



# Draft Resolution- Review of Power Supply and Energy Management Policy

Ingmar Sterzing, VP Power Supply and Energy Services

# Draft Policy Strategy

- Policy should be established to reflect current state and improve planning, oversight, and control
- Proposed policy introduces:
  - Established objectives
  - Annual board approved Power Supply Plan
  - PCA adjustment rules
  - Roles and Responsibilities
  - Reporting requirements
  - Limits of authority
  - Delegation of authority

DRAFT 8/30/17

**PEC BOARD POLICY  
POWER SUPPLY AND ENERGY MANAGEMENT  
FEDERNALES ELECTRIC COOPERATIVE, INC.**

**1. Purpose:**

The Pedernales Electric Cooperative (PEC), in its mission, strives to provide low-cost, reliable, safe energy solutions to meet the electric demand and energy needs of its members. The purpose of this Power Supply and Energy Management Policy ("Policy") is to establish and govern a sustained commitment to establish and maintain a formal Power Supply and Energy Management Program ("Program") to cost-effectively manage PEC's power supply and energy requirements to meet the objectives established in this policy and the Board approved Power Supply Plan ("Plan").

The purchase and sale of electricity is required to satisfy PEC's obligations to its members and to manage PEC's Electric Energy Requirements. These activities require significant cost expenditure and expose PEC to cost fluctuations inherent with power suppliers or directly with fuel and power markets. This Policy and the Program are established for the purpose of creating a power supply and energy Risk Tolerance and a sustained commitment to manage the cost and risk of energy procurement in planning and in day-to-day operations.

**2. Scope:**

2.1. This Policy governs the activities used to manage PEC's Electric Energy Requirements.

2.2. This Policy governs the planning, acquisition, management, and oversight of PEC's Program using PEC resources, assets, supply contracts, and market products to provide a cost-effective, risk-managed energy portfolio for PEC's members.

2.3. This Policy governs the actions required by PEC as a Load Serving Entity (LSE) in Electric Reliability Council of Texas (ERCOT) including but not limited to establishing and maintaining registered Qualified Scheduling Entity (QSE) services and assuring compliance with ERCOT protocols and operating guides.

2.4. This Policy governs the management of PEC power supply resources and existing and future power supply contracts including the Lower Colorado River Authority (LCRA) Wholesale Power Agreement and non-LCRA supply options.

2.5. This Policy governs the activities and resources associated with managing the Power Cost Recovery as established in the PEC Tariff and Business Rules document, which includes the Base Power Cost and Power Cost Adjustment.

1



# Draft Policy Purpose

The purpose of the Power Supply and Energy Management Policy (“Policy”) is to establish and govern a sustained commitment to create and maintain a formal Power Supply and Energy Management Program (“Program”) to cost-effectively manage PEC’s power supply and energy requirements to meet the objectives established in the policy and the Board approved Power Supply Plan (“Plan”).

This Policy and the Program are established for the purpose of creating a power supply and energy Risk Tolerance and a sustained commitment to manage the cost and risk of energy procurement in planning and in day-to-day operations.

- This Policy governs the activities used to **manage PEC's Electric Energy Requirements**.
- This Policy governs the planning, acquisition, management, and oversight of PEC's Program using PEC resources, assets, supply contracts, and market products **to provide a cost-effective, risk-managed energy portfolio for PEC's members**.
- This Policy governs the actions required by **PEC as a Load Serving Entity (LSE) in Electric Reliability Council of Texas (ERCOT)** including but not limited to establishing and maintaining registered Qualified Scheduling Entity (QSE) services and assuring compliance with ERCOT protocols and operating guides.
- This Policy governs **the management of PEC power supply resources** and existing and future power supply contracts including the Lower Colorado River Authority (LCRA) Wholesale Power Agreement and non-LCRA supply options.
- This Policy governs the activities and resources associated with **managing the Power Cost Recovery** as established in the PEC Tariff and Business Rules document, which includes the Base Power Cost and Power Cost Adjustment.

# Draft Policy Scope

# Draft Policy Objectives

- **Low Cost** – PEC endeavors to provide low cost power supply in order to provide a competitive retail rate for its members.
- **Balance Risk** – PEC endeavors to balance the risk associated with power supply along with the Low Cost objective, while avoiding Speculation, to provide a stable energy rate to its members.
- **Portfolio Diversity** – PEC values the diversity afforded by having electrical energy from multiple suppliers, multiple fuel types, multiple sources, and with various contract lengths.
- **Portfolio Flexibility** – PEC values the flexibility of being able to access the lowest cost available supply, the ability to quickly adapt its power supply strategy based on rapidly changing market conditions, and is guided by a principle of maintaining control over non-LCRA supply options while satisfying Low Cost and low risk objectives.

# Annual Board Approved Power Supply Plan

- Minimum five year time horizon
- A range of forecasts of anticipated Electric Energy Requirements, market inputs such as fuel and power pricing, and other relevant planning and economic factors
- Evaluation of alternative wholesale supply and demand-side resource options and strategies
- Integration of the supply and demand options into a plan describing the mix of resources designated to meet current and projected energy requirements
- Forecast of the Cost of Power, TCOS, potential impact to the Base Power Cost, the PCA, and the Cost of Power over/under account
- Recommended least-cost, risk adjusted power supply plan considering the trade-offs of alternative options, timing, paradigms, and risks, for at least five years with the cost of power supply and associated risks of implementation
- Risk Tolerance which establishes the limits of authority authorized by the Plan and the control levels requiring the Program to report to the Board.

# Roles and Responsibilities

- PEC Board
  - Development and oversight of this Policy and implementation,
  - Approve initially and annually the Power Supply Plan, and
  - Review the effectiveness of the Program and direct any changes needed
- CEO
  - Ensure all Program activities of PEC are in accordance with this Policy,
  - Approve documentation for the administration of the Program,
  - Oversee responsibilities and activities assigned to the Program,
  - Recommend controls and periodically review the effectiveness of all aspects of the Program in addition to the Board,
  - Approve contracts and other transactions necessary to implement the Program, and
  - Retain outside advisors and organizations, if needed to assist PEC in entering into Power Supply and Energy Management Transaction

# Roles and Responsibilities Continued

- CFO
  - Review the performance and effectiveness of the Program and the execution against the Plan and approved limits of authority,
  - Report directly to the PEC Board the status of the Program to meet the limits included within the Plan
- Vice President of Power Supply and Energy Services
  - Responsible for day to day operations and management of the Power Supply and Energy Management Program,
  - Continual evaluation of the ongoing ability of the Program to meet the objectives established in this Policy and to effectively deliver the Plan,
  - Oversee and direct the development of the Power Supply Plan,
  - Continually monitor and control the performance of the Program against this Policy and the Plan, and
  - Oversee and direct the reporting of results to the Board, the CEO, and CFO
- Director, Power and Energy Risk Management
  - Responsible for the execution of the Power Supply and Energy Management Program, and
  - Development of the Power Supply Plan

- VP Power Supply and Energy Services and the Director, Power and Energy Risk Management will report to the CEO
- CFO will independently report on the Cost of Power and any associated matters relating to this Policy to the Board through the regular financial board reporting processes
- The Program will endeavor to continually identify exposures to movements in energy prices and related market prices; quantify the impacts of these exposures on the objectives established in this Policy and the Power Supply Plan and mitigate these exposures in line with the Risk Tolerance and the authorities and controls established in this Policy
- The Program will endeavor to continually quantify the forecasted impacts of changes in market conditions against the objectives established in this Policy and the approved Plan and Risk Tolerance over a five (5) year horizon

# Monitor and Control

- The Program will maintain a 3 year rolling forecast of the Cost of Power and associated impacts to the Cost of Power Over/Under Account, the Base Power Cost, and the Power Cost Adjustment (PCA)
- If an event or condition arises that may result in an impact to the Cost of Power, Cost of Power Over/Under Account, and/or PCA the CEO together with the Vice President of Power Supply and Energy Services shall report to the Board with a report of the issue or risk along with the recommended corrective action

## Monitor and Control (Continued)

- As established in the Power Cost Recovery section of the Tariff and Business Rules, the PCA factor shall be maintained or adjusted monthly to balance the actual Cost of Power and the revenue collected from the Base Power Rate and PCA
- Given the inherent fluctuations that exist between costs and revenues due to weather and market factors and the objective to provide stable rates, the Cost of Power Over/Under account shall be maintained within a tolerance of +/- [\$5] Million as measured over a rolling [12] month basis.
- If it is determined that the Cost of Power Over/Under account cumulative balance will be outside of this tolerance at the last month of the forecast then the PCA shall be adjusted by an amount necessary to return the Cost of Power Over/Under cumulative account balance to a \$0 balance by the end of the [12] months following the effective date of the implementation of the PCA adjustment.
- Subsequent, additional PCA adjustments may be needed to accommodate additional fluctuations and changes that may occur.

## Monitor and Control: Power Cost Adjustment (PCA)

Once a month the Director, Power and Energy Risk Management, will present to the CEO, CFO, General Counsel, and VP Power Supply and Energy Services the Power Supply and Energy Management Monthly Report (“Monthly Report”).

- Program performance metrics
- Forecasts of the Cost of Power and Cost of Power Over/Under Account along with the associated impacts to Power Cost Recovery rates.
- Required or recommended changes to the PCA rate,
- Updates on current and open positions
- Market and pricing updates,
- Status updates on Plan activities
- Updates on potential risks and uncertainties associated with the Plan, and
- Report on the ability of the Program to execute the Plan within the authorization established in this Policy, the Plan, and the established Risk Tolerance.

# Monthly Reporting

# Delegation of Authority and Approved Transaction Types

- Allows the personnel within the Power Supply and Energy Management Program to execute the Board approved Power Supply Plan within the Board approved Risk Tolerance and Policy controls
- Personnel within the Power Supply and Energy Management Program will have the authority to execute Power Supply and Energy Management Transactions within the approved limits

Transaction Authorization Limits and Products	Board of Directors	PEC CEO	VP, Power Supply & Energy Services	Director, Power and Energy Risk Management
Term	Any length	up to 3 years	up to 2 years	up to 1 year
EEI Master Agreement(s)	✓			
Buy / Sell Physical Electric Energy	✓	✓	✓	✓
Buy / Sell Financial Electric Energy	✓	✓	✓	✓
Ancillary Services	✓	✓	✓	✓
Congestion Revenue Rights	✓	✓	✓	✓
Renewable Energy Credits	✓	✓	✓	✓
Physical Power Options	✓			
Financial Power Options	✓			
Emissions Allowances	✓			
Carbon Offsets	✓			
Natural Gas	✓			
Natural Gas Transportation	✓			
Gas Storage	✓			
Volume	Quantity needed for any position of any size	Quantity needed to close a position as established and consistent with the board approved Power Supply Plan		
Pricing	Pricing needed for any position of any size	Pricing authorized within the limits established in this Policy and the board approved Power Supply Plan		

# Power Supply and Energy Management Policy Timeline

## September

- Power Supply and Energy Management Board Workshop
- Presentation of Supply and Energy Management Options
- Draft Power Supply and Energy Management Policy

## October

- Finalize Power Supply Strategy and Implementation Plan
- Finalize Power Supply and Energy Management Policy

## November

- Power Supply Plan Board Review and Approval
- Implement Power Supply Plan



pec.coop