



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

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TO: Commissioners Simpson, Brown, Helgeson, Manning and Mital
FROM: Sue Fahey, Finance Manager; Anna Wade, Lead Financial Analyst
DATE: April 22, 2016
SUBJECT: Annual Report on Power Trading Compliance and Financial Results
OBJECTIVE: Information Only

Issue

Board Policy SD8, Power Risk Management Policies, requires the Finance Manager to present a report to the Board at least annually that covers the policy's trading and contracting compliance and the financial results of power trading. This backgrounder provides that information for calendar year 2015. This reporting requirement is mandated in both the current policy as well as the redraft proposal included in this month's Board packet.

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. Board Policy SD8 was developed to provide oversight control and guidance to the power trading operations.

Discussion

SD8.1 – Oversee the approval of all wholesale power trading accounts and counterparties to ensure creditworthiness: In Compliance

Within the Energy Risk Management Guidelines, Power Risk Management Committee (RMC) requirements relating to counterparty creditworthiness and the monitoring thereof are prescriptively defined. On a monthly basis, the RMC monitors counterparty exposure relative to policy and approval limits. In the event of market price movement, changes in counterparty credit quality or commercial need, the RMC may approve exceptions to this policy. EWEB was in compliance with these procedures in 2015. As detailed in 2015 RMC actions below, compliance was maintained through exception authority on four occasions.

SD8.1 – Review and approve retail contracts that are not subject to traditional retail tariffs: In Compliance

Twice in 2015, the RMC approved contracts which did not require Board authority and were not subject to retail tariffs. Additional detail is provided in the RMC actions below.

SD8.2 - Anti-speculation Statutes: In Compliance

To comply with anti-speculation statutes, SD8 requires managing its average megawatt market positions so that exposure to prices is limited. Occasionally, changes to forecasts, load and/or generation result in SD8 position limits being exceeded. In those events, risk management control procedures require positions to be brought back into compliance no later than the next trading day unless preapproved by the Finance Manager and Power Operations Manager. EWEB was in compliance with this procedure in 2015. As detailed in the 2015 RMC Actions below, compliance was maintained through exception authority granted by the RMC on three separate occasions.

SD8 requires the mid-term position to be managed for a minimum of three years; however the RMC has adopted a more prudent practice of analyzing market position over a 5 year period.

SD8.3 - Financial Exposure Limitation: In Compliance

In addition to megawatt position limits, SD8 requires that controls be implemented to reduce the financial risk associated with market positions and ensure that results of trading activity combined with reserves provide funding capabilities to cover other Electric Utility expenditures. EWEB was in compliance with this policy in 2015. The RMC evaluates financial risk beyond the SD8 3 year minimum to encompass a 5 year time horizon.

SD8.4 – Development of Detailed Control Procedures: In Compliance

Board policy requires that the RMC develop detailed procedures and review them on an ongoing basis. Twice in 2015, the Energy Risk Management Procedures were updated and approved by the RMC. These updates are detailed in the 2015 RMC actions below.

2015 RMC Actions

In addition to reviewing compliance on a monthly basis, the following actions were taken by the RMC in 2015:

- For a select group of five counterparties, credit assignments were extended on an exception basis to provide adequate liquidity for 2019 and 2020 compliance trading on four occasions. These exceptions were provided on the grounds of either creditworthiness or supplemental credit support.
- The RMC approved execution of a Minimum Power Consumption Agreement. The Agreement would allow the user to pay half of the line extension costs up front, then spread the remaining line extension costs over a two year period via a minimum power consumption agreement. The agreement would ensure that the remaining half of the line extension costs are recovered over a two year period. This arrangement was created to encourage smart load growth as a result of conversations regarding diesel idling in the community versus electric consumption as a greener alternative.
- A settlement Agreement was approved relating to credit owed to EWEB relating to external party usage of the transmission and distribution assets of the Foote Creek wind project and substation.

- On three occasions during the year, the RMC granted extensions to cure compliance positions.
 - In January 2015, RMC approved a period of up to 4 months to cure a 2019 compliance position due to lack of counterparty interest and market liquidity.
 - The previous approval was extended due to an unsuccessful solicitation in April. In June, staff executed a 2019 calendar year trade which cured the compliance position. Throughout this period, staff were required to provide monthly updates to the RMC.
 - 2017 became out of compliance when new and lower BPA Block/Slice contract volumes were formally incorporated into EWEB's portfolio. Though approval was granted, the position was successfully cured the following day.

- The Energy Risk Management Procedures were updated and approved twice during 2015.
 - In June of 2015, the RMC adopted a new section of controls procedures into the Energy Risk Management Procedures. The 'Long-Term Resource Adequacy and Sufficiency Procedures' is intended to provide guidance and risk mitigation associated with potential resource supply shortfalls.
 - In December 2015, the Renewable Energy Credits provisions of the Energy Risk Management Procedures were updated and approved as a natural course of market maturity, business process and standardized oversight.

Recommendation and Requested Board Action

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