

RESOLUTION NO. 11-13687

A RESOLUTION AUTHORIZING THE GENERAL MANAGER
TO ENTER INTO FORWARD TRANSACTIONS FOR THE
PURCHASE AND SALE OF ELECTRIC ENERGY AND
CAPACITY WITHIN DEFINED CRITERIA

FACTUAL BACKGROUND AND REASONS FOR ACTION

The District is authorized to purchase and sell electric energy and capacity pursuant to RCW 54.16.040 and other applicable laws. RCW 54.16.040 requires that a resolution authorizing such transactions must be introduced at a Commission meeting at least ten (10) days prior to the adoption of the resolution.

The Commission has previously adopted criteria for delegating authority to the General Manager or his designee to enter into forward energy and capacity transactions for a period of no more than five (5) years. District staff is recommending that the criteria be changed as reflected in this resolution for the reasons stated below. Changing the delegation of authority description will be more transparent and understandable. Reporting will continue on a quarterly basis. Staff further recommends that prior resolutions be rescinded and restated so that there is one master applicable resolution. The majority of the provisions of this resolution are restatements of the prior resolutions of the Board. Staff has previously discussed the proposed changes during public meetings.

Standard utility practices in the general course of business for energy transactions require prompt action by the District's staff in order to capture forward purchase and sales opportunities. Such business practices do not afford sufficient time for adoption of separate resolutions authorizing individual purchases and sales.

It is prudent and in the best interests of the District to continue to delegate authority to the General Manager or his designee the authorization to enter into energy and capacity sales and purchase transactions and associated agreements pursuant to established criteria and policies. It is also prudent and in the best interests of the District to modify the criteria from prior resolutions. This delegation provides a mechanism to comply with RCW 54.16.040 and continues to provide the opportunities necessary to complete transactions within the time constraints required by the energy market. Amendments in the criteria for the delegation are necessary due to the need for additional flexibility in the changing energy market and to further the District's prudent management and risk mitigation of the District's load and resources as well as to stabilize its revenues.

All energy and capacity transactions should be subject to the statutory requirement that adequate provision must first be made for the energy needs of the District, actual and prospective. Further, all transactions should be subject to review and compliance with tax and bond requirements applicable to the District due to bond financings.

The current maximum term of any energy transaction is five (5) years and the transaction can only be for periods of up to five (5) years into the future from the calendar month in which the transaction occurs. The District's financial policies contain minimum revenue targets for the current year and five (5) years in the future. Energy Resources is unable to meet the minimum revenue target in the last of the five (5) years because of the term limitations on wholesale energy transactions. District staff proposes changing the allowable maximum term for energy transactions to authorize District staff to enter into the transaction up to one (1) year in advance of the beginning of the five (5) year term. This change will align the long term hedging strategy with the District's adopted Financial Policies.

The District staff also proposes that the Commission adopt redefined criteria for forward transactions for the purchase and sale of energy and capacity that is reflective of the historical data regarding the District's actual load and resource balance and probabilistic modeling. Studies indicate that the District's load and resource balance changes based on many variables, and that, on an average basis, the District has surplus energy (net long position) in most months. In past resolutions, this modeling and limitations have been expressed in terms of standard deviations. The methodology for modeling, tracking and monitoring has changed.

District staff recommends that the delegated limits for net forward sales of energy and capacity be changed. For net sales and purchases of energy and capacity transacted within the current year, the net maximum amount to be sold should not exceed the amount of the annual surplus energy at the 50th percentile level as determined from the District's probabilistic simulation model informed with the most current water supply and load forecasts. During the current year, there will be transactions that could put the District in a net short position at a later date due to the changing nature of the water supply and load forecasts. If net short positions do result, the District's Middle Office should advise the Power Risk Management Committee with an explanation and potential action.

District staff recommends a different limit with respect to the net forward sales of energy and capacity for terms beyond the current year. The recommended limit is that District staff will not make any net forward sales and purchases that exceed the District's expected surplus using the District's probabilistic simulation model informed with average water and projected load. For transactions in future years (beyond the current year), District staff will not execute any transaction that will result in the District being in a net short position on an annual basis without prior approval of the Power Risk Management Committee.

Staff recommends that the delegated limits be clarified further to provide that staff is authorized to make purchases of energy and capacity as necessary to appropriately manage the District's energy and capacity portfolio.

Staff further recommends that the above criteria and the limitations should not apply to purchases or sales made on behalf of Alcoa or Alcoa Power Generating Inc. for the Alcoa Wenatchee Works pursuant to the power sales contract.

Further, this resolution does not apply to those agreements for the sale of energy otherwise approved by the Board (i.e., wholesale long-term contracts) or sale or purchase of energy to or for District retail customers pursuant to the District's Rate Schedules.

The Commission previously authorized the District's Power Risk Management Committee to adopt policies and procedures to limit risk exposure associated with power marketing, including, but not limited to, evaluation of counterparties' credit worthiness, credit limits, hedging strategies, trading and position limits and new product types. This authority and responsibility of the Power Risk Management Committee should be reaffirmed and restated.

The Commission has previously directed that the General Manager or his designee report to the Board on a regular basis (no less than quarterly) on power management transactions. This reporting practice should continue.

The criteria adopted in this resolution with the oversight of the Power Risk Management Committee and the required reporting provide safeguards regarding forward energy and capacity transactions consistent with good business practices.

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON, as follows:

Section 1. The Commission finds that it is prudent and in the best interest of the District and its customers to effectively participate in the energy market and to engage in forward energy and capacity transactions on a timely basis in order to prudently manage and mitigate the risks associated with the District's load and resources and to stabilize revenues.

Section 2. The Commission finds that the delays inherent in the process of approving separate resolutions to authorize individual energy and capacity purchase or sales transactions would significantly inhibit the District's ability to complete such transactions in a timely and cost effective manner and would consequently reduce the District's revenue and subject the District to unwarranted risk.

Section 3. Specifically, the ten (10) day deferral requirement of RCW 54.16.404 cannot strictly be met without a significant impact on the District's business, risks and revenues. The Commission finds that the adoption of this authorizing resolution with established criteria and limitations is in compliance with and fulfills the intent of the ten (10) day deferral requirement of RCW 54.16.404, while allowing the District to contract for forward energy and capacity sales and purchase transactions in accordance with sound and prudent utility practices. This finding is the same as that made by the Commission in prior resolutions.

Section 4. The Commission finds that it is in the best interests of the District for the Commission to delegate to the General Manager or his designee the authority to exercise the District's proprietary powers to enter into forward electric energy and capacity purchase and sale transactions and associated agreements under the authority of this resolution and subject to criteria and limits set forth herein.

Section 5. Based upon the foregoing findings, the General Manager or his designee is hereby authorized to enter into transactions for the forward sale or purchase of energy and capacity without further action or approval by the Commission provided that the following criteria and limitations are followed:

- a. Prior to entering into any forward energy and capacity sales transactions, adequate provision shall be made for the energy needs of the District, actual and prospective, as required by the statute.
- b. For terms within the current year, District staff is authorized to purchase and sell energy and capacity up to the annual 50th percentile level as determined using the District's probabilistic simulation model informed by the most current water supply and load forecasts. During the current year, there will be transactions that could put the District in a net short position at a later date due to the changing nature of the water supply and load forecasts. If net short positions do result, the District's Middle Office will advise the Power Risk Management Committee with an explanation and potential action.
- c. For terms beyond the current year District staff is authorized to purchase and sell forward sales of energy and capacity such that the District will not sell more than the expected surplus on a net basis annually using the District's probabilistic simulation model informed with average water and projected load. District staff is not authorized to sell energy and/or capacity on a net basis which will result in a net short position in future years (beyond the current year) unless the transaction(s) is pre-approved by the Power Risk Management Committee.
- d. Forward sales and purchases shall be managed by the General Manager or his designee to prudently manage and mitigate the risks associated with the District's load and resources and to stabilize the District's revenues.
- e. No purchase or sale of electric energy or capacity shall be for duration in excess of five (5) years. Transactions for the sale of energy or capacity may be initiated up to one (1) year in advance of the five (5) year term.
- f. These limitations and criteria on energy and capacity purchases and sales shall not apply to purchases or sales of energy made for or on behalf of Alcoa or Alcoa Power Generating Inc. for the Wenatchee Alcoa Works pursuant to the power sales contract.
- g. These limitations and criteria on energy and capacity sales shall not apply to contracts otherwise approved by the Board (i.e., long term wholesale power contracts) or sales and purchases made to or for the District's retail customers pursuant to the District's Rate Schedules.
- h. Prior to entering into any forward energy or capacity sales transactions, all tax and bond compliance issues shall be addressed.

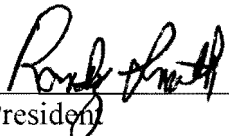
- i. The Power Risk Management Committee is authorized to adopt policies and procedures to limit risk exposure associated with power marketing, including, but not limited to, evaluation of counterparties' credit worthiness, credit limits, hedging strategies, trading and position limits and new product types.
- j. The General Manager or his designee shall provide on a regular basis (no less than quarterly) reports to the Board of Commissioners on power management transactions.

Section 6. The General Manager or his designee is authorized to execute on behalf of the District any necessary or appropriate agreements setting general terms and conditions for the purchase or sale of electric energy or capacity, provided that the same comply with the criteria and limitations set forth herein.

Section 7. This resolution has been adopted following a ten (10) day waiting period as provided in RCW 54.16.040.

Section 8. Resolution No. 10-13538 and any other resolution inconsistent with this resolution are hereby rescinded and superseded by this resolution.

DATED this 7th day of November, 2011.



President

ATTEST:

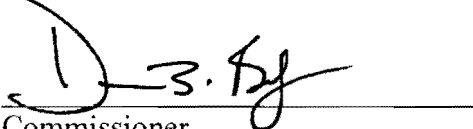
Vice President



Secretary



Commissioner



Commissioner

Seal