



# Invisible Gorillas

PICTURES FROM WORKING GROUP SESSIONS

FEBRUARY 2017, SANTA BARBARA

# STRUCTURE OF WORKING GROUPS

- How do you mitigate/manage this risk today?
- How do you stay informed and adapt?

# REGULATORY RISK

## Regulatory Risk

- State Regs
- Change of Law
  - Contract Reopener
  - Termination Right
- Special Entity
  - Established Regulatory Group/Expertise
  - Scenarios → Results
- IPPs
  - Lobbyists / Industry Groups
  - Monitoring - Internal → External
  - Documented Controls

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- Operational Risk
  - Training & Education
  - Senior Management Engagement
  - Financial Resources

# RISK FRAMEWORK

## Risk Framework

5% of TNW total Credit  
Manage Credit Risk daily

VAR Metrics

Risk reward @ portfolio basis

Rating Agencies

Outsourcing Credit Analysis

Internal Credit Matrix

Mitigate risk w/ collateral

Limit - Set hard Limits

#2 { Daily headline news through  
web services  
Taking part in seminars (NAPCO!)

Portfolio of Risks

- Market - term
- Credit - Position (buy vs sell)
- Rate - Internal Legal
- Regulatory
- Political
- Legislative
- Country
- State

Internal Rating For unrated counterparts  
- very conservative

# LONG TERM STRUCTURED TRANSACTION

## Long Term Structured Transaction Risk

- how do you margin on a long term contract - market risk
- Construction risk

- ~~market~~

### Mitigation

- warranty
- L/C to handle degradation
  - how do you come up with the size

⊗ technology risk

- Construction/PPA
    - Delivery Date
    - Performance
    - Catastrophic Failure
      - Insurance
      - Warranty
      - Liquidated Damages
      - Collateral (Construction → operation)
  - Market Risk / Exposure / Margining [PPA or market purchase]
    - how to determine in absence of price discovery
    - Define source of curve in enabling agreement
  - PFE ??
- Contract
- Guarantees

- Contract provisions
  - performance L/C
  - L/Ds
- Clear description of the margining provisions
- contract re-opener to check your assumptions
- monitor & manage expectations
- pre + post COD collateral
- check your L/C provisions - does it renew each year
- keep in touch with the project + monitor progress

# ENVIRONMENTAL RISK

## Environmental Risk

US Clean Power Plan  
- Near term uncertainty  
- PTCs → this could be an additional hurdle.  
No idea at this point

Retiring Coal  
↳ The writing is on the wall, even if Clean Power plan dies.

New Counter parties

- increased CP risk  
- new traditional counter parties, not as creditworthy  
↳ decrease creditworthiness of traditional counter parties

Portfolio Mix

- lots of coal could be problematic

New Renewables coming online ⇒ increase price volatility, CDSO indices in particular

Dist'd generation

- Can be monitored, reg. decisions, tax credits  
- how to stay competitive

Difference bet. env. & regulatory risks.

RPS -

## Endangered Species Act / Hydro/Tissue issues

- desert tortoise  
- Salmon  
- birds

1. Continue to assess as normal & use contracts to mitigate
2. Change portfolio mix to reduce exposure to coal.

3.

1

1. Work w/ other teams in company to stay informed on changes.
2. Spend time up front assessing these risks of counter party, i.e., proactive  
↳ this is really hard to do. (\$)

# CONTRACTUAL RISK

## Contractual Risk

- standard contracts
- templates
- special provisions → change of jurisdiction,  
→ change of contract based on
- categorize risk
- getting pre regulatory approvals →
- triggers ~~and~~ penalties and incentives LD's
- due diligence on CP' risks
  - quantitative
  - qualitative

(collateral)  
Credit triggers [hard + soft] → listen to CP's, NAPCO, IEC, networking, news, press release  
adapt

Regulatory framework

- Obtaining continuous security / CSAs - Credit support Agreements

- Keep updated w/ tariff, Laws, Regulatory framework

# OTHER PICTURES

