



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

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TO: Commissioners Carlson, Barofsky, McRae, Schlossberg, and Brown

FROM: Deborah Hart, Chief Financial Officer; TiaMarie Harwood, Financial Services Manager; Aaron Balmer, Fiscal Services Supervisor; Timothy Poublon, Lead Financial Analyst; Amanda Lane, Financial Analyst II

DATE: March 29, 2023

SUBJECT: Annual Report on Power Trading Compliance

OBJECTIVE: Information Only

Issue

Board Strategic Direction Policy SD8 (SD8), which governs Power Risk Management, requires the Chief Financial Officer to present a report to the Board covering trading and contracting compliance on at least an annual basis. This backgrounder provides information for the calendar year 2022.

Background

In addition to SD8, Board Strategic Direction Policy SD6 requires that funds used for EWEB's activity in power markets be managed to maximize benefits to customers while minimizing the risk of adverse impacts on retail prices. Accordingly, EWEB's activities in power markets must be associated with the provision of electricity to meet anticipated sales and generation forecasts. SD8 establishes the formation of the Power Risk Management Committee (RMC), a horizontal and cross-functional team comprised of five voting members (Members) responsible for oversight, compliance with SD8, setting limits, and establishing and maintaining Power Risk Management Procedures (Procedures) for power trading operations.

Discussion

The eight specific responsibilities of the RMC outlined in 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 Policies and anti-speculation statutes is maintained through megawatt limits on market positions to monitor and limit opportunities for speculation and exposure to price volatility. Periodic changes to forecasts, load, and/or generation, however, can result in position limits being exceeded. In such instances, the Procedures require positions to be brought back into compliance no later than the next trading day, unless an exception has been approved by the Fiscal Services Supervisor and Power Planning Supervisor. For periods during which the Power Planning Supervisor position was vacant or when the Power Trader was acting-in-capacity for the Power Planning Supervisor, exceptions were approved by the Energy Resources Manager, the division manager overseeing both the Power Planning and Trading & Power Operations departments. EWEB maintained compliance with this provision in 2022, which included forward market positions from 2022 through 2024.

There were two instances where a volumetric market position limit exception was approved by either the RMC or the Fiscal Services Supervisor and Power Planning Supervisor:

- In March, an update to EWEB load forecasts caused three forward positions to exceed the Mid-Term market position compliance thresholds outlined in the Procedures. These periods included November 2022, December 2022, and Q2 2023. The Fiscal Services Supervisor and Power Planning Supervisor approved an exception to hold the positions and allow sufficient time for EWEB staff to further review the firm generation forecasts that impacted these positions. At the April RMC meeting, Members voted to uphold and extend this exception. November and December 2022 positions were cured in late April and the Q2 2023 position was cured in early August, both as a result of updated generation forecasts.
- In August, an update to Bonneville Power Administration (BPA) generation forecasts via BPA's Multiyear Study caused the November 2022 position to exceed the Mid-Term market position compliance thresholds outlined in the Procedures. The Fiscal Services Supervisor and Energy Resources Manager approved an exception to hold the position and allow sufficient time for EWEB traders to solicit competitive bids in the market. At the August RMC meeting, Members voted to uphold and extend this exception, which was cured in late August following an off-peak purchase for the November period.

There were also two instances where a financial position value exception was approved by the Fiscal Services Supervisor and Energy Resources Manager:

- In early December, historically high market prices and volatility caused the Short-Term Value-at-Risk ("VaR") metric to exceed the compliance limit outlined in the Procedures. The Fiscal Services Supervisor and Energy Resources Manager approved an exception to hold the position and allow sufficient time for the position to decrease below the compliance limit. This position was cured within one week.
- On the last Friday of December 2022 when the Short-Term compliance period advanced to include the entirety of January and February 2023, high market prices and volatility caused the Short-Term VaR metric to exceed the compliance limit outlined in the Procedures. The Fiscal Services Supervisor and Energy Resources Manager approved an exception to hold the position until the following week to allow sufficient time for EWEB traders to solicit competitive bids in the market. This position was cured within one week following an off-peak sale for the February period.

Development of Detailed Control Procedures: In Compliance

SD8 requires that the RMC establish and maintain Power Risk Management Procedures which define processes that govern roles and responsibilities, daily trade activity, and exception authorization. Midway through 2022, staff met with internal stakeholders to review the Procedures and make recommended edits for clarification and to reflect evolving business practices. RMC Members unanimously approved updated Procedures on December 2, 2022.

Notification of changes to compliance limits: In Compliance

No changes to compliance limits were recommended by staff or approved by the RMC during the 2022 calendar year.

Oversee control infrastructure and monitor compliance: In Compliance

The RMC meets monthly to monitor and review compliance limits. Weekly the RMC is notified of the status of Short-Term compliance measures to provide insight into 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, Members receive updated compliance reporting materials that provide the basis for monitoring financial results and compliance with market position limits and credit. In 2022, RMC meetings were held each month via video conference.

In December, a counterparty's exposure crested their RMC-approved credit limit due to high market prices. Additional sales to the counterparty were initially restricted but were reinstated one day later upon verification that the counterparty increased their existing letter of credit by \$500,000. An exception to temporarily increase their RMC-approved credit limit by \$500,000 was approved by the Fiscal Services Supervisor, Energy Resources Manager, and Chief Financial Officer. At the January 2023 RMC Meeting, a quorum of voting Members approved maintaining the increased credit limit until the letter of credit is decreased, or until the counterparty's credit limit is next reviewed by RMC in April 2023, whichever occurs first.

The Procedures call for Realtime Power Traders to transact in a way that reduces the Real-Time position and moves the position toward a balanced schedule. In 2022, there were two instances where a Real-Time Power Trader transacted in a way that moved EWEB away from a balanced position:

- In September and October, after-the-fact reviews of EWEB's Real-Time position indicated that on two occasions Realtime Power Traders transacted in a way that moved EWEB away from a balanced position. Though these violations were immediately cured with concurrent trading activity, approval from the Real Time Supervisor was not received prior to the transactions. While Real-Time requirements are subject to change with updated Slice entitlement and load fluctuations, further research found no evidence of either in both instances. Both instances were presented on the activity report at the following monthly RMC meeting.

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 Board-mandated 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 2022 and no changes to the approval thresholds are being requested.

The RMC approved two contracts that did not require Board approval:

- In February, Members approved a power scheduling services agreement for a two-year term. The agreement required RMC approval as the value of the contract exceeded \$150,000.
- In November, Members approved the sale of a bundled energy and Renewable Energy Certificate (REC) transaction for a two-year term. The transaction required RMC approval as it was greater than one year in duration; however, it did not require Board approval as the fixed-price components of the transaction did not exceed the \$3 million nominal value threshold outlined in SD8.

Recommendation and Requested Board Action

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