

RESOLUTION NO. 14-13857

A RESOLUTION AUTHORIZING THE GENERAL
MANAGER TO ENTER INTO LONG-TERM
FORWARD TRANSACTIONS FOR THE 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 provides that the contracts shall extend over such period of years and contain such terms and conditions as determined appropriate by the Commission. The selling of energy is a proprietary function of a public utility District. RCW 54.16.040 also requires that the Commission, prior to selling energy to other entities, shall first make adequate provision for the needs of the District, actual and prospective. RCW 54.16.040 further 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 may lawfully delegate the authority to enter into transactions to the General Manager (or designee). The Commission desires to delegate the authority to sell energy, capacity and associated environmental attributes within defined criteria and with appropriate oversight. Doing so serves the best interests of the District and its customer-owners.

Selling of energy, capacity and related environmental attributes subject to criteria serves the public interest in several ways. Transactions of varying terms are necessary for the District to prudently manage its resources while mitigating various risks, including price, stream flow and operational, and to stabilize the District's revenues and rates.

The Commission has previously adopted criteria for delegating authority to the General Manager (or designee) to enter into forward energy and capacity transactions (purchases and sales) for a period of not more than five (5) years in length in Resolution No. 11-13687 adopted November 7, 2011. The criteria for such sales and purchases are based upon application of the District's modeling informed by average water based upon many years of data and load forecasts.

Staff recommends that the General Manager (or designee) be authorized to sell an amount of surplus energy, capacity and environmental attributes by contracts with longer terms. The total amount of energy that may be sold pursuant to this resolution shall not exceed ten percent (10%) of the output of Rocky Reach and Rock Island hydroelectric projects. In order to allow for the flexibility required to address risks and maintain stable revenues, it is also necessary to authorize such contracts (a) with terms not to exceed fifteen (15) years and (b) with delivery start dates that occur

within six (6) years of the date a contract is executed. For example, staff could enter into a 15-year slice contract that is executed in 2015 but deliveries would not start until 2018, thus providing for a contract that expires in 2033. The longer-term contract(s) pricing should take into consideration the District's cost of production, the market and other factors as determined appropriate by the General Manager (or designee) and be executed in a manner determined appropriate by the General Manager (or designee) and determined to be in the best interests of the District.

In order to facilitate the marketing of slice-of-system contracts within this framework, staff also recommends that the Board authorize the General Manager (or designee) the ability to enter into block sales for a portion of the total energy that may be sold pursuant to this resolution. The authorized block transactions shall not exceed the quantity limit of 25 average annual megawatts. These block transactions will be for public power counterparties only.

The authority granted in this resolution shall not be interpreted to authorize the General Manager (or designee) to sell energy beyond the quantity limits specified in Resolution No. 11-13687. For terms authorized under this resolution, District staff will utilize a model informed with average water and projected load to estimate surplus generation.

Thus, staff recommends that sales of energy and capacity, including environmental attributes, surplus to the District's load and contractual commitments should include (a) transactions of up to 5 years in length as authorized in Resolution No. 11-13687 and (b) longer term transactions as authorized in this resolution. The addition of these longer term transactions shall not increase the District's stream flow or outage risks as compared to the District's existing Power Hedging Strategy.

The Commission has previously directed that the General Manager (or designee) shall report to the Commission on a regular basis (no less than quarterly) regarding power management transactions. Those reports provided should include all transactions entered into pursuant to this resolution. A summary of the effectiveness of the transactions authorized under this resolution shall be reported to the Commission on an annual basis.

The criteria adopted in this resolution with the required reporting to the Board and the General Manager's internal processes for review will provide the necessary safeguards regarding forward energy and capacity transactions and are consistent with good business practices. The stated delegated authority meets statutory requirements and is in the best interests of the District and its customer-owners. The criteria established for the delegated authority addresses risks and provides a tool for the District to maintain stable revenues and rates.

Even though the contracts for the transactions pursuant to this resolution and Resolution No. 11-13687 may exceed the terms of a majority of the currently-elected

Commissioners, contracts with various and staggered terms are needed in order to serve the public interests.

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 interests of the District and its customer-owners to effectively participate in the energy market and to engage in forward energy and capacity transactions, including environmental attributes, on a timely basis in order to prudently manage and mitigate the risks associated with the District's load and resources and to maintain stable revenues. It is prudent and necessary to have contracts of various lengths and terms, including contracts with terms as authorized in this resolution and Resolution No. 11-13687. It is in the public interest and serves prudent business needs to execute energy transactions which may exceed the terms of the elected Commissioners.

Section 2. The Commission finds that the delays inherent in the process of approving separate resolutions to authorize individual energy and capacity sales transactions would significantly inhibit the District's ability to complete such transactions in a timely manner with the certainty required in the energy markets. The delays could reduce the District's revenue and subject the District to unwarranted risk. Specifically, the ten (10) day deferral requirement of RCW 54.16.040 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 fulfills the intent of the ten (10) day deferral requirement of RCW 54.16.040, while allowing the District to contract for forward energy and capacity sales in accordance with sound and prudent utility practices. This finding is the same as that made by the Commission in prior resolutions.

Section 3. The Commission finds that it is in the best interests of the District for the Commission to delegate to the General Manager (or designee) the authority to exercise the District's proprietary powers to enter into forward contracts for the sale of electric energy and capacity and associated environmental attributes under the authority of this resolution and subject to criteria and limits set forth herein.

Section 4. Based upon the foregoing findings, the General Manager (or designee) is hereby authorized to enter into one or more transactions for the forward sale of energy and capacity and associated environmental attributes 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 sale transactions, adequate provision shall be made for the energy needs of the District, actual and prospective, as required by the statute.
- b. The amount of energy sold pursuant to this resolution shall not exceed ten percent (10%) of the output of the Rocky Reach and Rock Island hydroelectric projects.
- c. No sale of electric energy, capacity and environmental attributes pursuant to this resolution shall be for terms longer than fifteen (15) years in duration.
- d. The executed contracts shall provide for deliveries to begin within six (6) years of the execution of the contract(s).
- e. All environmental attributes associated with the energy and output may be included in the contracts.
- f. The longer-term contract(s) pricing shall take into consideration the District's cost of production, the market and other factors as determined appropriate by the General Manager (or designee) and be executed in a manner determined appropriate by the General Manager (or designee) and determined to be in the best interests of the District.
- g. The authorized block transactions under this resolution shall not exceed the quantity limit of 25 average annual megawatts. These block transactions will be for public power counterparties only.
- h. Sales of energy, capacity and associated environmental attributes shall not exceed the quantity limits specified in Resolution No. 11-13687. For terms authorized under this resolution, District staff will utilize a model informed with average water and projected load. The addition of these longer term transactions shall not increase the District's stream flow or outage risks as compared to the District's existing Power Hedging Strategy.
- 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. Prior to entering into any transactions pursuant to this resolution, all internal processes to address issues related to credit, contract provisions, tax and bond compliance and any other issues the General Manager (or designee) deems appropriate shall be followed to the satisfaction of the General Manager (or designee).

- k. Upon execution of the contract or contracts under the authority of this resolution, the General Manager (or designee) will report to the Board of Commissioners at the next available public meeting the terms and conditions of the contract(s).

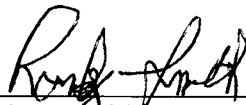
- l. The General Manager (or designee) shall include the contracts entered into pursuant to the authority delegated by this resolution in the regular reports to the Board of Commissioners regarding power management transactions. A summary of the effectiveness of the transactions authorized under this resolution shall be reported to the Commission on an annual basis.

Section 6. The General Manager (or designee) is authorized to execute on behalf of the District any necessary or appropriate agreements, including credit support documents, containing terms and conditions for the sale of electric energy, capacity and associated environmental attributes.


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

DATED this 18th day of February 2014.

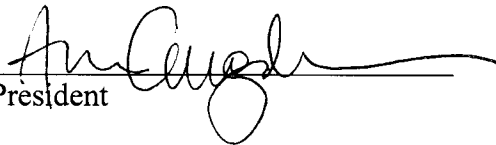
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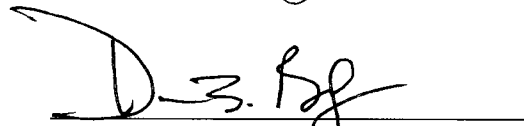
Vice President



Commissioner



President



Secretary



Commissioner

Seal