TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DATE: JANUARY 18, 2011

REPORT TYPE: Action

DEPARTMENT: ADMINISTRATIVE SERVICES

CMR: 101:11

SUBJECT: Adoption of the Energy Risk Management Policy.

This is an action item and Council action is required.

EXECUTIVE SUMMARY
The City of Palo Alto's Risk Management Policy serves as the overriding document for the management, monitoring and hedging of risks associated with commodity transactions. In line with the Policy requirement to submit the Policy to City Council for approval each year, staff requests Council to approve these Policies. The Utilities Advisory Commission has approved the proposed 2011 Energy Risk Management Policy.

BACKGROUND
The purpose of this report is to request that the City Council approve the Risk Management Policies. The City's Energy Risk Management Policy requires that staff update the Policies annually. The Council last approved the Policy on September 14, 2009 (CMR 359:09).

The 2009 Risk Management Policies were prepared by staff to take into account new regulatory requirements, as well as updated risk management best practices. Before submitting to Council, the Risk Management Policies were reviewed internally by the Utilities Risk Oversight and Coordinating Committee, and by the Utilities Advisory Commission (Attachment B).

DISCUSSION
Electricity and gas prices are the most volatile commodities, and purchasing these carries inherent risks. The Risk Management Policy is the overarching document for the management of the City's risks associated with purchasing of electric and gas commodities. In addition to the Policy, energy risk management is managed by two increasingly detailed sets of documents: the Risk Management Guidelines and Risk Management Procedures. The Guidelines are prepared by ASD staff and approved by the Utilities Risk Oversight and Coordinating Committee (UROCC). The Risk Management Procedures are prepared by the Front, Middle and Back
Offices, approved by the Utilities and Administrative Services Directors, and provided to the UROCC. The City's risk management policies codify for staff policies designed to minimize risks, define segregation of duties, provide organizational structure for risk controls, set acceptable risk parameters and limits, ensure transparent and appropriate purchasing procedures, and protect the City from excessive risk exposure. In addition the policy has a conflict of interest section.

The Policy clearly delineates that all contract transactions, whether carried out under the master agreements or not, must be fully in compliance with the Municipal Code. Transactions with Northern California Power Agency, including scheduling, are covered under a separate Member Services Agreement.

The 2009 Policy was substantively updated to take into account changes in regulation and management structure within the City.

No significant changes have occurred in the past year with regard to best practices, regulatory requirements or transaction products or processes. Therefore, no changes have been made to the Policy in 2011.

Staff recommends that Council approve the Policy.

ATTACHMENTS
Attachment A: Energy Risk Management Policy
Attachment B: Draft Minutes of Utilities Advisory Commission, December 1, 2010

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Director, Administrative Services

CITY MANAGER APPROVAL: JAMES KEENE
City Manager
City of Palo Alto

Energy Risk Management Policy

January 17, 2011
City of Palo Alto Energy Risk Management Policy

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I. INTRODUCTION

It is the policy of the City of Palo Alto Utilities to provide reliable and affordable energy and energy services to its industrial, commercial and residential customers in an environmentally sustainable manner. Furthermore, this policy is consistent with the City’s business objectives of making financially sound and timely investments in the capital infrastructure of the Utilities to ensure the reliable delivery of energy and energy services to its customers.

The City of Palo Alto’s Energy Risk Management Policy (“Policy”) details the key control structures and policies for prudent risk management processes based on sound energy risk management principles while ensuring adherence to financial requirements set forth by City Council and Director of Administrative Services as well as all pertinent legal requirements. The control structures and policies are focused on the following issues:

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

The Energy Risk Management Policy serves as the key policy level document on energy risk management. This Policy is supported by more detailed operational-level documents: the Energy Risk Management Guidelines and the Energy Risk Management Procedures for the Front, Middle and Back Offices.

II. APPLICABILITY

This Energy Risk Management Policy applies to all City of Palo Alto employees engaged directly or indirectly in transacting in the energy markets. The first objective of this Policy is to build risk awareness within the City. Consistent with the City Council’s desire for the City to be an active manager of risk, the organization must maintain awareness of the risks faced. It is critical that all members of the organization have awareness that participation in the energy business entails a host of risks and that all members have knowledge of the Energy Risk Management Policy.
III. ENERGY RISK MANAGEMENT PHILOSOPHY

The mission statement of the Utilities Department is to "Provide valued utility services to customers and dependable returns to the City." The Utilities Strategic Plan, delivered to the City Council\(^1\) contains four supporting objectives: 1) Provide valued utility services to customers and dependable returns to the City, 2) employ balanced environmental solutions, 3) provide fair and reasonable returns to the City and competitive rates to customers through municipal ownership; and 4) ensure a safe and engaged workforce.

Palo Alto recognizes that certain risks are inherent in the energy business environment. The City seeks to minimize risks in order to provide rate stability to its customers and a stable financial return to the City's General Fund. The basic premise underlying the City's Energy Risk Management Policy is that no activities related to energy purchases and sales should unduly expose the City to the possibility of financial losses in relation to the size of the electricity and gas reserve funds.

IV. ENERGY RISK MANAGEMENT OBJECTIVES

The primary objectives of energy risk management activities are to balance the business goals of: (1) providing stable gas and electric rates to end users, (2) preserving a supply cost advantage through obtaining the best available price, and (3) managing business processes to allow the City to work efficiently and cost effectively.

1. Retail Rate Stability

Stable rates are of high value to the citizens and businesses in Palo Alto. However, energy commodity market prices are extremely volatile. Therefore, a primary objective is to manage the risks inherent in the energy commodity markets in which CPAU participates. The rate stability objective is to mitigate market risk, weather risk, volume risk, and credit risks to avoid frequent rate changes.

Reserve balances maintained by the gas and electric utilities provide financial liquidity and flexibility for entering into long-term contracts and for purchases of energy in the spot and forward market as needed to meet the projected load. Reserve funds are designed to cover short-term price exposure due to market changes or hydro risk, and to avoid rapidly changing rates to cover those events. Maintaining the adequacy of these reserve funds in accordance with Council approved reserve policies and guidelines is a matter of the highest priority for CPAU and the City.
2. **Preserve a Supply Cost Advantage**

City staff will endeavor to: (a) reduce exposure to potential adverse energy price movements; (b) enhance value by taking advantage of flexibility inherent in CPAU contracts and resources; and (c) enhance value by offering cost-effective commodity products that address customer needs.

3. **Efficient and Cost Effective Business Processes**

City staff will utilize business practices and controls that are sufficient to identify, evaluate, and manage risks through appropriate recording, analysis and reporting requirements. The Energy Risk Manager, in collaboration with CPAU, will determine the sufficiency of control and reporting requirements. Staff will strive to improve the risk management procedures to enhance productivity, reduce the cost of conducting risk management activities, and maintain transparency and the value of the risk management process.

When the above goals are in conflict, the Energy Risk Manager will collaborate with CPAU and the Utilities Risk Oversight and Coordinating Committee (UROCC) to resolve the conflict.

V. **OVERSIGHT BODIES**

1. **City Council**

The City Council is responsible for making high-level broad policy and strategy statements as contained in this Policy document and as such approves the Policy. The Policy shall guide the general vision of CPAU business practices, articulating the City's risk philosophy, and establishing risk tolerances. The City Council reviews and adopts the Energy Risk Management Policy as developed and recommended by the UROCC and delegates the City Manager to implement it. The City Council will review the Policy annually or more frequently if the UROCC recommends significant changes. Additionally, the City Council shall receive reports quarterly from the City Manager regarding energy risk management activities.

2. **Utilities Advisory Commission**

The Utilities Advisory Commission (UAC) is responsible for advising the City Council on long-range planning and policy matters relating to the electricity, gas and water utilities. While it has no formal responsibility in energy risk management, the UAC does receive and review regular management reports prepared by the Risk Manager for the City Council. In addition, the UAC can serve as an important source of advice and comment to the City Council on risk management.
3. **City Manager**
The City Manager has overall responsibility for executing and ensuring compliance with policy adopted by the City Council. The City Manager reports quarterly to the City Council regarding energy risk management activities.

4. **Utilities Risk Oversight and Coordinating Committee**
The Utilities Risk Oversight and Coordinating Committee (UROCC) consists of the Director of Utilities (Chairperson), the Director of Administrative Services, the Director of Public Works and a delegated representative of the City Manager. The Senior Assistant City Attorney assigned to Utilities and the City Auditor act as non-voting advisors for the UROCC. In accordance with 2007 Government Auditing Standards, the City Auditor’s participation as an advisor to the UROCC is not considered an audit service and does not impair the City Auditor’s ability to audit the Utilities Department. The Energy Risk Manager serves as the Secretary to the UROCC. A quorum consists of at least three voting members of the UROCC.

The UROCC is responsible for overseeing a sound approach to managing risks which is consistent with the business strategy and risk tolerance of the organization, as defined by the City Council. The UROCC is the primary body responsible for approving the implementation of guidelines consistent with Council-approved energy risk management policies. As such, the UROCC is critical to overseeing and reviewing the risk management process and infrastructure and ensuring proper management of the Utilities’ risk exposure.

5. **Management Oversight**
Risk management oversight at an operational level is accomplished through supervisory review and approval and appropriate separation of duties. The functions of the Front Office, Middle Office and Back Office are detailed in the Energy Risk Management Guidelines. Risk management functions are separated as follows:

a. **Front Office – Planning and Procurement**-
Reporting to the Director of Utilities, the Front Office is primarily responsible for resource planning and procuring energy supplies and services. The Front Office, by delegation of the City Manager, has a critical role in risk management through its transacting operations. The Front Office has the authority to commit the capital of the City of Palo Alto to energy transactions with counterparties. As such, the Front Office is a central clearing point for risk assumption and risk mitigation.

The Front Office roles in risk management include:

- Develop and implement Utility Director-approved, Front Office procedures consistent with Council approved Policy and UROCC approved Guidelines.
• Develop and implement energy portfolio management plans, strategies and
guidelines in support of CPAU objectives and in accordance with the City’s
Energy Risk Management Policy and legal and regulatory requirements.
• Develop and recommend for annual approval retail rates and financial plans
including gas and electric reserves in support of CPAU objectives.
• Ensure adherence to Energy Risk Management Policy, Guidelines and
Procedures including proper recording of transactions, monitoring and
valuation of risk.
• Report position, valuation and market conditions and energy portfolio risk
and report to the UROCC.
• Ensure proper reporting of contractual commitments to the City financial
reporting system.

Front Office Procedures are developed by staff, approved by the Utilities Director, and
provided to the UROCC for information.

b. Middle Office – Risk Management Controls and Reporting
Reporting to the Director of Administrative Services, the Middle Office provides the
primary independent oversight role. The Middle Office consists of the Risk Manager,
and institutes, supervises, and reviews all risk management activities including
portfolio exposure, credit exposure, transaction compliance and on-going approval of
counterparties and transacting limits. The Middle Office responsibilities include
monitoring CPAU’s risk exposures and ensuring compliance with policies, guidelines,
and procedures. Additionally, the Middle Office is responsible for reporting to the
UROCC on risk management issues, and recommending when changes in policy or
operating procedure are required. These recommendations may relate to the temporary
or permanent halting of transactions with one or more counterparties, exceptions to
rules and procedures, other operational exceptions, and any other topic the Risk
Manager believes represents an unacceptable risk exposure.

The Middle Office recommends as necessary updates to the Energy Risk Management
Policy, Guidelines and Procedures so that portfolio management functions occur in
compliance with the Council-adopted Energy Risk Management Policy and UROCC -

Middle Office Procedures are developed by staff, approved by the Administrative
Services Director, and provided to the UROCC for information.
c. **Back Office – Settlement and Recording**

The Back Office is primarily responsible for settlement of bills, recording transactions, bookkeeping and accounting, and contract administration. The Back Office roles in oversight are ensuring that bills reflect orders, independently monitoring and recording transactions into a tracking database, and verifying and reporting on compliance with procedures as reflected in the deal tracking documentation. Functions within the Back Office are performed by both ASD and CPAU personnel and are detailed in the Risk Management Guidelines.

Back Office Procedures are collectively developed by staff from Administrative Services and Utilities, jointly approved by the Administrative Services Director and the Utilities Director, and provided to the UROCC for information.

**VI. SCOPE**

The Energy Risk Management Policy shall apply to the electric and natural gas supply business units. The electric and natural gas supply business units are the part of the electric and natural gas enterprise funds that deal directly with the acquisition of energy supply resources.

The Energy Risk Management Policy prescribes the management, organization, authority, processes, tools and systems to monitor, measure, and control risks to which the City is exposed in its normal course of business, including wholesale and retail operations, capital projects (related to generation, transmission, transportation, and storage), and participation in joint powers authorities.

The Policy does not address general business risks such as fire, accident, casualty, worker health and safety, and general liability. Neither does the policy cover the water fund, the electric and natural gas distribution business units, or the telecommunications business unit.

The Policy does not apply to transactions executed on behalf of the City by joint agencies such as the Northern California Power Agency (NCPA). The NCPA Commission approves its own energy risk management policies and procedures.

**VII. TRANSACTING POLICY**

The City of Palo Alto's transacting policy is to ensure transactions carried out under the electric and gas master agreements are done in a manner consistent with the authority granted by Council to transact under these contracts; the City of Palo Alto’s Municipal Code; and are carried out to manage risk which is inherent to the energy supply portfolio.
and to ensure the City is not exposed to unnecessary risk. The policy is based on four key elements:

1. **Anti-speculation**
   Speculative buying and selling of energy products is prohibited. Speculation is defined as buying energy not needed for meeting forecasted load or selling energy that is not owned. In no event shall transactions be entered into in order to speculate on market conditions. The volume limits for forward purchases are listed in the Energy Risk Management Guidelines.

2. **Maximum Transaction Term**
   The maximum term of any supply resource transaction (purchase or sale) is ten years, unless specifically approved by the City Council, to meet long-term portfolio planning objectives.

3. **Portfolio Performance and Value Reporting**
   Front and Middle Office staff shall prepare performance reports containing an analysis of physical and financial positions of all electric and gas commodity contracts. The frequency and content of performance reports for each oversight body shall be prescribed in the Energy Risk Management Guidelines. Should the risks associated with the portfolio, or a specific transaction within the portfolio, fall outside of the risk limits prescribed in the Energy Risk Management Guidelines, the Risk Manager will report this fact to the UROCC and the City Council within a reasonable period and evaluate the risk of holding any of the contracts in the portfolio to delivery.

4. **Competitive Process**
   Whenever possible, CPAU will obtain three or more quotations when making a purchase or sale transaction and select the best price from a creditworthy bidder.

**VIII. COUNTERPARTY CREDIT POLICY**

The Counterparty Credit Policy is designed to minimize the potential adverse financial impacts on the City in the event of a defaulting counterparty. The policy is to minimize the City's credit exposure and potential adverse financial impacts related to wholesale commodity transactions by:

- Establishing a credit risk management governance and oversight structure within the existing energy risk management program;
- Providing a framework to enable the City to qualify energy suppliers and transact with approved counterparties;
• Providing counterparty transacting parameters (limits) to control and measure the City's exposure to any one supplier; and
• Implementing a mechanism to monitor and report on supply portfolio related counterparty credit exposures.

All transactions must adhere to Chapter 2.30 of the Palo Alto Municipal Code (Contracts and Purchasing Procedures) which sets creditworthiness standards and certain contractual provision required for wholesale commodity transactions. As such, transactions carried out under the Electric and Gas Master Agreements are limited to counterparties with a Standard and Poor’s Rating of BBB- or better, or a Moody’s Investor Services Rating of Baa3 or better. Only the City Council can approve exemptions to this requirement. Counterparty credit limits and controls are set forth in the Energy Risk Management Guidelines.

IX. COMMODITY PRICING POLICY

Retail prices for energy supplies will be fair and equitable to all customers and will recover all incurred costs. The commodity pricing policy will be used both for the development of standardized commodity tariffs and for long-term, or customized, customer contract rates. The City Manager is responsible for implementing this policy and overseeing the process for all commodity rate development and ensuring that all procedures are followed consistently and that all calculations are appropriately documented.

The commodity pricing policy is composed of the following three principles with the first principle having priority over the remaining two:

a. Direct Cost Recovery
   All direct costs of providing commodity service will be recovered in commodity rates and/or through the use of Utilities’ reserves.

b. Risk Management
   To the extent practicable contract terms must protect CPAU from major contingencies. To the extent that CPAU assumes risk to provide commodity products to customers, the customer shall pay reasonable compensation for bearing that risk.

c. Indirect Cost Recovery
   To the extent practicable, it is an objective to recover all indirect costs of commodity service from commodity customers.
The regulations for oversight, review, approval, pricing and reporting of customer contracts and fixed-term commodity rates are contained within the Council-approved Rules and Regulations of the City of Palo Alto Utilities.

X. RISK MANAGEMENT REPORTING POLICY

Key to energy risk management is the monitoring of risks and the accurate and timely information that must be provided to all parties involved in any aspects of energy risk management to allow them to perform their functions appropriately. Quarterly reports will be provided for distribution to the UROCC, the UAC, and the City Council which provide details on the City's forward purchases, market exposure, credit exposure, counterparty credit ratings, transaction compliance and other relevant data.

XI. AUTHORIZED PRODUCTS POLICY

The purpose of the Authorized Product Policy is to ensure proper controls are in place to minimize risk when transacting under the Electric and Gas Master Agreements. Transactions not covered by the Master agreements must conform to the Municipal Code and must be approved by City Council. In general, the types of products to be purchased include electricity, capacity, transmission, ancillary services, congestion, renewable energy, natural gas, transportation, and storage.

The Council is responsible for authorizing all products and commodity types to be executed under the Electric and Gas Master Agreements. The UROCC is responsible for understanding and communicating the risks associated with each transaction and making recommendations to Council for approving products. Further, the UROCC ensures that the necessary processes and controls are in place for proper execution of authorized products as further detailed in the Energy Risk Management Guidelines. Transactions of products not approved by the Council are strictly prohibited. All transactions must be consistent with Energy Risk Management Policies, Guidelines and Procedures. Key elements of the Authorized Products Policy are as follows:

- Policy applies to transactions executed under the Council-approved Electric and Gas Master Agreements
- Policy applies to transactions carried out by City of Palo Alto staff
- All transactions must be committed to by an authorized trader.
- All transactions must be with eligible counterparties with adequate available credit.
- All transactions must be committed over a recorded phone line; via electronic mail; or through a signed confirmation from both parties.
• All transactions must be on the Approved Products/Transaction Type List.

Approved Products/Transaction Type List

Approved products are limited to purchases to meet load and/or sales incidental to load for the following:

A. Purchase of physical fixed price, index-based price, call options, capped-price or collar-priced energy, natural gas, capacity, transportation, basis and transmission products
B. Sale of physical fixed price or index-based price energy, natural gas, capacity, storage, and transmission
C. Electric heat rate products
D. Renewable Energy Credits with or without bundled energy to meet the City’s Renewable Portfolio Standards;
E. Gas storage
F. Electric Ancillary Services
G. Local and system capacity to meet the City’s Resource Adequacy Program;
H. Fixed price or index-priced purchases and sales to substitute the use of higher cost resources with lower cost market alternatives.
I. Fixed price or index-priced forward purchases and sales of transmission and transmission rights to meet contractual obligations or to dispose of surplus capacity.
J. Purchase of physical call options and physical collars.
K. Financial transactions related to the nomination, purchasing and selling of Congestion Revenue Rights

XII. TRANSACTING AUTHORITY POLICY

The City Manager has the authority to purchase and sell wholesale energy commodities for terms of up to three years under open purchase contracts. City Manager authorities may be delegated by the City Manager to the Director of Utilities. Purchases and sales are subject to signature authority limits as defined in the Municipal Code. Currently, energy purchases exceeding $250,000 per year and exceeding a three-year term require City Council approval (Municipal Code Sec 2.30.210 (I)). Authority to enter into transactions must be based on City Council approved contracts such as master agreements, purchase agreements, or other contractual forms. In all cases the Municipal Code provides the final authorization rules and regulations for energy purchases.
Authorization levels for City staff as delegated are maintained in the Risk Management Guidelines by the Middle Office. The City Clerk maintains the list of individuals authorized to make wholesale transactions.

XIII. CONFLICT OF INTEREST POLICY

In accordance with the Municipal Code and California law, personnel involved in transacting and oversight of the City of Palo Alto Utilities supply resource acquisition, contract negotiation, risk management, and back office programs may not participate in decisions in which they have a financial conflict of interest. All personnel are required to complete, on an annual basis, the Form 700 Disclosure forms and submit these forms to the City Clerk. Each staff member engaged in energy transacting, risk management, or energy back office operations has the sole responsibility of identifying and reporting any potential conflict of interest, and ensuring that he or she does not participate in decisions when a financial conflict of interest exists. If the employee has a reportable interest, it is their responsibility to disclose the interest and have their supervisor sign-off on the form so that their supervisor is aware of the potential conflict. Supervisors should ensure employees are not involved in a decision-making capacity with respect to any of their reportable interest. An employee who has a potential conflict should contact the Fair Political Practices Commission at 1-866-ASK-FPPC for advice and notify his or her supervisor of the potential conflict. If questions remain after talking to the FPPC, contact the City Attorney's Office and your Department Director for further assistance.
# XIV. Glossary of Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Back Office</td>
<td>A set of business functions in Utilities and Administrative Services Departments including trade confirmation, accounting and other processes that support the transaction of commodities.</td>
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<tr>
<td>Call options</td>
<td>An option that allows the owner the right to purchase energy at the specified strike price.</td>
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<tr>
<td>Cap price</td>
<td>A structured product that contains a strip of multiple call option contracts with identical but staggered expirations.</td>
</tr>
<tr>
<td>Collar</td>
<td>A combination of a price with a maximum and minimum value.</td>
</tr>
<tr>
<td>Congestion Revenue Rights</td>
<td>A CRR is a hedging tool or a financial instrument that entitles the holder to a CRR payment when Congestion (a characteristic of the transmission system produced when constraints on the system prevent the optimum economic dispatch of generation to meet demand) is in the direction of the CRR Source (a node or a trading hub where generation is scheduled into the electric grid) to the CRR Sink (a node or a trading hub specified as the point of withdrawal for consumption).</td>
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<tr>
<td>Credit risk</td>
<td>The probable change in the value of a contract due to a counterparty defaulting.</td>
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<tr>
<td>Electric Ancillary Services</td>
<td>Those services necessary to support the transmission of electric power from seller to purchaser given the obligations of control areas and transmitting utilities within those control areas to maintain reliable operations of the interconnected transmission system.</td>
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<tr>
<td>Electric heat rate product</td>
<td>A contract based on how efficiently a generator uses heat energy in fuel (i.e., natural gas) to generate electricity.</td>
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<tr>
<td>Financial Position</td>
<td>The total dollar amount of contracts that setting with counterparties exchanging cash.</td>
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<tr>
<td>Front Office</td>
<td>The sector of energy procurement operations in utilities where trading occurs.</td>
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<tr>
<td>Hydro risk</td>
<td>The risk that altered precipitation patterns result in less than normal hydro electric generation.</td>
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<tr>
<td>Index-based price</td>
<td>A price that varies based on published index prices.</td>
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<tr>
<td>Market risk</td>
<td>The probable change in value of (or sensitivity to) a contract, position or portfolio due to general changes in market conditions.</td>
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<tr>
<td><strong>Master Agreement</strong></td>
<td>A standardized agreement to which other agreements and purchases are referred.</td>
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<tr>
<td><strong>Middle Office</strong></td>
<td>The set of business functions in Administrative Services that carries out the risk management activities including measuring, controlling and hedging market, credit, hydro and other risks.</td>
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<td><strong>Physical fixed price</strong></td>
<td>A contract for a fixed price which settles when one counterparty delivers the commodity to another who pays a cash settlement.</td>
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<tr>
<td><strong>Physical Position</strong></td>
<td>The volumetric sum of all physical transactions.</td>
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<tr>
<td><strong>Portfolio exposure</strong></td>
<td>The monetary sum of all positions that are subject to change.</td>
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<tr>
<td><strong>Risk Management</strong></td>
<td>The set of skills and processes for measuring, controlling and hedging risk.</td>
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<tr>
<td><strong>Supply Portfolio</strong></td>
<td>The composition and amount of all purchased power.</td>
</tr>
<tr>
<td><strong>Transmission product</strong></td>
<td>The sale or purchase of a non-energy asset to transport energy.</td>
</tr>
<tr>
<td><strong>Volume risk</strong></td>
<td>The risk of the volume of a contract or position changing from current expectations.</td>
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<tr>
<td><strong>Weather risk</strong></td>
<td>The risk of weather changing from current expectations and causing changes to expected load or generation.</td>
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ITEM 5: ACTION: City of Palo Alto's Energy Risk Management Policy

Van Orsdol noted the Policy states that the Policy is to be approved by City Council on an annual basis, and that prior to presenting to Council, Staff requested that the UAC approve the policy. Van Orsdol noted that at the previous year's Policy was significantly modified, based on changes in regulatory requirements and changes in operations. Additionally, all allowed transaction products were included in the policy. Van Orsdol also reminded the UAC that they carried out a lengthy discussion of certain aspects of the policy, notably the section on non-discrimination, and that staff had altered the policy based on the UAC discussion and recommendations.

Since that time, staff had not implemented any major operational changes. Therefore, the Policy document required few changes from last year.

ACTION:

The UAC unanimously approved that new Energy Risk Management Policy.