



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

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TO: Commissioners Carlson, Mital, Helgeson, Schlossberg and Brown
FROM: Sue Fahey, Assistant General Manager/Chief Financial Officer; Deborah Hart,
Financial Services Manager; Adam Rue, Fiscal Services Supervisor
DATE: March 22, 2019
SUBJECT: Annual Report on Power Trading Compliance
OBJECTIVE: Information Only

Issue

Board Policy SD8, governing Power Risk Management, requires the Chief Financial Officer to present a report to the Board at least annually that covers trading and contracting compliance. This backgrounder provides that information for calendar year 2018.

Background

Oregon statutes stipulate the appropriate scope for a governmental agency's investment of "surplus funds." Accordingly, EWEB's activities in the power markets must be associated with the provision of electricity to meet anticipated sales and generation forecasts. The Risk Management Committee (RMC) is responsible for oversight and compliance with Board Policy SD8. This governance body sets limits and establishes Power Risk Management Procedures for power trading operations to protect the utility from financial instability and unacceptable risk.

Discussion

The eight specific responsibilities of the RMC outlined in Board Policy SD8 are listed below with a characterization of compliance status and instances in which compliance was maintained through exception.

Anti-speculation Statutes: In Compliance

In order to comply with Board policy and anti-speculation statutes the Power Risk Management Procedures establish megawatt limits on market positions to monitor and reduce opportunities for speculation and to limit exposure to price volatility. However, occasionally changes to forecasts, load, and/or generation result in position limits being exceeded. In those events, the Power Risk Management Procedures require positions to be brought back into compliance no later than the next trading day unless preapproved by the Fiscal Services Supervisor and Portfolio Management Supervisor. EWEB was in compliance with this procedure in 2018, which includes forward market positions throughout 2018 to 2022.

The market position limit exceptions approved by the RMC or Fiscal Services Supervisor and Portfolio Management Supervisor are described below.

- In January, extended construction outages for the Carmen-Smith project created an out of compliance position for June 2018. The Fiscal Services Supervisor and Portfolio Management Supervisor approved to hold the position until it could be traded back into compliance later in the month.
- In July, as a result of BPA's spill injunction, reduced generation was modeled in EWEB's multi-year Slice forecast leading to two out of compliance positions; both less than 2 aMW. Exceptions were approved by the Fiscal Services Supervisor and Portfolio Management Supervisor due to an anticipated BPA forecast update. Two days later, new BPA Block allocation forecasts added generation back into those periods, resolving the exceptions.
- In September, an extension of a planned outage at Leaburg, together with the sale of additional output from a contracted resource, resulted in compliance exceptions in several periods of 2019.
 - The RMC voted to cure the Q1 2019 position the following week in order to allow trading floor staff sufficient time to solicit competitive bids in the market.
 - The short positions in the periods of Q2 and Q3 were granted exceptions by the RMC to be carried beyond the compliance limits. Compliance is calculated on the firm generation forecast. Q2 firm was a lot lower than expected length due to the typical spring run-off period. The Q3 compliance exception was relatively minor in terms of volume (roughly 0.05 aMW). In February, an updated BPA water supply forecast was received increasing the out of compliance position. Q2 and Q3 2019 trades were executed to cure the out of compliance positions.

Development of Detailed Control Procedures: In Compliance

SD8 requires that the RMC establish and maintain Power Risk Management Procedures. Within these procedures, processes are defined which govern roles and responsibilities, daily trade activity, and exception authorization. The last modification to these procedures were approved in late 2017 and implemented in early 2018. Additionally, the RMC reviewed roles and responsibilities related to contracts in mid-2018 and directed staff to report back with potential edits to procedures. These were presented in October and no changes to procedures were made at that time.

Notification of changes to compliance limits: In Compliance

No changes to compliance limits were recommended or approved by the RMC during the 2018 calendar year.

Oversee control infrastructure and monitor compliance: In Compliance

The RMC meets monthly to monitor and review compliance limits. In addition, the RMC is updated on the status of short-term compliance measures weekly to provide insight in both current compliance status and market trends that may influence future compliance periods.

Authorize and monitor risk reports for financial results, market positions and credit exposure:

In Compliance

The RMC met in each month of 2018. Prior to each meeting, voting members received up to date compliance reporting materials that provided the basis for monitoring financial results and compliance with market position limits and credit.

In addition to the market position exceptions mentioned above there, were also two credit limit exceptions granted by the Fiscal Services Supervisor and reported to the RMC in accordance with procedures.

Procedures require that trades be entered no later than the close of business the day they are executed. On two occasions, renewable energy credit trades were input a few days after contract execution. These trades are more complex and obtaining the counterparty's signature resulting in delayed entry into the system.

***Review and approve contracts which impact EWEB's power portfolio:* In Compliance**

The RMC provides cross-functional oversight and review of any contracts that may have an impact on EWEB's portfolio to ensure that the Board mandate of risk mitigation and financial stability are maintained. Where contracts require Board approval, the RMC provides direction and preliminary review in advance of Board action. No contracts requiring RMC or Board approval under SD 8 were executed in 2018 and no changes to the approval thresholds are being requested.

Recommendation and Requested Board Action

This item is information only and no Board action is being requested at this time.