



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD



TO: Commissioners Brown, Carlson, Barofsky, McRae and Schlossberg
FROM: Deborah Hart, Chief Financial Officer; Adam Rue, Fiscal Services Supervisor;
Timothy Poublon, Senior Financial Analyst
DATE: March 30, 2022
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 2021.

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 can at times 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 2021, which includes forward market positions from 2021 through 2025.

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 early 2021, staff met with internal stakeholders to review the Procedures and make recommended edits for clarification and to reflect evolving business practices. The RMC unanimously approved updated Procedures on August 27th, 2021.

Notification of changes to compliance limits: In Compliance

No changes to compliance limits were recommended by staff or approved by the RMC during the 2021 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 2021, RMC meetings were held monthly via video conference.

In March a counterparty's exposure approached their RMC approved credit limit due to high market prices from February. An exception to temporarily increase their credit limit by \$250,000 was requested to allow continued trading activity and was approved by the Fiscal Services Supervisor, Power Planning Supervisor, and Chief Financial Officer. The counterparty's original credit limit was restored 2 days later.

In December the Fiscal Services Supervisor approved exceptions to extend the documentation schedules for six counterparties between 1 and 92 days to better align with the release of financial statements and to balance the timing of reviews with staff workloads. 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 2021 and no changes to the approval thresholds are being requested.

In 2021, the RMC approved three contracts that did not require Board approval:

- In May the RMC 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 June the RMC approved an operating reserves contract for a two-year term. The agreement required RMC approval as the length of the contract exceeded one-year.

- In November the RMC approved the sale of a bundled energy and Renewable Energy Certificate (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.