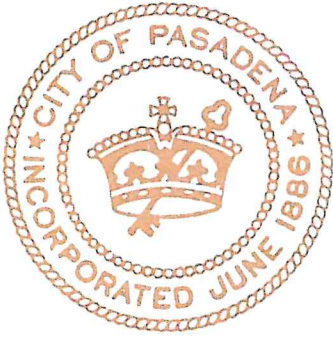




Agenda Report

November 17, 2025

TO: Honorable Mayor and City Council

THROUGH: Municipal Services Committee (October 28, 2025)

FROM: Water and Power Department

SUBJECT: ADOPTION OF THE REVISED ENERGY AND CREDIT RISK MANAGEMENT POLICY

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the action proposed herein is not a “project” subject to the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 21065 and within the meaning of Section 15378(b); and
2. Adopt the revised Energy and Credit Risk Management Policy (“Policy”) for Pasadena Water and Power (“PWP”) wholesale energy transactions.

MUNICIPAL SERVICES COMMITTEE (“MSC”) RECOMMENDATION:

On October 28, 2025, the Municipal Services Committee provided guidance on two modifications to the policy that are presented herein. The transaction authorization for the Assistant General Manager of Power Supply was maintained at three-months for duration and lead time. The reporting frequency was amended to state that the General Manager will report out annually in conjunction with reporting on power supply activities. The report will include the scope of activities covered in the current policy.

Staff also clarified that the scope of the policy is related to power supply transactions that are short-term in nature, as reflected in the transaction authorization table for staff which is limited to be up-to two years. The policy is adopted in alignment with PWP’s priorities which are reliability, responsiveness to customers, reasonable rates and environmental stewardship.

BACKGROUND:

PWP participates in the energy market under the balancing authority of the California Independent System Operator (“CAISO”), which presents unique credit risks that must be actively managed. CAISO operates a centralized wholesale electric market that facilitates the buying and selling of energy and related services across much of California. In this environment, transactions often occur within a wide range of counterparties, including investor-owned utilities, municipal utilities like PWP, independent power producers, and financial institutions. These transactions can involve large volumes and high dollar values, often settled on short timelines.

Credit risk in this context refers to the possibility that a counterparty may fail to meet its financial obligations such as payment defaults or failure to deliver contracted energy. Because energy is a non-storable commodity and prices can be highly volatile, there can be significant financial exposure.

To manage these risks effectively, PWP, under the leadership of the Finance and Administration Division, maintains and regularly updates the Energy and Credit Risk Management Policy along with its supporting procedures and manuals. This work is carried out with oversight from the General Manager and in consultation with the City Attorney’s Office, the Department of Finance, the City Manager’s Enterprise Risk Management Division, and the City’s Internal Auditor. In preparing the latest policy update, PWP also engaged its energy market consultants, ACES, to provide expert input and benchmarked the proposed changes against practices adopted by other municipal utilities.

On July 9th, 2024, PWP presented an overview of its existing energy risk policy to the Municipal Services Committee, which was last updated in 2018. The attached policy revisions are intended to ensure the policy reflects current conditions and best practices.

ANALYSIS:

The staff recommended revised Energy and Credit Risk Management Policy introduces several important updates to improve clarity, oversight, and operational flexibility. It modernizes language and definitions, aligns terminology with current industry standards, and incorporates recent City Council resolutions. The policy clarifies transaction authority by extending approval timeframes and reinforcing the requirement for City Council approval on longer-term commitments. It strengthens anti-speculation measures by explicitly prohibiting speculative trading and setting clear conditions for sleeving transactions. Emergency provisions have been expanded to include market disruptions, allowing limited transactions with non-approved counterparties under strict reporting requirements. The policy also authorizes the use of financial instruments, ensuring they are used to manage risk rather than for profit. Governance improvements include reducing the committee quorum, shifting to a more practical review cycle, and

streamlining reporting to the Municipal Services Committee. A summary is found in table 1 below.

The updated policy modernizes language and definitions, including a refreshed mission statement and glossary. It incorporates recent City Council resolutions and clarifies the scope of the policy to include energy-related financial and regulatory products. The policy now explicitly prohibits speculative trading and clarifies the conditions under which PWP may participate in sleeving transactions, ensuring that all counterparties are approved and that transactions comply with delegated authority.

The policy also expands the definition of emergencies to include market disruptions and grants the General Manager authority to transact with non-approved counterparties for up to 30 days in such cases. A report must be submitted to the City Manager within 48 hours, and the Municipal Services Committee and City Council will be informed as soon as practical.

Transaction authorization limits have been updated to provide greater flexibility. The Assistant General Manager of Power Supply may now approve transactions up to six months in advance, and the General Manager, with City Manager approval, may authorize transactions up to two years in advance with a maximum term of three years. These changes are intended to improve responsiveness to market conditions while maintaining oversight.

The policy also clarifies the use of financial instruments such as swaps and options for hedging purposes. These tools may be used only to manage price risk and must comply with existing authority limits. The policy affirms that all financial transactions must be tied to physical needs or obligations and cannot be used for speculative purposes.

Governance updates include reducing the quorum requirement for the Energy and Credit Risk Management Committee from five to four members and changing the policy review cycle from annual to biennial. Reports to the Municipal Services Committee will now be provided as needed or upon request. The policy also reinforces the separation of duties among front, middle, and back office functions and outlines the responsibilities of each group in managing risk, executing transactions, and ensuring compliance.

Finally, the policy includes updated procedures for monitoring, reporting, and assessing compliance. Exceptions must be reported within 48 hours, and an independent review of the policy and its implementation will be conducted every three years. Conflict of interest provisions have also been strengthened, requiring annual disclosures and acknowledgments from all relevant personnel.

Table 1: Summary of Key Policy Updates

Category	Summary of Changes
Language & Definitions	Updated outdated terms, refreshed the mission statement, and revised glossary definitions to reflect current terminology and practices.
Authorization & Limits	Extended transaction lead times and clarified who can approve what. For example, the Assistant General Manager can now approve transactions up to six months in advance, and the City Manager can approve up to one year.
Anti-Speculation	Strengthened language to prohibit speculative trading. Clarified that PWP cannot act as a middleman in certain types of trades unless all parties are approved, and proper contracts are in place.
Emergency Transactions	Added provisions for emergencies, allowing transactions with non-approved partners if necessary. Requires a full report from the General Manager afterward.
Financial Products	Clarified that financial tools can be used to manage price risks, if they are used solely for hedging purposes.
Committee Operations	Reduced the quorum requirement for the Energy and Credit Risk Management Committee from five to four members to reflect change in PWP organizational structure since last revision.
Reporting Frequency	Changed the review cycle of the overall policy from annual to every two years. Reports to the Municipal Services Committee will now be provided annual in conjunction with updated on the power supply portfolio.

CONCLUSION:

The revised Energy and Credit Risk Management Policy represents an important step forward in ensuring that PWP can continue to operate responsibly, transparently, and with the flexibility needed to navigate today's complex energy markets. By modernizing language, clarifying roles and transaction limits, strengthening safeguards against speculation, and expanding emergency and financial risk management tools, the policy provides a more robust framework for protecting the City's financial interests. These updates reflect a thoughtful, collaborative effort grounded in industry best practices and tailored to the unique operational environment of a municipal utility operating under CAISO. With these revisions, PWP is better positioned to manage risk, maintain rate stability, and uphold its commitment to reliable service and fiscal stewardship.

COUNCIL POLICY CONSIDERATION:

The recommendations are consistent with the City Council's strategic goals to maintain fiscal responsibility and stability; and furthermore, PWP's mission is to provide safe and reliable power with superior customer service at competitive rates.

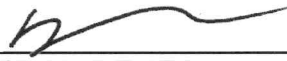
ENVIRONMENTAL ANALYSIS:

CEQA excludes, from environmental review, actions that are not "projects" as defined by CEQA Guidelines Section 21065 and within the meaning of Section 15378(b). Sections 21065 and 15378(b) define a project as an action which may cause either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. Section 15378 excludes from the definition of "project" administrative activities, such as general policy and procedure making, of governments that will not result in direct or indirect physical changes in the environment. The actions proposed herein, adopting the revised Energy and Credit Risk Management Policy, is an administrative activity, and therefore is not a "project" as defined by CEQA. Since the action is not a project subject to CEQA, no environmental document is required.

FISCAL IMPACT:

There is no fiscal impact. There is no impact to the General Fund.

Respectfully submitted,



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Water and Power Department

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Lynne Chaimowitz
Assistant General Manager
Water and Power Department

Approved by:



MIGUEL MÁRQUEZ
City Manager

Attachments: (2)

Attachment A – Energy and Credit Risk Management Policy Redline

Attachment B – Energy and Credit Risk Management Policy 2025