M E M O R A N D U M

EUGENE WATER & ELECTRIC BOARD

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TO:	Commissioners Carlson, Barofsky, McRae, Schlossberg, and Brown
FROM:	Megan Capper, Energy Resources Manager; Jonathan Hart, Power Trader; Marciana Rosales, Energy Resource Analyst
DATE:	April 4, 2023
SUBJECT:	2023 Power Market, Budget Hedging, and Generation Update
OBJECTIVE:	Information Only

Issue

The purpose of this backgrounder is to provide an annual update of wholesale power markets and a generation resource outlook.

Background

The Energy Division, which is comprised of the Power Planning and Trading Operations Departments, manages EWEB's power supply and wholesale market activities consistent with utility financial objectives in accordance with Board Strategic Direction Policy SD8, and as further described in the Power Risk Management Procedures (Procedures) maintained by the Power Risk Management Committee (RMC). The Generation Department manages EWEB's owned generation assets.

Summary

Due to increases in the cost of natural gas and changes to the makeup of the regional resource mix, spot market electricity prices are both lifting and becoming more volatile, relative to recent market experience. Accordingly, the 2022 spot market average price finished at the highest level since the early 2000s. The aforementioned changes to spot market drivers are also lifting forward electric market prices and, given the current natural gas price outlook, Staff anticipates this change in market dynamics may persist for at least the next couple of years, which has an impact on EWEB's financial outlook as it effects both wholesale revenue and purchased power costs. Market shifts, as well as the region's ongoing work to develop a Resource Adequacy (RA) program are informing a new effort to modernize EWEB's approach to portfolio balancing.

Following a relatively wet and cold first quarter, current 2023 river flow forecasts for EWEB generation are trending around average for this spring and summer on the McKenzie below Trail Bridge and at Vida. Resolution 2302 was approved at the January 2023 Board meeting, providing a Record of Decision to decommission the Leaburg Hydroelectric Project. Staff are now working to develop a decommissioning plan for Leaburg, which will include a plan to evaluate, likely in the late 2020s, whether to relicense or decommission Walterville after its license expires. Walterville continues to operate reliably, though the project will be evaluated for seismic stability in 2023. Stone Creek Hydroelectric and Harvest Wind Projects continue to operate normally and are expected to do so throughout 2023.

This update for markets and generation is reflected in our current financial projections.

Discussion

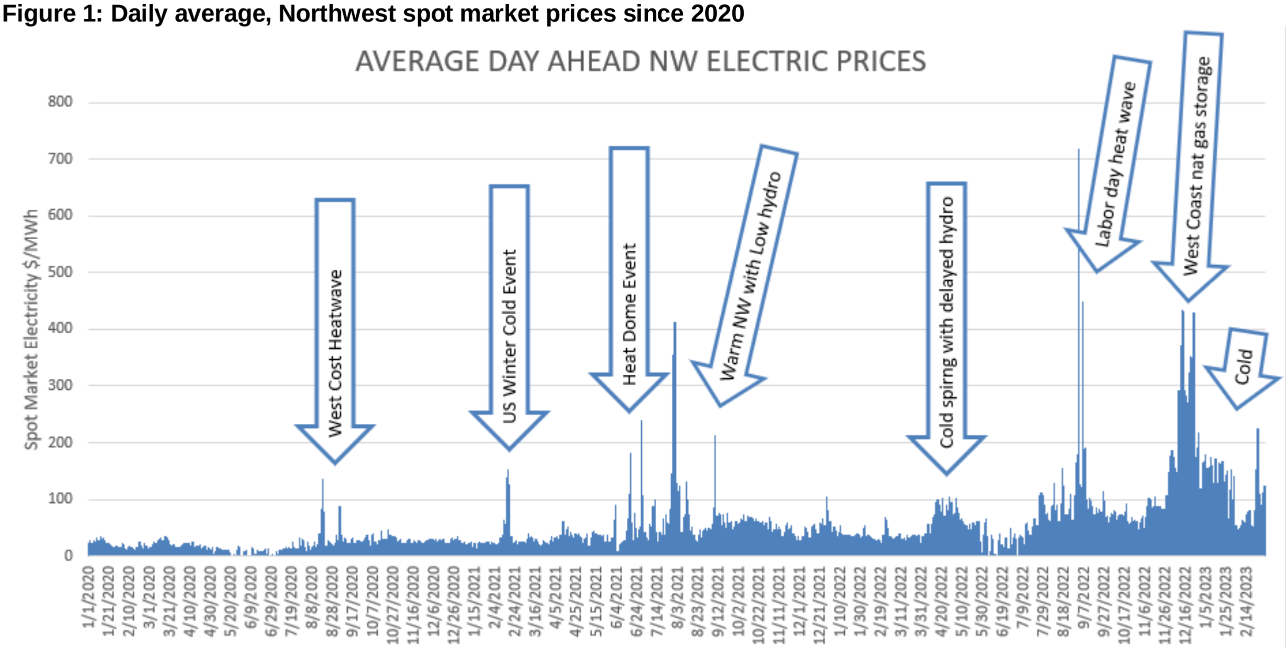
Market Price Update

Wholesale energy markets can generally be described as either near-term “spot markets” or longer term “forward markets”[1]. Spot market prices are impacted by weather (e.g., temperature and precipitation), fuel costs, and operational phenomena (e.g., generation and transmission availability), while forward markets tend to reflect longer term market expectations of energy supply and consumer demand. Both forward and spot markets can influence the cost of balancing EWEB’s energy portfolio in annual, monthly, daily, and hourly time frames.

Spot Markets

In recent years, the WECC[2] region, including the Pacific Northwest (Northwest), have seen continued generation additions from renewable resources like wind and solar, and incremental retirements of conventional, thermal resources like coal and nuclear. This shift in the composition of regional generation has increased the abundance of low and zero cost marginal energy while, at the same time reducing the amount of controllable capacity resources available to meet demand during high load periods[3]. This has resulted in recent spot markets that can be characterized as periods of generally low/stable prices, interspersed with short, intense periods of extremely high and volatile pricing. Because the Northwest is interconnected with other parts of the WECC Region (e.g., California) and experiencing similar changes in regional supply mix[4], it is exhibiting similar trends in local spot market and forward market pricing.

Figure 1: Daily average, Northwest spot market prices since 2020



1 Spot markets typically refer to markets where commodities are traded for immediate (next day, next hour) delivery, whereas forward markets imply markets where the traded commodity is delivered in a future period.

2 Western Electricity Coordinating Council.

3 Market penetration of capacity only resources (ie batteries) is growing, but still limited. As such, the current fleet of renewable resources can only replace a portion of the effective capacity of now retired thermal resources.

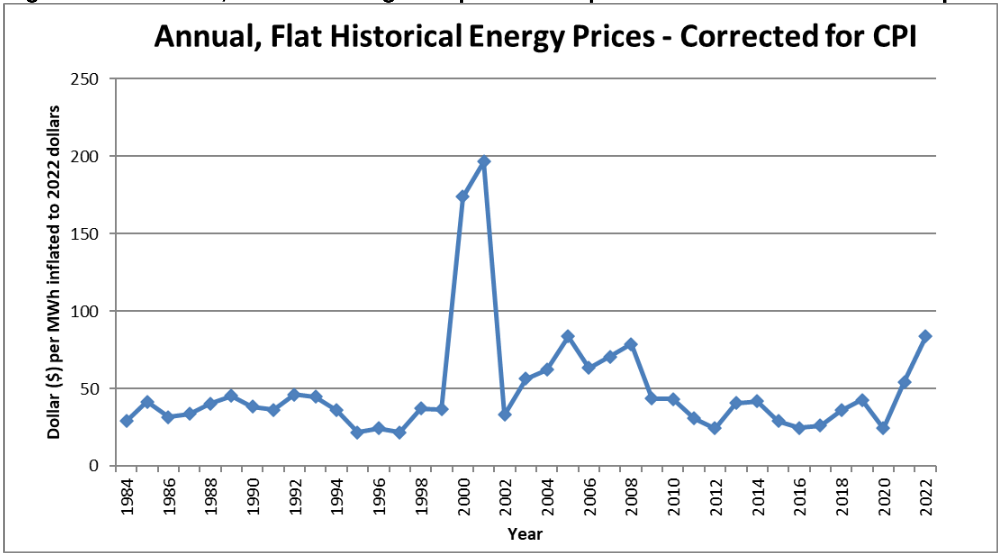
4 https://www.nwcouncil.org/energy/energy-topics/power-supply

In 2020, a historic West Coast heatwave occurred in August, which resulted in rolling blackouts in California for the first time since the 2001 West Coast energy crisis. The event occurred over several days during which Northwest day-ahead prices peaked at $136/MWh. Aside from this event, spot market prices in 2020 were relatively stable. The 2020 average, annual spot market price finished near historical lows at approximately $21/MWh, substantially below the 2019 settled average of $37/MWh.

2021 experienced a variety of load and resource changes, which resulted in general increases to both the average price and price volatility. In February, prices surged during a nation-wide cold weather event, which drove up demand for energy while limiting the supply of natural gas. This resulted in a week-long high price event, causing electricity markets to jump from approximately $25/MWh to over $150/MWh. After February, a prolonged period of drought diminished the supply of hydroelectric generation (hydro) available to serve both the Northwest and California for the anticipated summer period. In June, the Northwest experienced an unprecedented heat dome event, where high loads and limited hydro resulted in average day ahead prices that peaked at $239/MWh. Similar drivers led to a July price spike near $412/MWh, though lifting natural gas prices were also an influencing factor. After July, the West Coast experienced relatively mild weather for the remainder of the year, though electricity prices remained elevated, primarily due to increases in natural gas commodity pricing. The 2021 average, annual spot price finished near $49/MWh, which at the time was the highest settled price since 2008.

2022 prices reflected both increases in daily price volatility and overall price levels. During this time we saw longer duration price events that cycled over weeks instead of days. These results demonstrate how markets in the West are evolving, given changes in load/resource balance and natural gas supply fundamentals. Beginning in March, cold temperatures across the region increased overall demand. The Northwest demand profile looked more like what would be expected in January or February rather than mid-way through April – this is a consequence of a colder, wetter spring. With temperatures well-below normal, the Northwest trading hub was trading over California hubs due to both hydro systems and natural gas systems inability to keep up with the unusual demand at that time of year. This was partially related to multiple gas generators in the Northwest Pipeline going offline, spill season being in full effect, and a chillier region. In late summer, the Northwest experienced heat spikes, increased load, and dwindling hydro. Since the heat dome that occurred a couple of years ago, there is increased speculation that air conditioner installations are pushing load averages higher than expected in summer months, but this has yet to be confirmed. On the last day of August, in the midst of a heatwave and corresponding increased load and demand, prices shot up to $950/MWh ahead of the Labor Day weekend while Mid-Columbia (Mid-C) heavy load trading saw $1000/MWh prices. During the winter, the Northwest experienced well-below normal temperatures throughout the region, which, accompanied with a lack of precipitation, allowed prices to increase from $2.50/MWh up to $80/MWh in November. Sustained heating demand and prolonged cold and dry weather resulted in elevated power and natural gas prices. The 2022 average settled price was $82, which was the highest average price since 2004.

Figure 2: Historical, annual average of spot market prices corrected for consumer price index (CPI) inflation



Forward Markets

Forward market prices for 2023 are currently trading above 2022 spot market prices at close to $97/MWh for the year. The shift appears to be driven by a variety of factors including the higher cost of natural gas fuel supplies for generators (particularly in the Northwest), changing regulatory policy, the shift in regional load resource balance, and general uncertainty surrounding physical resource adequacy.

During 2022, natural gas commodity price forecasts at Henry Hub[5] ranged between $3 and $10/mmBTU. Price volatility can be attributed to many factors, including changes in supply from natural gas production investment[6], changes in demand due to fuel switching from coal[7], and increased levels of global LNG exports[8]. LNG exports are effectively connecting US natural gas markets to the rest of the world, including Europe, where demand for natural gas is high, given the needs of their energy system and the impacts of a protracted war between Russia and the Ukraine. It's too early to know the long-term impact of this crisis, but its impact resonates within US energy markets. On Dec 21st, 2022, West Coast gas prices peaked around $50/mmBTU during a period of peak gas/electric demand where there was coincident storage and supply limitations[9]. As of January 18th, the U.S. Energy Information Administration (EIA) forecasted that natural gas commodity prices will stay relatively flat through 2024[10], though at levels that are higher than the period prior to the 2022 price run up.

At the start of 2023, the Washington State Department of Ecology (DOE) implemented the Washington Climate Commitment Act (CCA), which seeks to cap and reduce greenhouse gas (GHG) emissions from their largest emitting sources and industries. This policy has a direct impact on Northwest energy markets, as the region's most traded energy point, the Mid-C hub, is located in the State of Washington. GHG emitters and parties that import resources with embedded carbon

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5 Henry hub (located in Louisiana) is the physical delivery point for natural gas traded on the NYMEX and ICE. As such, it generally serves as the primary benchmark reference for US natural gas commodity prices.

6 https://www.eia.gov/todayinenergy/detail.php?id=53859

7 https://www.eia.gov/todayinenergy/detail.php?id=55319

8 https://www.eia.gov/todayinenergy/detail.php?id=55025

9 https://www.eia.gov/todayinenergy/detail.php?id=55279

10 https://www.eia.gov/todayinenergy/detail.php?id=55219

attributes, will be required to procure emission allowances that are priced through an auction process. The first such auction[11] occurred on Feb 28th where 6.18 million allowances were sold for a settled price of $48.50 per metric ton of allowable carbon. Because Northwest power trading can carry carbon liability, the cost of compliance is now likely embedded in power market prices, though the total dollar impact has yet to be determined.

In 2020, renewable resources became the second most abundant source of electric generation in the United States[12], surpassing sources of controllable thermal energy like coal and nuclear. Further for 2023 and 2024, the largest forecasted increase in resource capacity is expected to come from renewable resources[13] and batteries[14]. Variable, must-run energy resources like wind and solar typically lack the capability to shape or store energy. In regions with high levels of renewable penetration, market prices can experience drastic swings with changes in the level of renewable energy production. Batteries can help with short-term, in-day volatility, but the technology has not progressed to the point of addressing multi-day load and resource balance concerns.

When it comes to load and resource risk, as well as physical RA balancing concerns, forward markets are consistently reacting to near-term shifts in weather-driven load events, and concerns about the risk of underperformance in Northwest hydro generation. The combination of these factors prompts concerns about general market scarcity risks, which adds a layer of uncertainty into the market. This uncertainty can influence forward prices as bilateral market participants may be pricing in a risk premium to address increasing levels of potential physical scarcity risk.

Forward markets do not directly account for emergent policy issues like the development of new, complementary markets such as energy RA capacity markets, which are expected to trade outside of traditional energy markets. Any interaction that occurs between existing and emergent markets will largely be a function of implementation. As such, EWEB Staff will continue to take a proactive advocacy role in all relevant regional market's conversations.

Figure 3 below shows both forward market price curves and spot market prices over time. A forward curve reflects prices for future periods of delivery, which can be traded today. The first blue line on the left reflects a forward curve taken at the end of 2007 and subsequent lines reflect changing forward price curves for the years that followed. For the period of 2008 - 2020, forward market price curves experienced a period of consistent declining value. However, since 2021, changes in natural gas price forwards as well as changes in regional policy have caused electric market price curves to jump drastically, and now reflect some of the highest pricing seen since the 2001 West Coast energy crisis. The March 2, 2023, curve reflects this elevated pricing but with a slope that is declining as it moves to the right. This shift mirrors current expectations that near-term load/resource stress will trend down after 2023, which should in turn reduce electric energy prices that are still elevated compared to recent history.

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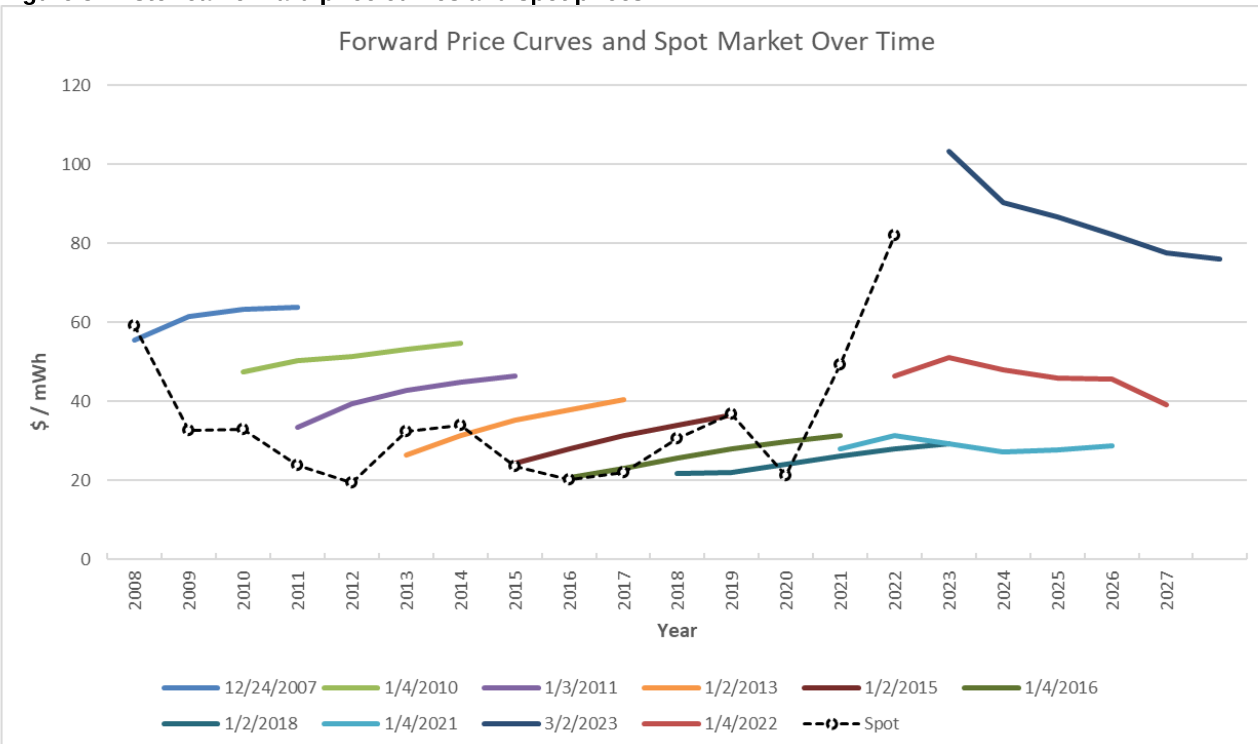
11 https://ecology.wa.gov/About-us/Who-we-are/News/2023/March-7-Successful-first-auction-turning-point?utm_medium=email&utm_source=govdelivery

12 https://www.eia.gov/todayinenergy/detail.php?id=50622

13 https://www.eia.gov/todayinenergy/detail.php?id=55239

14 https://www.eia.gov/todayinenergy/detail.php?id=54939

Figure 3: Historical forward price curves and spot prices



Resource Adequacy

EWEB continues to actively participate in the Western Power Pool's (WPP) RA effort. On February 10th the WPP announced that the Federal Energy Regulatory Commission (FERC) approved the tariff for the Western Resource Adequacy Program (WRAP), which means that the WPP can complete the implementation of the program. As such, the program now moves from a "non-binding" portion of the implementation to a "binding" paradigm where the tariff dictates how the program operates. This is an exciting step forward as it shows regional progress and commitment towards addressing future resource adequacy concerns. Further, the WRAP program is seen as a major step towards the development of a future organized market structure where physical resources are economically dispatched by a central market operator.

To date, 18 utilities including EWEB have signed on to participate in the next phase of the WRAP program. EWEB sees several benefits to program participation. Externally, we want to provide continued support for the development of new resource adequacy standards and want to be able to advocate for business practices that reflect the capabilities of EWEB's resources and transmission rights. Internally, we want to gain insights for how well EWEB's portfolio aligns with these new standards. Those learnings will inform operational changes as well as assumptions included in our ongoing IRP modeling.

As a participant, EWEB has elected to not be "bound by the tariff[15]" until after the start of the next BPA contract in 2028. Because the majority of EWEB's resources come from BPA, it's integral that future BPA products align with WRAP, or its successor, before EWEB fully commits to the program. BPA will likely also be a participate. Should EWEB determine that the WRAP program is not a good fit, withdrawal is allowed with two years notice.

15 Subject to the full requirements of the tariff including operational requirement and penalty structures for non-performance.

Surplus Position Hedging Update

In accordance with EWEB's Risk Management Procedures, Staff hedges[16] a portion of its surplus position[17] up to five years in advance. In years past, this has provided two benefits: 1) it has reduced financial exposure related to market prices; and, 2) it has resulted in sales executed at various times which diversifies the sales price by "dollar cost averaging" through time. This strategy resulted in near-term years being fully hedged while year five is the least hedged, with interim years somewhere in between. EWEB does not hedge any surplus energy beyond five years.

An effort is underway to modernize EWEB's approach to budget hedging and portfolio balancing activities. This effort recognizes that EWEB's portfolio needs are changing and that current market dynamics may require adjustment to existing hedging goals, requirements, strategies and metrics. Until this effort has completed, budget hedging activities will primarily be focused on years 2024 and 2025, though RMC will continue to monitor for emergent needs in all five years. Staff expect most of the length of 2024 to be hedged in the next couple months. After that, the focus will shift to 2025.

Figures 4 and 5 below show EWEB's surplus market peak and off-peak positions for 2024 and 2025 based on a budget hydro assumption of 90% of expected hydro generation. For each chart, the top of each stacked column indicates EWEB's original surplus market position (i.e., the amount of forecasted generation EWEB expects to realize in excess of that which is forecasted as being necessary for reliable load service). The white and red/blue column segments represent the volume of energy risk already hedged by Staff. The solid red/blue column segments represent the remaining unhedged surplus. The black and red/blue column segments reflect energy that is reserved by the RMC for strategic management of seasonal risk. The gray area behind the stacked columns reflects EWEB's expected surplus, without the conservative hydro assumption.

16 A hedge is a trade, or set of trades, that reduces the market price exposure risk inherent in EWEB's portfolio length. EWEB hedges to provide greater wholesale revenue certainty.

17 Surplus position is an amount of energy that staff forecasts will not be needed to serve EWEB's customers and is therefore exposed to changes in market price. For 2024-2025 there is about 50 aMWs of surplus compared to EWEB's load of about 272 aMWs

Figure 4: Peak Budget Hedging Progress

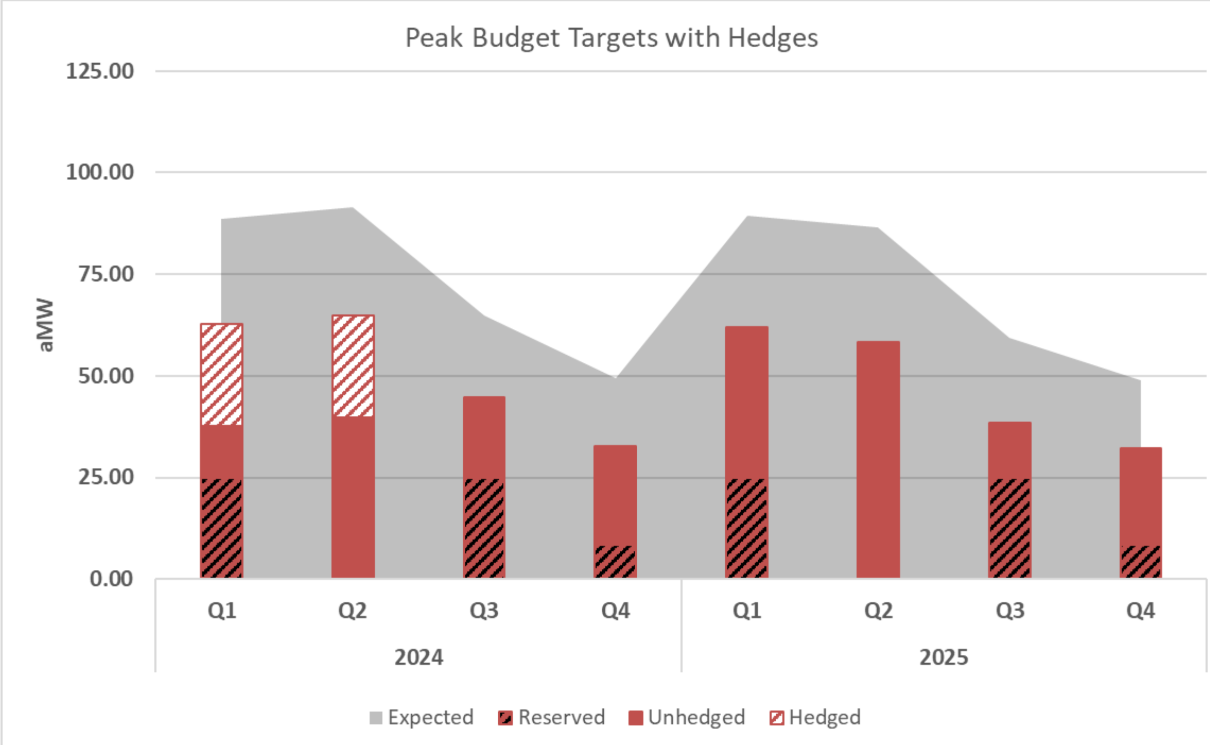
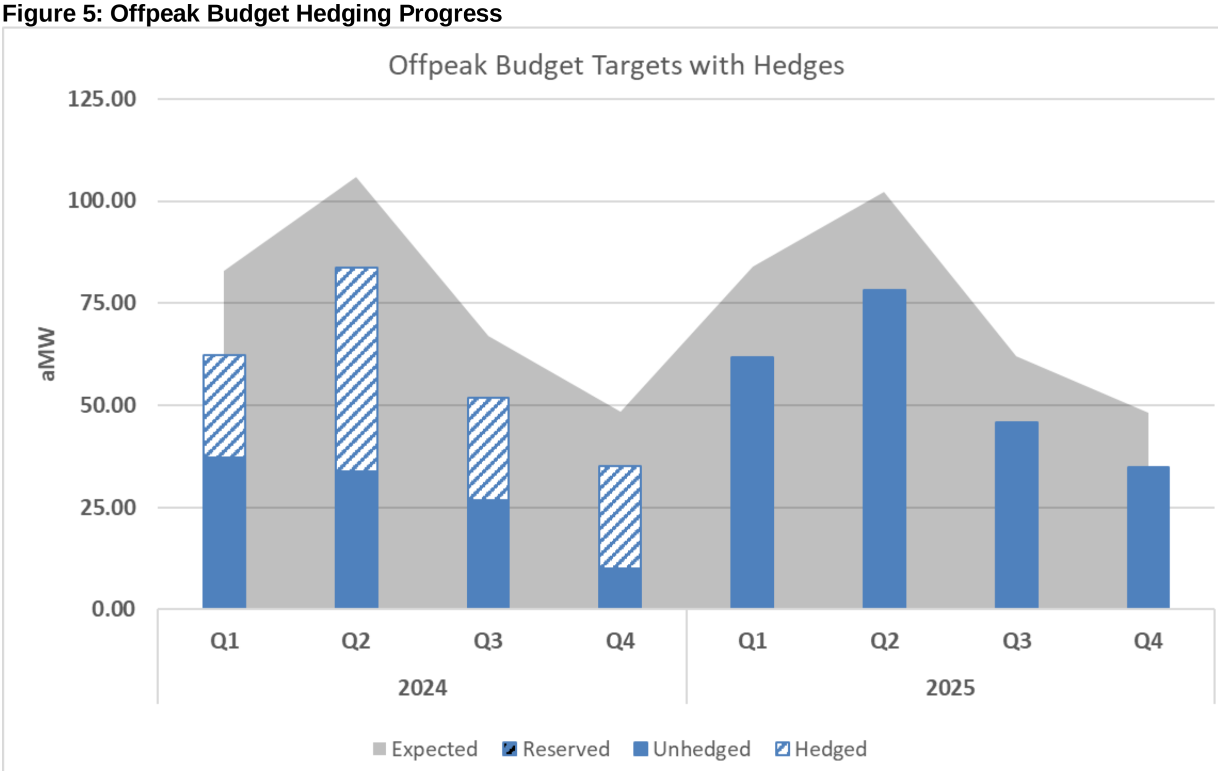


Figure 5: Offpeak Budget Hedging Progress



Counterparty Creditworthiness Update – Financial Institution Sector
To support EWEB's spot market and forward hedging activity, Middle Office Staff maintains a list of entities (counterparties) with which Power Traders are approved to transact. Prior to approval, each counterparty undergoes a review process for creditworthiness where credit limits and approvals are established in accordance with the Procedures. Following an initial approval, a periodic review or "documentation" schedule is followed to periodically review financial statements and assess the counterparty's ability to continually meet their contractual obligations with EWEB. Additionally, as Middle Office tracks industry-specific news for potential impacts to EWEB's trading portfolio, updates are provided to the RMC for further discussion.

In recent weeks, Staff has been actively monitoring activity in the financial institution sector after news that Silicon Valley Bank (SVB) was placed under receivership by the FDIC. SVB's failure to meet federally regulated capital requirements occurred after depositors rushed to withdraw nearly $42 billion from the institution, marking the second largest bank failure in the U.S. since the 2008 financial crisis. Just two days later, Signature Bank was closed by the New York State Department of Financial Services for similar reasons. The FDIC subsequently transferred ownership of Signature Bank to Flagstar Bank. In each case, the FDIC has assured the public that all depositors of the institutions will be made whole.

EWEB does *not* have trading relationships with either SVB or Signature Bank, therefore these bank failures are not anticipated to have a direct impact on EWEB. However, downstream impacts of these recent events are unknown at this time as the financial institutions, depositors, and credit rating agencies further assess the landscape of banking industry.

EWEB does actively trade with three large financial institutions, two of which are headquartered in the United States and are considered Global Systemically Important Banks (G-SIBs). G-SIBs are designated based on the size and the scope of their operations and are subject to higher capital requirements than smaller banks. Each of the financial institutions EWEB trades with holds a "BBB+" or higher rating from S&P Global Ratings and are considered to be well capitalized. Annual credit reviews for all three of these financial institutions are scheduled to occur over the coming months where findings will be reported to the RMC.

EWEB-Owned Generation Update
The Board approved a resolution to decommission the Leaburg Hydroelectric Project at their January 2023 meeting. The Leaburg power canal and power plant had been offline since October 2018 due to dam safety standards and a FERC order. Based on the Board's decision, Staff will work on the development of a decommissioning action plan in 2023 while also pursuing near-term risk reduction measures to mitigate dam safety concerns that remain even with the power generation facilities offline. Staff will present the Leaburg Decommissioning Action Plan to the Board by the end of 2023.

The Walterville Hydroelectric Project continued to operate reliably in 2022, managing to continue operation through the late summer and early fall despite relatively low river flow conditions. Investigations to support updated dam safety analyses continued and an independent consultant performed the 5-year dam safety inspection. The final inspection report will be submitted to EWEB and FERC in April 2023. Geotechnical drilling is occurring at Walterville in 2023 to investigate seepage conditions at the forebay and evaluate seismic stability of the canal at high hazard locations. An element of the Board's resolution to decommission the Leaburg Project was a directive to complete a strategic evaluation by 2030 of the Walterville Project and determine whether to relicense or decommission after license expiration in 2040.

At the Carmen-Smith Project, there was progress on environmental and recreational improvements in 2022. Reconstruction of the Trail Bridge Campground was completed and EWEB coordinated with

State and Federal fish agencies to move Chinook salmon from the recently improved spawning channel below Trail Bridge Dam up into Trail Bridge Reservoir. This interim effort creates an opportunity for spawning above the dam prior to construction of the permanent trap and haul facility. These types of interim efforts became increasingly important as the overall fish passage work plan experienced further schedule delays related to the May 2021 discovery of sinkholes in Trail Bridge Reservoir. Field investigations to determine root causes and critical details on the sinkhole formation mechanisms continued including the start of geotechnical drilling in September 2022. Findings from these investigations will determine if the planned fish passage improvements can safely proceed or if they will need to wait until sinkhole remediation work is complete.

Refurbishment of the first turbine-generator unit at the Carmen Power Plant continued in 2022, though contractor delays pushed back the projected return-to-service date to summer 2023. The second Carmen unit will continue to operate until the first unit comes back online. The second Carmen unit overhaul is now expected to start in late 2023 and complete by the end of 2024. Work at the Trail Bridge Power Plant proceeded on schedule in 2022. The power plant went offline for reliability improvements in July and was able to start-up for commissioning in December 2022.

Following a relatively wet and cold start of the year, current 2023 river flow forecasts are trending around average for this spring/summer on the McKenzie below Trail Bridge and at Vida. Recent changes to the Army Corps' reservoir operations will continue and are anticipated to result in slightly lower-than-normal summertime flows in the lower McKenzie, affecting expected generation at the Walterville Project. Staff will monitor flow forecasts through mid-April in order to determine whether low flow mode operations will be required. An update to the Board will be included in the May Board meeting materials.

Other EWEB-owned generation facilities (Stone Creek Hydroelectric and Harvest Wind) continue to operate normally and are expected to do so throughout 2023. Both Stone Creek and Harvest Wind are scheduled to have typical maintenance outages this year. Following high priority repairs to the Stone Creek transmission line in 2020 due to the Riverside Fire, 31 outstanding fire damaged poles were replaced in 2022. All transmission system restoration work associated with the September 2020 fire is now complete. A new debris boom was installed at the Stone Creek diversion dam in late summer 2022 and has been performing well during the current wet weather season. No significant capital improvements are taking place in 2023.

Recommendation and Requested Board Action
This item is information only and no Board action is requested.

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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: **<u>In Compliance</u>**

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: **<u>In Compliance</u>**
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: **<u>In Compliance</u>**
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: **<u>In Compliance</u>**
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: <u>In Compliance</u>
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: **<u>In Compliance</u>**
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 Renewble 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.

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

FROM: Rod Price, Assistant General Manager; Kelly Hoell, Climate Policy Analyst/Advisor

DATE: March 29, 2023 (April 4, 2023, Board Meeting)

SUBJECT: Diversity Equity and Inclusion (DEI) Board Policy - April Work Session Overview

OBJECTIVE: Information

Issue

This correspondence provides background for the Diversity, Equity, and Inclusion (DEI) Board-level policy development for 2023. Based on staff experience and Commissioner feedback from the one-on-one interviews conducted in March, staff have drafted a working plan for the April 18th Board work session to create Board-level policy related to DEI.

Background

In support of 2023 Organizational Goal 2, Commissioners and staff wish to develop a guiding DEI Board-level Policy. EWEB's 2023 Goal 2 states: "***Workforce and Culture:*** *Build and inspire a workforce and a workplace culture to fulfill ongoing business obligations and strategic initiatives in alignment with our organizational values by…. working with the Board of Commissioners to develop and deploy policies that will weave* ***principles of DEI*** *(diversity, equity, and inclusion) and resiliency into our work."*

In April, the Board will hold a work session to discuss information related to the development of a Board-level DEI policy. Several other work sessions (June, August, October) have been earmarked for additional time to complete the policy work as needed.

In several discussions on DEI policy since the February 2022 Board Work Session, Commissioners have expressed a desire to have an EWEB DEI policy that addresses both the EWEB employee work environment and how our work serves our customers and community. To further refine the Commissioner direction related to DEI policy development, we held one-on-one interviews with all the Commissioners in March 2023. This correspondence summarizes the themes heard from the Commissioners and ties these themes to staff's policy research to outline a plan for the April work session in support of the goal to complete a Board-level DEI policy.

Discussion

Commissioner Interview Themes

To better understand the Board's goals and desires on this topic, each Commissioner was interviewed for approximately one hour. A series of questions was used to stimulate conversation, leaving time for open dialogue. The responses to the questions and open dialogue varied, but there were several themes that all Commissioners agreed on, and some agreed to by a majority. These themes, organized by category including policy development process, policy content, and policy governance, are summarized here to help staff and Commissioners build on areas of shared interests.

Policy Development Process

Regarding the development of DEI policy, all Commissioners (except where noted) expressed interest in the following:

a. Staff-Commissioner Collaboration – Commissioners and staff should work together on DEI policy development.
b. Draft Language – Commissioners desire staff develop draft policy language to inspire discussion, review, and refinement.
c. Commissioners respect the authority of the Board at-large and will support the majority outcome.
d. Meeting Time – Commissioners agreed to spend some Board meeting time on DEI policy, with a majority comfortable with 2-4 meetings (some indicated more time).
e. Meeting Structure – Some Commissioners indicated interest in exploring Work Session formats other than "Robert's Rules", potentially facilitated by either staff or an external third party to allow all Commissioners to participate.
f. Best Practices –Commissioners seek to build on existing best practices and work done by other agencies so that EWEB won't be starting its process from scratch.
g. Consulting Support – Some Commissioners would like to utilize outside consulting support to develop a Board-level DEI Policy. Some Commissioners would support staff working with consulting services and bringing recommendations to the Board. Some Commissioners indicated a desire to better understand how leading consulting firms could work with organizations such as EWEB before making a commitment.

Policy Content

Although not all inclusive of the total policy content, Commissioners are generally aligned (except as noted) with the following content specifically mentioned during the interviews to be including in DEI policy:

a. Internal/External – The scope of the policy should cover both internal (employee and workplace culture) and external (community and access to EWEB services) conditions and opportunities.
b. Beyond Compliance – The policy should apply to conditions inclusive of and going beyond "protected classes" as defined by state and federal law, including socio-economic, differing perspectives, backgrounds, learning styles, experiences, etc.
c. Income Inequality – Commissioners noted that income inequality is a challenge within EWEB's service area. Understanding and addressing the impacts that come from income inequality on EWEB customers and community members should be within the scope of the policy.
d. Decision-Making – Some Commissioners desire that the policy incorporate some level of DEI consideration into organizational decision making.

Policy Governance

All Commissioners, except as noted, articulated the following thoughts related to their role in DEI policy governance. In this section, the Commissioner thoughts are indicated in each bullet, followed by existing Board policies consistent with their stated interests:

a. Routine Review & Continuous Improvement – Commissioners expressed desire for the policy to be a "living document" that could evolve and improve over time. This is consistent with the required periodic reviews stated in existing policy.
b. Accountability – Commissioners viewed their role in DEI governance as relating to policy development, providing strategic direction, and directing the General Manager to ensure accountability and transparency. According to BL1, the General Manager is responsible for implementing policies and direction established by the Board, including a new DEI policy.
c. Results – Commissioners described that the Board's role should include identification and definition of goals, targets, or benchmarks as part of establishing a policy and in addition to the Board's on-going roles of approval of Strategic Plans, Long-Term Financial Plans, Capital Improvement Plans, annual

budgets and goals. Oversight of specific initiatives and outcomes are included in BL5, as the Board has responsibility for establishing its priorities for the coming year and providing that direction to the General Manager.

In addition to governance that applies to all Board policies, some Commissioners articulated the following desires specific for DEI policy, including the following:

a. Transparency and Progress: Reporting intervals and/or transparency requirements are generally covered within each policy.
b. Resourcing: The Board should ensure that the organization has adequate resources to support DEI initiatives, including funding, staffing, and training. Policy will generally describe the desired outcomes, using existing policies and processes, such as annual budgets and goals to ensure resources.

<u>April Work Session</u>

The Board will be asked at the April work session to discuss perspectives and provide input, guidance, and direction on next steps in development of a diversity, equity, and inclusion policy at EWEB. Because each of the Commissioners has a different basic understanding of DEI and related policy and programs, staff recommends the Board build a common understanding of what a DEI policy is and why it is important to our mission.

Therefore, based on Commissioner interviews, staff proposes the following two goals for the April DEI Policy work session:

1. Build a common understanding of the primary goals of a DEI policy and how EWEB and our community would benefit from adopting such a policy.
2. Lay out and discuss a roadmap for 2023 of the steps required to develop a DEI policy and ensure shared understanding and commitment to how the milestones will be met.

In support of Board discussion to meet these two goals, staff will work offline with a local DEI consultant to develop and present:

- Common paths taken by other public agencies in this work.
- A list of consultants experienced in this type of work and ideas of what their scope of work would include to either support only the staff or to provide direct support for the Board.
- Reasons why a DEI policy is important to EWEB's core mission.
- Examples of policy content.
- Draft guidelines around the role of the Board in this policy.
- A draft policy goal or commitment statement.
- A draft schedule to meet the identified initial goal(s).

The information related to these items will be summarized in the April work session backgrounder.

Recommendation/Requested Board Action

Commissioner concurrence or input regarding the proposed goals and information as outlined in this correspondence is requested.

MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO:	Commissioners Carlson, Barofsky, McRae, Schlossberg, and Brown
FROM:	Jason Heuser, Public Policy and Government Affairs Director
DATE:	March 24th, 2023
SUBJECT:	State Legislative Session Update
OBJECTIVE:	Information

Issue
The 2023 State Legislative Session convened January 23, 2023. This memo is to apprise the Board of key issues of interest to EWEB, and the current status of these issues in the legislative process.

Background
Prior to the start of each legislative session, the Board adopts general policy directives for advocacy at the Capitol, which guide the work of EWEB's lobbying activities. When political considerations test the applicability of those directives, the General Manager makes a determination as to whether a fundamental shift in direction is required. The Board may be asked to reaffirm its policy or direct staff to make necessary adjustments.

Discussion
The following is a summary of state legislative activity thus far of interest to EWEB:

<u>Willamette Water Treatment Plant Funding Request– SUPPORT</u>

EWEB staff met with all Eugene legislators in January to request their support for state matching funds for EWEB's future Willamette Water Treatment Plan. The EWEB Commissioners travelled to Salem March 15h to meet with Eugene legislators to advocate directly for the project. The Joint Ways and Means Committee is still preparing program budgets for state agencies, however, the Capital Construction Subcommittee of Ways and Means will relatively soon begin hearings on individual project requests. EWEB is in the process now of submitting project information forms to the Legislative Fiscal Office. EWEB staff will sign up to testify on the Willamette Treatment Plant request at all appropriate committee and subcommittee hearings – opportunities should begin in April.

<u>HB 3459 – Utility Shutoff Moratorium – OPPOSE UNLESS AMENDED</u>

This legislation would mandate a moratorium on utility shutoffs. EWEB has extensive experience and data showing that government-mandated shutoffs do not work well. Shutoffs are a necessary last resort not only to compel customers to pay bills but also to incent customer-utility interaction to facilitate payment plan arrangements or steps to connect costumers to bill assistance resources. Moratoriums have many unintended consequences – there are better approaches to reducing shutoffs -- which EWEB has utilized.

EWEB filed written testimony and staff were signed up to testify at the bill's scheduled March 20th public hearing. That hearing was postponed. The bill has now been scheduled for a March 27th hearing and an amendment has been posted that deletes the entire bill as written and substitutes authorization language for $5 million to be collected from the customers of Portland General Electric and Pacific Power for additional bill assistance for customers of those two utilities.

2021 Wildfire Recovery Unspent Funding Carry-forward – SUPPORT

The 2021 Legislature appropriated funds for 2020 Wildfire Recovery, including $4 million allocated to EWEB with a passthrough via the Oregon Watershed Enhancement Board. That balance has not been spent to date. It is currently believed that the Co-Chairs of the Ways and Means Committee plan to include a carryforward for all 2020 Wildfire Recovery funding in OWEB's proposed budget for the 2023-2025 biennium.

EWEB is leading coordination amongst other recipients of OWEB pass through wildfire recovery funding to produce a joint letter of support with logos from several local governments and conservation organizations, and to jointly testify in support of the carry-forward and OWEB's budget the week of April 10th.

HB 3378 – Microgrid Net Metering Tariff Mandate – OPPOSE

A proposed amendment that would have completely replaced the language of HB 3378 (the base bill authorized a microgrid study) would have directed EWEB to develop a microgrid tariff with expansion of net metering limits. The amendment would also include an underfunded mandate on counties to develop energy resiliency plans. EWEB can and may in the future develop tariffs or policies for microgrids, no additionally authority is needed from the state and EWEB's local governance and decision-making is best situated to determine if, how and when that is necessary. EWEB staff recommend this bill remove microgrid tariff mandates for utilities and amend the county energy resiliency planning requirement to instead be a voluntary grant program for counties.

The bill is scheduled for a public hearing March 29th.

SB 124/SB 125 – Renewable Hydrogen Grant Programs – SUPPORT

These two bills would support resiliency and decarbonization through the creation of renewable hydrogen grant programs to support hydrogen fueling stations as well as hydrogen-based emergency generators to replace emergency generators using fossil fuels (i.e., diesel).

On March 20th both bills were passed out of the Senate Energy and Environment Committee with a subsequent referral to the Joint Ways and Means Committee.

HB 2571 – Electric Bike Rebate – SUPPORT

This bill would establish a state electric bike rebate to support Oregonians using electric bikes. The State has existing electric vehicle rebate programs, this bill would create parity and fairness for those who use electric bikes as their mode of transportation.

HB 2571 had a public hearing on February 8th and has been scheduled for a March 29th work session, the bill has a subsequent referral to the Joint Ways and Means Committee.

SB 530 – Establishment of Natural and Working Lands Fund – SUPPORT

SB 530 will fund and direct state agencies to provide incentives and technical support to forest owners, farmers, ranchers, etc., to implement natural climate solutions on natural and working lands. This new fund could potentially support efforts like EWEB's Carbon Forestry Initiative and Watershed Protection measures that have carbon sequestration co-benefits.

SB 530 had a public hearing on February 15th and has been scheduled for a work session on March 27th.

<u>HB 3166 State Whole-Home Energy Savings and High Efficiency Electric Home Rebate Program – MONITOR</u>

This bill would direct the Oregon Department of Energy (ODOE), in consultation with the Housing and Community Services Department, to establish a whole-home energy savings program and high-efficiency electric home rebate program and a create single resource that provides information and technical assistance to interested persons on available energy efficiency incentives and programs.

The bill is intended to be a receptacle and disbursement mechanism for expected funds that will flow to the state through the federal Inflation Reduction Act (IRA) to assist ratepayers, deploy energy efficiency and reduce bills.

This program could be a successful mechanism to deploy IRA funds in Oregon but could require further coordination with existing energy efficiency programs run by the Energy Trust of Oregon, individual Consumer-Owned Utilities (COUs), and the Bonneville Power Administration. Proper coordination and alignment is needed to ensure resources are deployed strategically and that unintended consequences are avoided (i.e. overlapping incentives that pay for more than 100 percent the cost of a measure – this can be avoided with data sharing between the state and utility programs; state incentives should require performance standards equal to those of the Bonneville Power Administration (BPA) so that any energy savings in COU territories can be claimed towards regional energy efficiency targets set by the Northwest Power Planning and Conservation Council.

HB 3166 had a public hearing at the Senate Energy and Environment Committee on February 22nd and was approved out of committee March 20th, with a subsequent referral to the Joint Ways and Means Committee.

Recommendation
This memo is for informational purposes. No board action is requested.

Requested Board Action
This memo is for informational purposes. No board action is requested.