



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Helgeson, Brown, Mital, Simpson, and Carlson
FROM: Sue Fahey, Chief Financial Officer; Deborah Hart, Fiscal Services Supervisor
Anna Wade, Lead Financial Analyst
DATE: April 21, 2017
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 2016.

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, in order to protect the utility from financial instability and unacceptable risk.

Discussion

The following discussion is framed around the specific responsibilities of the Risk Management Committee (RMC) which are codified in the SD8 policy. A detailed itemization of instances in which compliance was maintained through exception is provided herein.

SD8.1 – 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 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 Chief Financial Officer and Power Operations Manager. EWEB was in compliance with this procedure in 2016.

SD8.2 – Development of Detailed Control Procedures: In Compliance

SD8 requires that the RMC develop detailed procedures and review them on an ongoing basis. Within these procedures, processes are defined which govern roles and responsibilities, daily trade activity, and exception authorization.

SD8.3 – Notification of changes to compliance limits: In Compliance

The RMC reviews compliance metrics on at least a monthly basis. No changes to compliance limits were recommended or approved by the RMC during the 2016 calendar year.

SD8.4 – Oversee control infrastructure and monitor compliance: In Compliance

Much of EWEB's control infrastructure is embedded in the Energy Trading and Risk Management (ETRM) system, Allegro. Risk staff monitor transaction activity through a variety of automated alerts and reports. Additionally, market compliance is monitored through advanced spreadsheet modeling which is regularly monitored by risk staff and reviewed by the RMC. Access to this model is restricted to approved staff members only.

SD8.5 – Authorize and monitor risk reports for financial results, market positions and credit exposure: In Compliance

The RMC met in each month of 2016 with the exception of September. In that instance, voting members received up to date compliance reporting materials in lieu of meeting. These materials provide the basis for monitoring financial results and compliance with market position limits and credit.

SD8.6 – 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 demand the higher authority of the Board, the RMC provides direction and preliminary review in advance of Board action.

2016 RMC Actions

In addition to reviewing compliance on a monthly basis, the following actions were taken by the RMC in 2016:

- A June power trade created an out of compliance position. This transaction was supported and approved jointly by the Power Operations Manager and the Chief Financial Officer. In this instance, expected length was considerable enough to warrant temporary exception while the calculation of firm was analyzed in light of water year conditions.
- In March and October of 2016, the RMC reviewed and authorized a temporary approval strategy to accommodate the reorganization taking place in the utility.
- Chief Engineering and Operations Officer was added to the RMC voting membership by unanimous support.
- Mid-term trade authority was authorized on an exception basis to a Short-term trader. Authority was provided by the Power Operations Manager and reported to the RMC.
- Credit authority was granted by exception on three occasions; once for credit over-run on a broker executed trade and twice for tenor where transaction duration exceeded standing credit policy. These exceptions were authorized jointly by the Power Operations Manager and the Chief Financial Officer as required by the Risk Management Procedures.

- RMC reviewed and approved the SD8 redraft for Board consideration and approval.
- An amendment to the Seneca Power Purchase Agreement was reviewed and approved by the RMC.
- The RMC directed staff to update the Risk Management Procedures to reflect the Board approved edits of SD8, and the restructure of Executive Management and reorganization of relevant business units. This work was reviewed on multiple occasions throughout 2016 (*Subsequently, in February of 2017, a new draft of the procedures was approved by the RMC*).

Recommendation and Requested Board Action

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