



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

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TO: Commissioners Brown, Carlson, Mital, Simpson, and Helgeson
FROM: Sue Fahey, Chief Financial Officer; Deborah Hart, Fiscal Services Supervisor
Adam Rue, Lead Financial Analyst
DATE: April 3, 2018
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 2017.

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.

SD 8.1 – 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 2017.

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

- RMC approved a strategy aimed at limiting the use of option purchases in an effort to reduce non-labor costs associated with EWEB's hedging program. Because of the reduction in the use of option purchases; on three occasions, an out of compliance position of less than two megawatts was held beyond the next trading day. This strategic shift resulted in a premium cost savings of approximately \$235,000, while maintaining a reasonable level of portfolio risk to the hedge program.
- In May, a shift in the Carmen-Smith project planned outage schedule created an out of compliance position for Q2 and Q3 of 2018. The Q3 position was brought into compliance in August and the Q2 firm short exception held through the rest of 2017 in order to maintain reduced option premium expenses. Exception was granted by the Fiscal Services Supervisor and Portfolio Management Supervisor.

SD 8.2 – Development of Detailed Control Procedures: In Compliance

SD8 requires that the RMC develop detailed Power Risk Management 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.

Modifications to the Power Risk Management Procedures are approved by unanimous consent of the voting members. The modification to the procedures in 2017 is described below.

- The Power Risk Management Procedures and voting members were updated to reflect organizational changes and changes in the market related to renewable products.
- Subsequently, in 2018 the new Chief Energy Officer was added to the RMC voting membership and designated the Generation Manager as a voting member, and an update to the credit section of the Risk Management Policy was approved by the RMC.

SD 8.3 – Notification of changes to compliance limits: In Compliance

No changes to compliance limits were recommended or approved by the RMC during the 2017 calendar year.

SD 8.4 – 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.

SD 8.5 – Authorize and monitor risk reports for financial results, market positions and credit exposure: In Compliance

The RMC met in each month of 2017 with the exception of January, April, and December. In those instances, 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.

In addition to the market position exceptions mentioned above in SD 8.1 notes, there were also credit exceptions authorized by the Fiscal Services Supervisor and Portfolio Management Supervisor as required by the Power Risk Management Procedures.

- Tenor limit exceptions were granted on four occasions where transaction duration exceeded standing credit policy and a credit limit exception was granted on one occasion. These exceptions were provided on the grounds of either creditworthiness or supplemental credit support.

SD 8.6 – 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 require Board approval, the RMC provides direction and preliminary review in advance of Board action.

The Board approves fixed price transactions that are both greater than 1 year in duration and exceeding \$3 million in nominal value. In 2017 the following contracts were approved by the RMC that did not meet the Board approval threshold.

- Two scheduling agreements, two REC sales, and a modification to a retail power sales and services agreement were approved by the RMC in 2017.

Recommendation and Requested Board Action

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