is, become less valuable in comparison with similar positions, contracts or resources obtainable at present prices. These same positions can also be “in the money” if they become more valuable in comparison to similar positions, contracts or resources obtainable at present market prices. This valuation methodology is commonly referred to as “Mark to Market.” If MCE is “out of the money” on a substantial portion of its contracts, it may have to charge higher retail rates. This may erode MCE’s competitive position and market share if other market participants (e.g., Direct Access providers or PG&E) are able to procure power at a lower cost and offer lower retail electricity rates.

A subcomponent of market price risk is market liquidity. Illiquid markets make it more difficult to buy or sell a commodity and can result in higher premiums on purchases or deeper discounts on sales.

Another dimension of market price risk is congestion risk. Congestion risks arise from the difference between the prices MCE pays the CAISO to schedule its load and the prices MCE receives from the CAISO for energy delivered by MCE’s suppliers.

4.2 Counterparty Credit and Performance Risk

Performance and credit risk refers to the inability or unwillingness of a counter party to perform according to its contractual obligations. Failure to perform may arise if an energy supplier fails to deliver energy as agreed. There are four general performance and credit risk scenarios:

[1] counterparties and wholesale suppliers may fail to deliver energy or environmental attributes, requiring MCE to purchase replacement product elsewhere, possibly at a higher cost;

[2] counterparties may fail to take delivery of energy or environmental attributes sold to them, necessitating a quick resale of the product elsewhere, possibly at a lower price;

[3] counterparties may fail to pay for energy or environmental attributes delivered; and

[4] counterparties and suppliers may refuse to extend credit to MCE, possibly resulting in higher collateral posting costs impacting MCE’s cash and bank lines of credit.

An important subcategory of credit risk is concentration risk. When a portfolio of positions and resources is concentrated in one or a very few counterparties, sources, or locations, it becomes more

likely that major losses will be sustained in the event of non-performance by a counterparty or supplier or as a result of price fluctuations at one location.

4.3 Load and Generation Volumetric Risk

Energy deliveries must be planned for based upon forecasted load adjusted for distribution line losses. MCE forecasts load over the long and short term and enters into long and short term fixed price energy contracts to hedge its load consistent with the provisions of its IRP.

Load forecasting risks arises from inaccurate load forecasts and can result in the over or under procurement of energy and/or revenues that deviate from approved budgets. Energy delivery risk occurs if a generator fails to deliver expected or forecast energy. Variations in wind speed and cloud cover can also impact the amount of electricity generated by solar and wind resources, and occasional oversupply of power on the grid can lead to curtailment of energy deliveries or reduce revenue as a result of low or negative prices at energy delivery points. Weather is an important variable that can result in higher or lower electricity usage due to heating and cooling needs.

In the CAISO markets this situation can result in both over supply and undersupply of electricity relative to MCE's load and the over or under scheduling of generation or load into the day ahead market relative to actual energy consumed or delivered in the real time market. Load and generation volumetric risk may result in unanticipated open positions and imbalance energy costs. Imbalance energy costs result from differences in the price or volume of generation or load scheduled into the day ahead market when compared to the price or volume of generation or load occurring in the real time market during that time period.

4.4 Operational Risk

Operational risk consists of the potential for failure to act effectively to plan, execute and control business activities. Operational risk includes the potential for:

[1] organizational structure that is ineffective in addressing risk, i.e., the lack of sufficient authority to make and execute decisions, inadequate supervision, ineffective internal checks and balances, incomplete, inaccurate and untimely forecasts or reporting, failure to separate incompatible functions, etc.;

[2] absence, shortage or loss of key personnel or lack of cross functional training;

[3] lack or failure of facilities, equipment, systems and tools such as computers, software, communications links and data services;

[4] exposure to litigation or sanctions resulting from violating laws and regulations, not meeting contractual obligations, failure to address legal issues and/or receive competent legal advice, not drafting and analyzing contracts effectively, etc.; and

[5] errors or omissions in the conduct of business, including failure to execute transactions, violation of guidelines and directives, etc.

4.5 Liquidity Risk

Liquidity Risk is the risk that MCE will be unable to meet its financial obligations. This can be caused by unexpected financial events and/or inaccurate pro forma calculations, rate analysis, and debt analysis. Some unexpected financial events impacting liquidity could include:

[1] breach of MCE credit covenants or thresholds; MCE has credit covenants included in its banking and several short-term energy contracts. Breach of credit covenants or thresholds could result in the withdrawal of MCE's line of credit or trigger the requirement to post collateral; and

[2] from time to time MCE may be the subject of legal or other claims arising from the normal course of business. Payment of a claim by MCE could reduce MCE's liquidity if the cause of loss is not covered by MCE's insurance policies.

4.6 Regulatory/Legislative Risk

Regulatory risk encompasses market structure and operational risks associated with shifting state and federal regulatory policies, rules, and regulations that could negatively impact MCE. An example is the potential increase of exit fees for customers served by Community Choice Aggregators such as MCE that would result in higher electricity rates for MCE's customers.

Legislative risk is associated with actions by federal and state legislative bodies, such as any adverse changes or requirements that may infringe on MCE's autonomy, increase its costs, or otherwise negatively impact MCE's ability to fulfill its mission.

5.0 Internal Control Principles

Internal controls shall be based on proven principles that meet or exceed the requirements of financial institutions and credit rating agencies and good utility practice. The required controls shall include all customary and usual business practices designed to prevent errors and improprieties, ensure accurate and timely reporting of results of operations and information pertinent to management, and facilitate attainment of business objectives. These controls are currently and shall remain fully integrated into all activities of the business and shall be consistent with stated objectives. There shall be active participation by senior management in risk management processes.

The required controls include the following:

- [1] Segregation of duties and functions between front, middle, and back office activities. Generally:
- Front office is responsible for planning (e.g. preparation of the IRP and procurement planning) and procurement (e.g. solicitation management, contract negotiation, structuring and pricing, contract execution) and contract management and compliance;
 - Middle office is responsible for controls and reporting (e.g., risk monitoring, risk measurement, risk reporting, procurement compliance, counterparty credit review, approval and monitoring); and
 - Back office is responsible for settlements and processing (e.g., verification, validation, reconciliation and analysis of transactions, tracking, processing, and settlements of transactions).

[2] Delegation of authority that is commensurate with responsibility and capability, and relevant training to ensure adequate knowledge to operate in and comply with rules associated with the markets in which they transact (e.g., CAISO). Contract origination, commercial approval, legal review, invoice validation, and transaction auditing shall be performed by separate staff or contractor for any single transaction. No single staff member shall perform all these functions on any transaction.

[3] Defining authorized products and transactions. Generally:

- Authorized transactions are those transactions directly related to the procurement and/or administration of electric energy, reserve capacity, transmission and distribution service, ancillary services, congestion revenue rights (CRRs), renewable energy, renewable energy credits, scheduling activities, tolling agreements, and bilateral purchases of energy products. All transactions must be consistent with this Policy and the board approved IRP.
- 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 is prohibited. Speculation is defined as buying energy in excess of forecasted load plus reasonable planning reserves or selling energy or environmental attributes that are not yet owned by MCE. In no event shall speculative transactions be permitted. Any financial derivatives transaction including, but not limited to futures, swaps, options, and swaptions are also prohibited.

[4] Defining procurement authority as set forth in MCE's Board Resolution on Delegating Energy Procurement Authorities.

[5] Defining proper process for executing power supply contracts. Generally, MCE will ensure power supply contracts are approved by personnel from Procurement/Commercial, Technical, and Credit/Financial prior to execution. Legal review will be required of various forms of agreement. Forms of agreement will be reviewed no less than every six months.

[6] Complete and precise capture of transaction and other data, with standardization of electronic and hard copy documentation.

[7] Meaningful summarization and accurate reporting of transactions and other activity at regular intervals.

[8] Timely and accurate risk and performance measurement at regular intervals.

[9] Regular compliance review to ensure that this Policy and related risk management guidelines are adhered to, with specific guidelines for resolving instances of noncompliance.

[10] Active participation by senior management in risk management processes.

6.0 Risk Management Business Practices

6.1 Risk Measurement Metrics and Reporting

A vital element of this 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 MCE's procurement-related business activities and performance relative to goals.

MCE measures and updates its risks using a variety of tools that model programmatic financial projections, market exposure and risk metrics, as well as through short term budget updates. The following items are measured, monitored, and reported:

[1] Mark-to-Market Valuation – marking to market is the process of determining the current value of contracted supply. A mark-to-market valuation shall be performed at least on a quarterly basis.

[2] Exposure Reporting – calculates the notional dollar risk exposure of open portfolio positions at current market prices. The exposure risk calculation shall be performed at least on a quarterly basis.

[3] Open Position Monitoring – on a monthly basis, MCE shall calculate/monitor its open positions for all energy and capacity products. If energy open positions for the month following the then current month (prompt month) exceed 10% of load, MCE will solicit market prices to close open positions and make a commercial decision to close the position. Open positions for terms beyond the prompt month will be monitored monthly and addressed in accordance with MCE's Load and Resource Balance Planning Model (Planning Model) and the IRP.

[4] Reserve Requirement Targets – on no less than an annual basis, MCE staff will monitor MCE's reserves to ensure that they meet the targeted thresholds.

Consistent with the above, the Middle Office will develop reports and provide feedback to the Risk Oversight Committee.

Risk measurement methodologies shall be re-evaluated on a periodic basis to ensure MCE adjusts its methods to reflect the evolving competitive landscape.

6.2 Market Price Risk

MCE manages market price risk using its Load and Resource Balance which defines forecasted load, energy under contract and MCE's open positions in various energy product types including renewable energy (Product Content Category I, II and III), carbon free energy, system power, and MCE's procurement targets.

MCE determines the quantity of energy it will contract for in each year using its Planning Model. The Planning Model includes an outline of the delivery term and quantity of energy by product type for which MCE will seek to contract in the upcoming year. The Planning Model informs MCE's solicitation planning including solicitation timing and strategy, and person or team responsible for the solicitation.

In general MCE will seek to purchase roughly equal portions of long term renewable energy in each year in order to diversify exposure to market conditions and reduce the risk of concentrating purchases in any one year.

For products generally purchased through short and medium-term contracts MCE follows a similar strategy of diversifying contracting over the delivery horizon.

As predominantly a net buyer, MCE manages its market liquidity risk through purchasing at different intervals as described in the Planning Model and maintaining a diverse set of counterparties to transact with.

Congestion risk is managed through the contracting process with a preference for day ahead scheduling and energy delivery at the NP 15 trading hub and through resource assessment and selection. Once energy is procured MCE manages congestion risks through the prudent management of Congestion Revenue Rights (CRRs) consistent with its Congestions Revenue Rights Risk Management Guidelines. CRRs are financial instruments used to hedge against transmission congestion costs encountered in the CAISO day-ahead market. MCE uses a third-party scheduling coordinator to manage its CRR portfolio. MCE uses CRRs to reduce its exposure to congestion and other CAISO charges, and will not use CRRs for speculative purposes.

6.3 Counter Party Credit and Performance Risk

MCE evaluates and monitors the financial strength of service and energy providers consistent with MCE's Credit Guidelines. Generally, MCE manages its exposure to energy suppliers through a preference for counter parties with Investment Grade Credit ratings as determined by Moody's or Standard and Poor's and through the use of security requirements in the form of cash and letters of credit. MCE measures its mark-to-market counter party credit exposure consistent with industry best practices.

6.4 Load and Generation Volumetric Risk

MCE manages energy delivery risks by ensuring that contracts include appropriate contractual penalties for non-delivery, acquiring energy from a geographically and technologically diverse portfolio of generating assets with a range of generation profiles. In order to ensure energy product targets are achieved, MCE uses 80 to 100 percent of the generator's average annual expected energy for certain variable or as available resources for operating year load and resource planning.

MCE manages load forecasting and related weather risks by contracting with qualified data management and scheduling coordinators who together provide the systems and data necessary to forecast and schedule load using good utility practice.

MCE's load scheduling strategy, as executed by its scheduling coordinator, is captured in its Load Bidding/Scheduling Guidelines. The strategy ensures that price risk in the day ahead and real time CAISO markets is managed effectively and is consistent with good utility practice.

6.5 Operational Risk

Operational risks are managed through:

- Adherence to this Policy and oversight of procurement activity;
- Conformity to Human Resources Policies and Guidelines;
- Staff resources, expertise and/or training reinforcing a culture of compliance;
- Ongoing and timely internal and external audits; and

- Cross-training amongst staff

6.6 Liquidity Risk

MCE manages liquidity risk through adherence to its loan and power purchase agreement credit covenants, limiting commitments to provide security consistent with its Credit Guidelines, ensuring it has adequate loan facilities, prudent cash and investment management, and adherence to its Reserve Policy. MCE monitors its liquidity (defined as unrestricted cash, investments and unused bank lines of credit) no less than weekly. MCE utilizes scenario and sensitivity analyses while preparing budget, rate, and pro forma analyses in order to identify potential financial outcomes and ensure sufficient liquidity under adverse conditions.

6.7 Regulatory/Legislative Risk

MCE manages its regulatory and legislative risk through active participation in working groups and advocacy coalitions such as the California Community Choice Association. MCE regularly participates in regulatory rulemaking proceedings and legislative affairs to protect MCE's interests.

7.0 Risk Management Policy Governance

7.1 MCE Board of Directors

The MCE Board or its delegated subcommittee is responsible for adopting this Policy and reviewing it as needed every two calendar years. The Board also approves MCE's annual budget, contracting authorities and delegate responsibilities for the management of MCE's operations to its CEO and Staff.

7.2 Technical Committee

The Technical Committee is responsible for approval of substantive changes to this Policy as needed every two calendar years, and for initiating and overseeing a review of the implementation of this Policy as it deems necessary. The Technical Committee is responsible for reviewing and approving the Integrated Resource Plan every year, and energy service and supply contracts consistent with MCE Board Resolutions describing contracting authorities.

7.3 Risk Oversight Committee (ROC)

The ROC shall include the following voting members: Chief Executive Officer (CEO), Chief Operating Officer (COO), General Counsel, and Finance Manager, or their designees in case of their absence. The Director of Power Resources and Technical Procurement Advisor shall be non-voting members of the ROC. The CEO shall act as the chair of the ROC.

The ROC shall meet once per calendar quarter, or as otherwise called to order by the CEO. The Finance Manager shall make reports and seek approval for any substantive changes to this Policy from the Technical Committee.

The ROC shall from time to time adopt and bring current risk management guidelines defining in detail the internal controls, strategies and processes for managing market risks incurred through or attendant upon wholesale trading, retail marketing, long-term contracting, CRR trading and load and generation scheduling. The ROC shall specify the categories of transactions permitted and set risk limits for

wholesale trading. The ROC shall receive and review information and reports regarding risk management, wholesale trading transactions, the administration of supply contracts.

The ROC shall have direct responsibility for enforcing compliance with this Policy. Any gross violations to this Policy, as determined by the Chair of the ROC, shall be reported to the Technical Committee for appropriate action.



April 19, 2018

TO: MCE Board of Directors

FROM: John Dalessi, Pacific Energy Advisors

RE: Proposed Electric Vehicle Rates for FY 2018/19 (Agenda Item #07)

Dear Board Members:

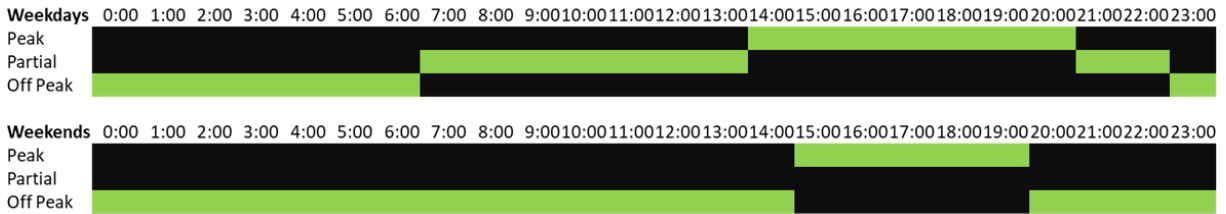
SUMMARY

MCE conducts an annual review of its electric rates as part of MCE's ratesetting and budgeting process to determine whether changes are warranted to ensure budgetary cost recovery, rate competitiveness, and/or consistency with other rate design policies. This review indicates that current MCE rates are sufficient to recover the FY 2018-2019 budget, including an expected contribution to reserves of approximately \$54 million for the year. Further, customer electric costs with MCE's rates are generally lower by an average of 3% to 4% for all customer classes relative to service under the comparable PG&E rates. Following consultation with the Ad Hoc Ratesetting, the Technical Committee and Executive Committee, staff recommends maintaining current rates for the remainder of this fiscal year with the following exception: adjustments are recommended for the optional time-of-use rate, Schedule EV, applicable to residences with electric vehicle charging. The reason for the recommended change to Schedule EV is to rebalance rates to ensure that MCE offers lower costs than PG&E in all time-of-use periods applicable on this rate schedule.

BACKGROUND

Schedule EV is a time-of-use rate option for residential owners of electric vehicles (plug-in electric vehicles or plug-in hybrid electric vehicles) that has different rates applied depending upon the season and time of day during which power is consumed. There are six different time-of-use periods: peak, part peak and off peak for the summer (May through October) and winter seasons (November through April). The time-of-use periods vary for weekdays and weekends as illustrated in the following graphic.

Figure 1: Schedule EV Time-Of-Use Periods



As compared to service from PG&E, customers' charging costs on Schedule EV are lower with MCE during the summer and winter peak periods, and the summer partial peak periods. They are higher during the summer and winter off-peak periods and the winter partial peak period.

From a cost-of-service perspective, energy procured from the wholesale market for delivery during the partial peak and off-peak periods are relatively low, while energy delivered during the peak periods are relatively high. However, the rate differentials across time-of-use periods on Schedule EV are much greater than are the differences in wholesale power costs. Rates during the peak and summer partial peak periods exceed MCE's procurement costs while rates during the other time periods are below cost.

PROPOSAL

Staff recommends adjusting MCE's EV rates to incentivize off-peak charging and to ensure that customer charging costs are equal to or below the comparable PG&E service alternative during all time-of-use periods. A larger discount is proposed for the summer partial peak period in consideration of the high rate relative to cost. A larger summer partial peak discount was initially considered and has been moderated in this final proposal based on customer feedback expressed at the Technical Committee meeting regarding possible adverse impacts on EV customers with solar under the net energy metering program.

The proposed EV rate is shown in Table 1 and compared to the current EV rate as well as what rates would be if set at parity with PG&E. Relative to current rates, the proposal would result in a projected revenue reduction of approximately \$308,000 for the current fiscal year.

Table 1: Present and Proposed EV Rates

	EV (Current Residential EV)		EV (at Parity w/PG&E)		EV (Proposed)	
	Rate (\$/kWh)	Total Revenue	Rate (\$/kWh)	Total Revenue	Rate (\$/kWh)	Total Revenue
	\$ 0.200	\$1,565,202	\$ 0.212	\$1,659,114	\$ 0.212	\$1,659,114
	\$ 0.075	\$638,362	\$ 0.084	\$714,965	\$ 0.070	\$595,804
	\$ 0.030	\$615,314	\$ 0.025	\$512,762	\$ 0.022	\$451,230
	\$ 0.055	\$467,744	\$ 0.057	\$484,753	\$ 0.057	\$484,753
	\$ 0.030	\$264,526	\$ 0.023	\$202,803	\$ 0.023	\$202,803
	\$ 0.030	\$645,451	\$ 0.027	\$580,906	\$ 0.023	\$494,846
Total		\$4,196,600		\$4,155,304		\$3,888,552
Average Rate (per KWh)	\$ 0.055		\$ 0.055		\$ 0.051	

Recommendation: Accept the proposed revisions to Schedule EV as set forth in Table 1.



April 19, 2018

TO: MCE Board of Directors
FROM: Shalini Swaroop, Director of Policy
RE: Policy Update on Regulatory and Legislative Items (Agenda Item #08)

Dear Board Members:

Below is a summary of the key activities at the legislature and the California Public Utilities Commission (CPUC) impacting Community Choice Aggregation (CCA) and MCE.

I. Legislature

1) Investor-Owned Utility Liability for Wildfires

The most prominent energy issue of the session will be the liability assigned to utilities for catastrophic wildfires. Current California law requires “inverse condemnation,” which holds investor-owned utilities (IOUs) responsible for the costs of wildfire damage regardless of whether the IOU was negligent. As a consequence, Standard & Poor’s and other financial agencies have downgraded PG&E’s investment rating based upon potential wildfire liability. The current status or any potential changes to IOU wildfire liability will have a significant impact on the California energy market, financing for new projects, and potential bankruptcy of the IOUs.

2) SB 1136 (Hertzberg) – Resource Adequacy Modifications

Senator Hertzberg is currently examining modifications to Resource Adequacy requirements for all Load Serving Entities (LSEs), including CCAs. No language has yet been issued, but MCE will be monitoring this bill closely.

3) AB 813 (Holden) – Regionalization

“Regionalization” refers to the expansion and changes in the governance structure of the California Independent System Operator (CAISO). Regionalization has been a priority for Governor Brown but it did not pass last year due to a number of issues with the bill, including a directive that would require the IOUs to buy a significant amount of renewable energy and pass the costs onto new CCAs. Asm. Holden, the Chair of the Assembly Utilities and Energy Committee, has been convening stakeholders to discuss the bill in an effort to move it through his Committee this year. Some stakeholders believe that California cannot sustain increasingly high levels of renewable energy on its grid without sending some of it across state lines. Other stakeholders believe that the governance of CAISO should not change and do not want the

Federal Energy Regulatory Commission to have more authority in California. Another major issue is whether regionalization will affect labor unions and incentives to build power supply and infrastructure within California. MCE and the California Community Choice Association (CalCCA) have not yet taken a position on regionalization.

II. California Public Utilities Commission (CPUC)

1) CalCCA Files Testimony in the Power Charge Indifference Proceeding

On April 2, 2018, CalCCA filed Opening Testimony in the Power Charge Indifference Adjustment (PCIA) proceeding. CalCCA proposed a number of PCIA revisions, including: (1) ways to adjust the current Market Price Benchmark (MPB) to capture additional value; (2) securitization of above-market costs; (3) an auction to redistribute utility resources to other Load Serving Entities; (4) an option to calculate pre-payment of the PCIA; (5) a possible PCIA sunset; and (6) ways to improve forecasting and other practices to reduce the PCIA going forward.

The three IOUs all submitted joint testimony revising their 2017 Portfolio Allocation Mechanism (PAM). They proposed the Green Allocation Mechanism (GAM) and the Portfolio Monetization Mechanism (PMM). Under the proposed GAM, CCAs would be allocated the renewable attributes (Resource Adequacy and Renewable Energy Credits) for renewable and large-hydro resources based on each CCA's load share. CCAs would also be allocated a proportional share of the above-market costs of those resources but would not receive any associated energy as part of the GAM.

Under the PMM, the utilities propose to eliminate the administratively set MPB. Instead, the market price for conventional, nuclear, and energy storage resources would be based on actual market transactions and subject to annual true-up based on market conditions and portfolio performance. CCAs would be responsible for the above-market costs of these resources, but would not be allocated resource attributes as in the GAM.

CalCCA will submit rebuttal testimony on April 23, 2018. The CPUC will hold evidentiary hearings the week of May 7, and it expects to issue a proposed decision on this proceeding in late July 2018.

2) CPUC Releases a Proposed (Draft) Decision on Energy Efficiency Business Plans

On January 17, 2017, MCE, the IOUs, and other local government administrators filed Energy Efficiency (EE) Business Plans with the CPUC. These plans outline the programmatic strategy and request budgets for each program administrator through 2025. MCE was the only CCA to file a business plan. MCE's business plan proposed an expanded set of offerings for the residential, commercial, agricultural, industrial, and workforce sectors with a significant increase to the budget to provide these programs.

One reason for the expanded offerings is that CCA programs were previously limited to the gaps in IOU programs, innovative offerings, and serving hard-to-reach customers. These limitations make it infeasible to achieve a cost-effective program. The CPUC since lifted the restrictions on CCA EE programs, allowing overlap with IOU EE programs, and held CCAs to the same cost-effectiveness requirements as IOUs. In addition to the expanded programs, MCE proposed several changes to the CPUC's rules to create a feasible path for CCAs to achieve cost-effectiveness targets.

On April 4, 2018, the CPUC issued a proposed decision for comment that addresses the EE Business Plans. This proposed decision significantly increases MCE's EE program budget. The existing annual budget is approximately \$1.6 million and the proposed decision would approve an annual budget of between \$7 million and \$11 million through 2025. However, the proposed decision does not approve the entirety of MCE's proposed programs: (1) it approves MCE's request in the residential and workforce sectors; (2) it limited MCE's request in the commercial and agricultural sectors to small customers; and (3) it denied MCE's request in the industrial sector. The CPUC also did not adopt the rules MCE proposed to create a feasible path for CCAs to achieve cost-effectiveness targets. MCE will engage with the CPUC through written comments and in-person meetings to address cost-effectiveness issue in the proposed decision and in subsequent activities in the EE rulemaking proceeding.

3) CalCCA Files Response to Joint Parties' Petition for Modification to Modify the Integrated Resources Planning Decision to Provide Diablo Canyon Replacement Procurement Directives to Load Serving Entities

On February 28, 2018, PG&E, Friends of the Earth, Natural Resources Defense Council (NRDC), and the California Unions for Reliable Energy (CURE) filed a Petition for Modification of the decision in the Integrated Resources Planning (IRP) proceeding. The Petition for Modification asked the CPUC to explicitly direct Load Serving Entities (LSEs) to procure Greenhouse Gas (GHG) free resources to replace the Diablo Canyon Power Plant, which will retire in 2024 and 2025. Absent of such directive, the Joint Parties claimed, California's electricity sector GHG emissions will likely increase after the retirement of Diablo Canyon.

On March 30, 2018, CalCCA filed a response to the Petition for Modification. CalCCA asked the CPUC to reject the Petition for Modification on two grounds. First, the CPUC has already considered the retirement of Diablo Canyon and the need for GHG-free replacement resources in its modeling of the electricity grid. Second, the Joint Parties did not provide sufficient evidence that such directive is needed to ensure that GHG emissions will not increase, especially considering the high GHG-free and renewable procurement goals adopted by CCAs.

4) MCE and California Community Energy Authority Files Joint Brief on Negative Power Charge Indifference Adjustment

On April 3, 2018, MCE and the California Community Energy Authority (CCEA) filed a joint opening brief to oppose PG&E's proposed "retirement" of over \$77 million in accrued Power Charge Indifference Adjustment (PCIA) fees that were paid by Direct Access (DA) customers before any CCAs had launched. These fees accrued as a result of the departure of DA customers at a time of high market prices for electricity. PG&E's existing contracts for those DA customers were below market prices, and so the departure allowed PG&E to meet the needs of the remaining bundled customers at below-market costs, creating a benefit for bundled customers. MCE and CCEA opposed the "retirement" and argued the \$77 million benefit should be used to offset non-bypassable charges or be returned to DA customers as a bill credit. These arguments were made to preserve the principle of "bundled customer indifference" to departing load which requires that bundled customers should not experience harm *or benefit* from departing load. This brief is intended to prevent the CPUC from setting a precedent that would allow PG&E to retain an analogous benefit, should one accrue as a result of PCIA payments from CCA customers.

5) CalCCA Files Protest to PG&E Advice Letter Setting Limits on Debt Collection for Outstanding CCA Customer Debt

On March 13, 2018, CalCCA filed a protest opposing a PG&E advice letter seeking to limit PG&E's collections activities of customer debt for CCAs. The protest calls for PG&E's request to be rejected and highlights important policy issues that need to be considered before making such a change. For example, PG&E is the exclusive billing agent for CCAs in their territory and has significant advantages in debt collection due to that role. The advantages include access to customer credit information, updated contact information, and an existing billing relationship with the customer. CalCCA suggested these issues should be explored in a rulemaking and with a decision supported by a factual record based on input from all interested parties.