



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Brown, Mital, Helgeson, Manning and Simpson  
FROM: Cathy Bloom, Finance Manager; Susan Eicher, General Accounting and  
Treasury Supervisor  
DATE: July 15, 2014  
SUBJECT: Resizing of Power Reserve and Contract for Clearing Services  
OBJECTIVE: Approval of: 1) Power Resizing Resolution No. 1412, 2) Clearing Services for  
Energy Contracts, 3) Resolution No. 1411 Clearing Account

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## **Issue**

EWEB has negotiated a contract with Jefferies Group LLC (Jefferies), a Futures Commission Merchant, to provide clearing services to allow power operations to access the clearing markets and execute financial trades for hedging of EWEB's secondary power revenue.

## **Background**

As Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd Frank) rules have been implemented over the last several years, power operations has seen a decrease in energy trading counterparties able or willing to enter into hedging trades with entities like EWEB that are defined as "special entities". Dodd Frank rules place very low limits on the amount of activity that counterparties can enter into with special entities without being subjected to a complex regulatory and reporting structure. To expand the options for hedging beyond the remaining risk management approved counterparties and avoid concentration of credit risk with those counterparties, management issued a request for proposals for a Futures Commission Merchant (FCM) to provide access to clearing markets and facilitate financial hedging transactions.

Transactions in cleared markets require that EWEB be prepared to settle transactions on a daily basis and to post collateral or "margin" to an account with the clearing merchant. Margin, in the context of clearing, represents a deposit made to the clearing merchant to cover some or all of the credit risk associated with cleared transactions. As the market value of cleared transactions change, the margin requirement would increase or decrease. This is a change in practice since power operations have generally not traded with counterparties that would require posting of margin. Currently, EWEB maintains a Power Reserve that is made up of three components structured to mitigate the risk of rate increases due to changes in 1) generation, 2) load and 3) power prices. The size of the reserve components is reviewed and recalculated annually. The current balance of the Power Reserve is \$13.8 million.

To allow for clearing and posting of margin and mitigation of credit risk, management is proposing adding a fourth component to the Power Reserve, and that this component be funded by a transfer of \$10 million from the Power Unallocated Fund. This transfer would bring the total for the Power Reserve to \$23.8 million.

**Recommendation and Requested Board Actions**

Management recommends that the Board approve 1) Resolution No. 1412 adding a credit risk component to the Power Reserve and a transfer of \$10 million from the Power Unallocated Fund to the Power Reserve, 2) Contract with Jefferies for Clearing Services for Energy Contracts, and 3) Resolution No. 1411 allowing for the opening of an account with Jefferies.

**EUGENE WATER & ELECTRIC BOARD  
RESOLUTION NO. 1411**

**July 2014  
Clearing Account**

The undersigned, being the duly elected, qualified and acting Secretary of the Eugene Water & Electric Board (the “Customer”), an entity duly organized and existing under the laws of the state of Oregon, does hereby certify to Jefferies Bache, LLC and its affiliates, successors and assigns (“Jefferies”) as follows:

That at a meeting of the Board of Commissioners duly held on the 22nd day of July, 2014, at which a quorum was present and acting throughout, the following resolutions were duly adopted and are still in full force and effect:

**RESOLVED**, that the Customer establish and maintain, or continue, one or more accounts with Jefferies for the purpose of purchasing, selling and otherwise dealing in, on margin or otherwise, domestic futures contracts, physical commodities, exchanges for physical commodities, options on domestic futures contracts and physical commodities, spot contracts, swaps, swap options, or other derivatives on one or more rates, commodities, economic indices or measures of economic risk or value or other benchmarks against which payments or deliveries are to be made, (“Contracts”);

**FURTHER RESOLVED**, that each of the persons listed below (the “Authorized Persons”), and/or such other persons as Customer may designate from time to time either in writing or by their apparent authority (collectively, the “Agents”), be and each of them hereby is authorized and empowered for and on behalf of the Customer to direct Jefferies to purchase, sell or otherwise trade in Contracts for and in the said accounts, with full power and authority to determine the nature and terms of any such purchase, sale or other dealing, to deposit margins from time to time, to bind the Customer to carry out any contract arrangement or other transaction which shall be entered into or made by any of them with or through Jefferies, to execute and deliver on behalf of the Customer all agreements and other documents incidental to the opening and maintenance of said accounts, to give any other necessary or appropriate instructions to Jefferies with respect to the said accounts and generally to manage the said accounts on behalf of the Customer;

**FURTHER RESOLVED**, that Jefferies is authorized to register any securities or Contracts in the said accounts in street name or in such other name as Jefferies or any of the Agents should deem advisable and to receive for the said accounts any and all cash, checks, securities or other property delivered to it by any person, firm or corporation for the account of the Customer.

**FURTHER RESOLVED**, that the Agents be and each of them hereby is authorized and empowered to withdraw any and all monies, securities or other property from time to time carried in any of said accounts or to direct the delivery or payment thereof to any person, firm or corporation designated by any of the Agents, and Jefferies is hereby authorized to follow any and all instructions from each of the Agents as to the transfer and/or delivery of any such money, securities or other property;

**FURTHER RESOLVED**, that it is the intention of the Customer to give the Agents, and each of them, the broadest possible power with respect to said accounts; and the Customer agrees to hold Jefferies harmless against any and all claims, liabilities or expenses (including attorneys fees) that may arise by reason of its following any directions, instructions and orders given to it by any of the Agents in respect of any of the said accounts;

**FURTHER RESOLVED**, that the Agents be and each of them hereby is authorized and empowered: (1) to endorse securities, Contracts and other instruments and take any other required or customary action to effect the transfer thereof; (2) to take any and all necessary or appropriate actions related or incidental to this and the foregoing

resolutions; and (3) to authorize any person or persons to do any of the things that he is herein before authorized to do; and

**FURTHER RESOLVED**, that the authority hereby given to the Agents shall continue in full force and effect (irrespective of whether any of them ceases to be an officer or employee of the Customer) until notice of revocation or modification of such authority is received in writing by Jefferies.

I (we) certify that the foregoing resolutions have not been modified or rescinded and are now in full force and effect, and that the Customer has the power under its Charter and By-Laws and applicable law to take the action set forth in and contemplated by the foregoing resolutions.

Copies of all confirmations and statements shall be sent to the following persons of the Customer:

- Title: Settlements Analyst
- Title: Senior Accounting Analyst

I (we) further certify that the following Authorized Persons are authorized and empowered to act on behalf of the Customer:

- Title: Power Operations Manager
- Title: Mid-term Trader
- Title: Short-term trader
- Title: Senior Financial Analyst
- Title: Settlements Analyst

Dated this 22nd day of July 2014

THE CITY OF EUGENE, OREGON  
Acting by and through the  
Eugene Water & Electric Board

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President

I, TARYN M. JOHNSON, the duly appointed, qualified, and acting Assistant Secretary of the Eugene Water & Electric Board, do hereby certify that the above is a true and exact copy of the Resolution adopted by the Board at its July 22, 2014 Regular Board Meeting.

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Assistant Secretary

**EUGENE WATER & ELECTRIC BOARD  
RESOLUTION NO. 1412**

**July 2014**

**Power Reserve Resizing and Transfer**

WHEREAS, the Eugene Water & Electric Board is the body designated by the Eugene City Charter and City Code to administer the Electric and Water utilities of the City of Eugene;

WHEREAS, the Eugene Water & Electric Board has set up procedures for evaluating the adequacy of the power reserve annually;

WHEREAS, the Eugene Water & Electric Board has reviewed the Power Reserve and determined that an additional amount is required to mitigate credit risk.

THEREFORE BE IT RESOLVED that the Eugene Water & Electric Board hereby authorizes the General Manager to do the following:

1. Add a Credit Risk component to the Power Reserve
2. Transfer \$10,000,000 from the Power Unallocated Fund to the Power Reserve to fund the credit risk component.

Dated this 22nd day of July 2014

THE CITY OF EUGENE, OREGON  
Acting by and through the  
Eugene Water & Electric Board

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President

I, TARYN M. JOHNSON, the duly appointed, qualified, and acting Assistant Secretary of the Eugene Water & Electric Board, do hereby certify that the above is a true and exact copy of the Resolution adopted by the Board at its July 22, 2014 Regular Board Meeting.

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Assistant Secretary