



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

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TO: Commissioners McRae, Barofsky, Schlossberg, Brown, and Carlson
FROM: Deborah Hart, Assistant General Manager/CFO; Aaron Balmer, Acting Financial Services Manager; Timothy Poublon, Interim Power Risk Supervisor; Amanda Lane, Financial Analyst II
DATE: March 27, 2024
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 2023.

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 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 Policy and anti-speculation statute is maintained through megawatt limits on market positions to monitor and limit opportunities for speculation and exposure to price volatility. At times, changes to load and/or generation forecasts 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 2023, which included forward market positions from 2023 through 2024. No exceptions for financial position limit exceedances were requested in 2023.

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

- In April, the Q4 2023 forward position changed from a quarterly test to a monthly test, causing the December 2023 position to exceed the Mid-Term market position compliance threshold. The Fiscal Services Supervisor and Interim Power Planning Supervisor approved an exception to hold the position until additional load and revenue forecasts and trading activity could take place. At the April RMC meeting, Members voted to uphold and extend this exception, which was cured in early May following a peak purchase for the December period.
- In May, an update to EWEB load and revenue forecasts caused the November 2023 position to exceed the Mid-Term market position compliance threshold. 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, and the position was cured in early May following an off-peak purchase for the November period.
- In May, an increase in EWEB's Bonneville Power Administration (BPA) Slice allotment caused the May 2023 position to exceed the Short-Term market position compliance threshold. The Chief Financial Officer and Energy Resources Manager approved an exception to hold the position until the end of the following week to allow sufficient time for EWEB traders to solicit competitive bids in the market, after which the exceedance was cured within one week.
- In July, a preliminary update to EWEB's BPA entitlement for FY2024 caused three forward positions to exceed the Mid-Term market position compliance thresholds. These periods included October 2023, February 2024, and Q4 2024. The Financial Services Manager and Energy Resources Manager approved an exception to hold the positions until the August RMC meeting, at which time Members voted to uphold and extend this exception. Exceedances for October 2023 and Q1 2024 were cured in early September following trading activity. An extension for the February 2024 compliance position was granted by Members at the September RMC meeting and the February 2024 exceedance was cured in early October following trading activity.
- In August, updates to BPA generation forecasts for FY2024 caused four forward positions to exceed the Mid-Term market position compliance thresholds. These periods included November 2023, December 2023, January 2024, and Q2 2024. The Acting Financial Services Manager and Energy Resources Manager approved an exception to hold the positions and allow sufficient time for EWEB traders to solicit competitive bids in the market. Exceedances for November 2023, December 2023, and Q2 2024 were cured in early September following trading activity. Ahead of the September RMC meeting, Members voted to uphold and extend this exception for the remaining compliance period, which was cured mid-October following a peak purchase for the January 2024 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. Staff solicited feedback on the Procedures from internal stakeholders in Q3 2023 and incorporated recommended edits for clarification and evolving business practices into an updated Procedures document that was unanimously approved by RMC Members on November 29, 2023.

Notification of changes to compliance limits: In Compliance

No changes to compliance limits were recommended by staff or approved by the RMC during the 2023 calendar year.

Oversee control infrastructure and monitor compliance: In Compliance

The RMC meets monthly to monitor and review compliance limits. RMC Members are notified of the status of Short-Term compliance measures weekly to provide insight into both current compliance status and market trends that may influence future compliance periods.

In July, the Acting Financial Services Manager approved an exception to extend documentation schedules for counterparties whose periodic counterparty credit reviews were due in the second half of 2023 to accommodate staff's work on the reimplementation of EWEB's Energy Trading and Risk Management application. Progress on outstanding counterparty credit reviews has been reported to the RMC monthly. As of the end of Q1 2024, two counterparty credit reviews due in 2023 remain outstanding. Staff anticipate credit reviews to be current in Q2 2024.

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. RMC meetings were held via video conference each month in 2023 except July, where materials were disbursed in lieu of the meeting due to scheduling conflicts for several Members.

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 changes to the approval thresholds are being requested.

The RMC approved one contract that did not require Board approval:

- In June, Members approved a 6-month extension on an existing power sales and scheduling services agreement. The transaction required RMC approval as it impacted EWEB's power portfolio; however, it did not require Board approval as the extension did not exceed one year in duration and fixed-price components of the transaction did not exceed the \$3 million nominal value threshold outlined in SD8.

The RMC provided preliminary review for one contract in advance of Board action:

- In November, Members approved a power sales and scheduling services agreement for a five-year term. The agreement required subsequent Board approval as it was greater than one year in duration and the fixed-price components of the agreement exceeded 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.