



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD



TO: Commissioners Schlossberg, Brown, Carlson, Barofsky and McRae
FROM: Deborah Hart, Chief Financial Officer; Adam Rue, Fiscal Services Supervisor;
Timothy Poublon, Senior Financial Analyst
DATE: March 30, 2021
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 information for calendar year 2020.

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 Power 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 (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

Compliance with Board policy and anti-speculation statutes is maintained through megawatt limits on market positions to monitor and limit opportunities for speculation and exposure to price volatility. However, periodic changes to forecasts, load, and/or generation result in position limits being exceeded. In those events, the Procedures require positions to be brought back into compliance no later than the next trading day, unless approved by the Fiscal Services Supervisor and Power Planning Supervisor. EWEB maintained compliance with this procedure in 2020, which includes forward market positions from 2020 through 2023.

In 2020 there was one instance where a market position limit exception was approved by either the RMC, or the Fiscal Services Supervisor and Power Planning Supervisor. It is described below:

January 2020

- The compliance thresholds outlined in the Procedures moved from an annual test to a quarterly test. As a result, positions for two periods (Q2 2021 and Q4 2021) fell outside their firm-short compliance limits by 3 aMW and 9 aMW, respectively.
- The Fiscal Services Supervisor and Power Planning Supervisor approved to hold the positions to allow sufficient time for EWEB traders to solicit competitive bids in the market. Both positions were traded back into compliance later in January.

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 that govern roles and responsibilities, daily trade activity, and exception authorization. In late 2019 and early 2020, staff met with internal stakeholders to review the Procedures and make recommended edits for clarification and to reflect evolving business practices. Updated Procedures were unanimously approved by the RMC in mid-March 2020.

Notification of changes to compliance limits: In Compliance

No changes to compliance limits were recommended by staff or approved by the RMC during the 2020 calendar year.

Oversee control infrastructure and monitor compliance: In Compliance

The RMC meets monthly to monitor and review compliance limits and is notified of the status of Short-Term compliance measures at a minimum of 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

RMC meetings are held monthly. Prior to each meeting, voting members receive up to date compliance reporting materials that provide the basis for monitoring financial results and compliance with market position limits and credit. In 2020, RMC meetings were held either in-person or via video conference for each month other than March. In March, standard meeting materials were still distributed via email.

Trading counterparties are reviewed for creditworthiness on a prescribed schedule based on their credit limits and credit ratings set forth in the Procedures. Based on the timing of counterparty financials release, the credit risk mitigation can periodically be better served by extending limits to base the review on more recent information. Exceptions were approved by the Fiscal Services Supervisor to extend the documentation schedules for 14 counterparties for between 1 to 62 days to better align with the release of each company's financial statements, or to better align the timing of the review (i.e. 10 of the 14 were to push data from last day of the month to the first day for consistency). These exceptions to the documentation schedules were reported at the following RMC.

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 Board approval under SD8 were executed in 2020 and no changes to the approval thresholds are being requested.

In 2020, the RMC approved two contracts that did not require Board approval:

- In May the RMC unanimously approved an amendment to language in the power purchase agreement with WGA to provide flexibility to WGA prior to the sale of the project. This reduced power costs for EWEB.
- In November the RMC unanimously approved the sale of a bundled energy and REC transaction for a two-year term. The transaction did not meet the requirements of SD8 to require Board approval as this is an indexed-based trade that does not create market exposure, however the Procedures require RMC approval of the transaction and to report transactions with a term of greater than one-year to the Board.

Recommendation and Requested Board Action

This item is information only and no Board action is requested.