



CITY OF GLENDALE, CALIFORNIA REPORT TO THE CITY COUNCIL

AGENDA ITEM

Report: Glendale Water & Power (GWP) Energy Risk Management Policy, Trading Authority Policy and Annual Authority for the Purchase or Sale of Energy Services

1. Motion approving amendments to the GWP Energy Risk Management Policy
2. Motion approving amendments to the GWP Trading Authority Policy
3. Resolution approving renewal of annual authorization for the City Manager or GWP General Manager, or designees, to enter into contracts for the purchase or sale of energy commodities and services not to exceed five years in duration, and dispensing with competitive bidding.

COUNCIL ACTION

Item Type: Action Item

Approved for June 29, 2021 **calendar**

ADMINISTRATIVE ACTION

Submitted by:

Mark Young, General Manager, Glendale Water and Power

Prepared by:

Howard Wong, Energy Risk Manager - Glendale Water and Power

Reviewed by:

Michele Flynn, Director of Finance

Michael J. Garcia, City Attorney

Approved by:

Roubik R. Golanian, P.E., City Manager

RECOMMENDATION

It is recommended that the City Council adopt amendments to the GWP Energy Risk Management Policy and the GWP Trading Authority Policy, and adopt a resolution dispensing with competitive bidding, and renewing the annual authorization for the City Manager or GWP General Manager, or their designee, to enter into contracts for the purchase, sale, storage, scheduling, and transmission of energy commodities and services (natural gas or electric power), including renewable and environmental commodities and participation in related markets and auctions, and including the use of financial instruments to stabilize prices, for terms not to exceed five years in duration.

BACKGROUND/ANALYSIS

Energy Risk Management Policy

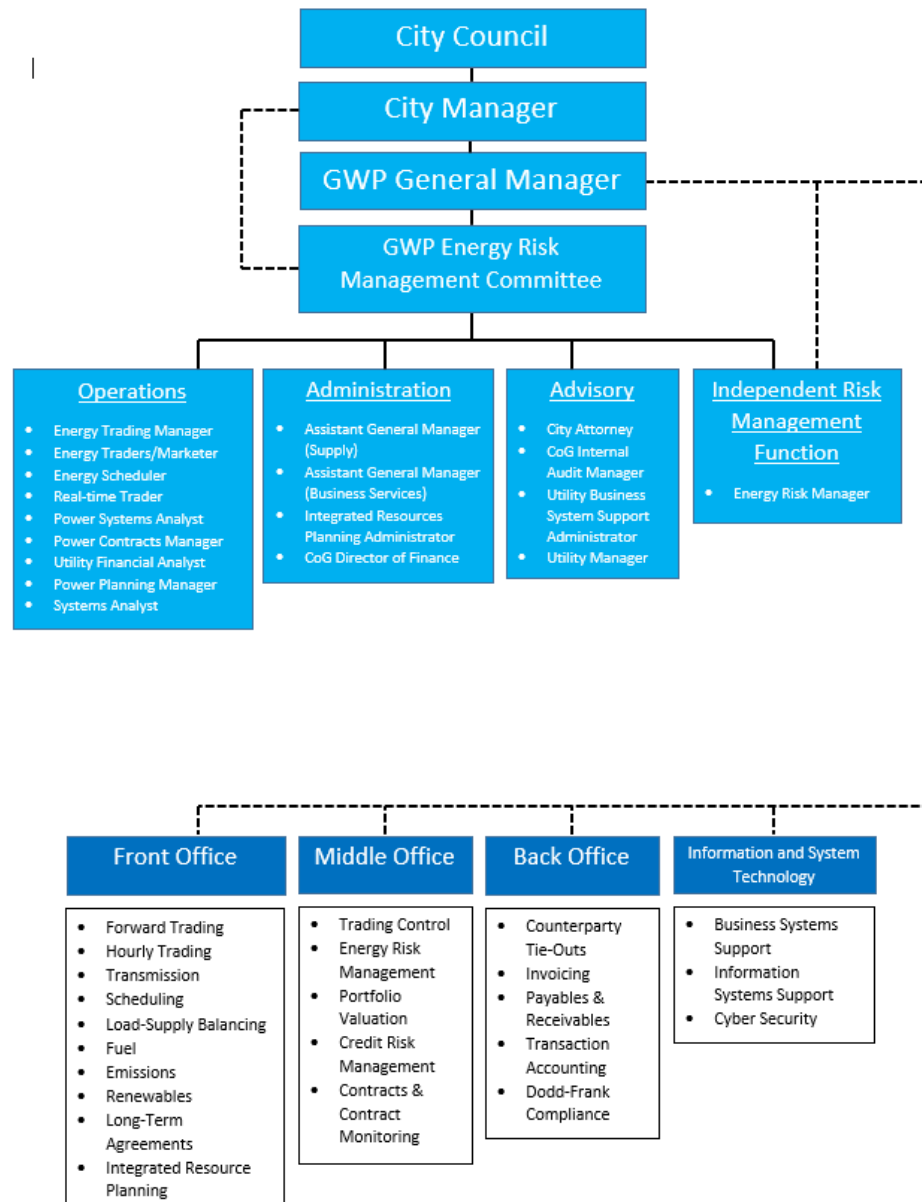
The Energy Risk Management Policy is designed to establish the framework for GWP to manage the risks that are inherent from participating in the wholesale energy markets. The purpose of this Policy is to formally establish an energy risk management program and document the organizational structure utilized by GWP to meet the electricity needs of its customers, and provide guidelines for GWP to plan, execute, and control the management of a variety of risks associated with energy portfolio activities. In addition, the purpose of this Policy is also to formalize the policies of GWP regarding managing its energy risks.

The current GWP Energy Risk Management Policy was approved by the City Council in June 2019, which included recommended modifications that would better align the City's energy risk management protocols to the best practices in the industry. As part of the responsibilities stated in that Policy, the GWP Energy Risk Management Committee has undertaken its annual review of the Policy and has approved modifications recommended by the GWP Energy Risk Manager to reflect updates in the business and risk management objectives, GWP Energy Risk Management Committee Structure, meeting timing, frequency, and voting procedures, roles and responsibilities, and reporting requirements.

The proposed, amended GWP Energy Risk Management Policy is attached to this Report as Exhibit 1. A redline draft showing the proposed changes from the current Energy Risk Management Policy is attached to this report as Exhibit 2.

The major features and changes to the Energy Risk Management Policy are:

- **GWP Business Objectives:**
The revised policy removes a reference to Dodd Frank regulations as a primary business objective as it is become less relevant to GWP's operations. The revised policy adds "providing renewable and clean energy while reducing carbon and other emissions" and "protecting GWP's systems, communications, and data against cybersecurity risks" as primary business objectives.
- **Assignment of Responsibilities:**
The organizational chart was revised to mirror the updates made to the GWP Energy Risk Management Committee member and participant titles.



• **GWP Energy Risk Management Committee Structure:**

The ERM Structure was simplified by replacing the committee member roles previously designated as: “Chief Assistant General Manager, Deputy General Manager, and Integrated Resources Planning Administrator” with just two job classifications: GWP Assistant General Manager, or designee, for Supply and GWP Assistant General Manager for Business Services, or designee. The more extensive 2019 list of classifications was in response to the need to address the rapid change of roles and responsibilities within GWP at the time.

In the proposed 2021 amendments to the ERM Policy, the GWP Integrated Resources Planning Administrator and Power Planning Manager are added to the ERM as non-voting participants, and the title of the GWP Utility Business System Support Administrator is also updated.

- **Meeting Timing, Frequency, and Voting Procedure:**
To better meet the requirements of the policy, the (ERMC meeting frequency minimum was reduced from two to one per quarter. While it is the intention of the ERMC to meet once per month, on occasion, due to scheduling conflicts, meetings may be rescheduled into the next quarter. A designee may attend and vote, if authorized, for a member or participant, if the participant is unable to attend.
- **Assistant General Manager (Supply and Business Services):**
To be consistent within the entire Policy, the roles under the GWP Assistant General Manager sections for Supply and Business Services, pertaining to the Energy Risk Management responsibilities in the policy, have been simplified by removing the GWP Chief General Manager, Deputy General Manager, and Integrated Resources Planning Administrator. The responsibilities can be designated under a different role by the GWP General Manager, or his/her designee.
- **GWP Integrated Resources Planning Administrator:**
The GWP Integrated Resources Planning Administrator position plans, directs, supervises, and reviews the development, identification, and administration of power resources in accordance with the direction and goals established by GWP management. The revised Policy adds additional identified responsibilities of the integrated resources planning function.
- **GWP Energy Trading Manager:**
The Energy Marketers, Analysts, Schedulers, Real-time traders, or Authorized Agents were removed from the list of persons responsible for the duties of the GWP Energy Trading Manager. The GWP Energy Trading Manager should be solely responsible for the risk management activities associated with this role. Such activities are then delegated to staff appropriately.
- **GWP Power Planning Manager:**
The GWP Power Planning Manager supervises the analysis, forecasting and planning activities for the electric utility's integrated resources in accordance with the direction and goals established by GWP management. The revised Policy adds additional identified responsibilities of the power planning function.
- **GWP Utility Business System Support Administrator:**
GWP Business Systems Support Manager was changed to GWP Utility Business System Support Administrator.
- **Reporting:** Table 6.1 was simplified by removing duplicated report accesses (all listed roles are included in the ERMC) and correcting originators for each of the report types.

Trading Authority Policy

The purpose of the Trading Authority Policy is to define the authority granted by the City Council to the City Manager and the GWP General Manager to execute energy-related

transactions and delegate trading functions to GWP staff within the limits defined in the Trading Authority Policy.

The current GWP Trading Authority Policy was approved by the City Council in June 2020. The Trading Authority Policy authorizes the City Manager and GWP General Manager to establish transaction authority levels for positions below the GWP General Manager level via a Trading Authority Delegation.

The proposed, amended GWP Trading Authority Policy is attached to this Report as Exhibit 3. A redline draft showing the proposed changes from the current Trading Authority Policy is attached to this Report as Exhibit 4. The major features and changes to the Trading Authority Policy are:

- **Trading on Premises:**
The revised Policy allows for off-premise trading during extended circumstances for the continued business operation and reliability. This is in direct response to remote work due to the COVID pandemic. Email confirmations can serve as recorded communication.
- **Authorized Delivery Location (Power):**
The revised policy clarifies that the CAISO market is in the Western Electricity Coordinating Council (Western Interconnection System) and that the City Manager, GWP General Manager, or GWP ERM can approve transactions outside of those areas as necessary.
- **Firmness of Power:**
The revised policy provides the ability to enter into transactions where supply and delivery firmness are not the same. At times, such as resource testing or unit contingent situations, it may be necessary to execute the energy sale or purchase for portfolio reliability and optimization even where the firmness of the supply and delivery are not the same. The revised policy would allow this as long as sufficient reserves are in place. Transaction details must be logged in the operations record system. The City Manager and GWP General Manager can approve exception to this policy.
- **Transmission Service Firmness and Volume:**
The revised policy provides the ability to enter into transactions where transmission purchase and associated energy's firmness are not the same. With limited transmission capabilities, this allows for the use of less-firm transmission to execute energy purchase or sale for portfolio reliability and optimization as long as sufficient reserves are in place.
Transaction details must be logged in the operations record system. The City Manager and GWP General Manager can approve exception to this policy.
- **Authorized Delivery Location (Natural Gas):**
The revised policy indicates that financial natural gas transactions can occur at locations not listed in the policy, only if, transportation to deliver the physical natural gas is available. This allow for additional financial hedging opportunities.

Annual Authority for the Purchase or Sale of Energy Services

For many years, it has been necessary to immediately make decisions to buy or sell electric power, natural gas, environmental commodities, and related services. Electric power, natural gas, and environmental commodities are purchased and sold on a bilateral basis, either directly or through brokerage firms via brokerage service agreements, and via online exchanges regulated by the federal Commodity Futures Trading Commission (CFTC). Transactions related to renewable, carbon, and emission products are regulated by the State of California. Time is of the essence for most of these transactions, as confirmation letters must be signed within days of a verbal trade agreement. It is not industry practice to solicit bids using the City's standard bidding process. In order to meet the City's operational and regulatory needs, the City Manager and GWP General Manager, or designees, need to be able to promptly sign letter agreements for the purchase and sale of electric power, natural gas, and renewable and environmental commodities and related services without a lengthy process that would bring each transaction to the City Council.

In previous years, the City Council has added the authority to use financial instruments, such as: futures and forwards contracts, swaps, and options under International Swap and Derivatives Association ("ISDA") Master Agreements and confirmations pursuant to such ISDA Master Agreements, with the City Manager's authorization, to assist the City in stabilizing energy prices. GWP also uses financial options through a brokerage account at Intercontinental Exchange, Inc. (ICE) and CME Group. GWP must comply with the state-mandated renewable portfolio standard and greenhouse gas reduction targets. Accordingly, energy portfolio activities have been expanded to include renewable, carbon, and emission commodities and include participation in trading markets and auctions established by the state. GWP uses the services of ConocoPhillips to manage all gas nominations, scheduling, imbalances, and pipeline entitlements.

In previous years and in 2020, the City Council adopted a Trading Authority Policy, which sets forth the trading authority of the City Council, and establishes limits on the trading authority of the City Manager and GWP General Manager based upon trade volume, trade duration, lead-time and price for each commodity. The City Manager and GWP General Manager, in turn, set limits on the trading authority of GWP staff and GWP's real-time trading agent, Alliance for Cooperative Power Energy Marketing Services LLC (ACES), in a Trading Authority Delegation exhibit.

Article VI, Section 9 of the Glendale Charter authorizes the City to dispense with competitive bidding where it is in the City's best interest to do so. For the foregoing reasons, it is in the City's best interest to dispense with competitive bidding, and renew the annual authorization for the City Manager or GWP General Manager, or their designee, to enter into Glendale Water & Power (GWP) contracts for the purchase, sale, storage, scheduling, and transmission of energy commodities and services (natural gas or electric power), including renewable and environmental commodities and participation in related markets and auctions, and including the use of financial instruments to stabilize prices, for terms not to exceed five years in duration. This will enable the City and GWP to maintain stability of its energy costs, provide additional flexibility in managing its energy portfolio, meet state renewable and greenhouse gas reduction mandates, and reduce risks associated with such transactions.

Outlined in the adopted FY 2021-22 budget, the funds required to provide reliable electricity and comply with state regulations are \$121,476,000 for purchased power, \$16,500,000 for fuel-natural gas, and \$3,830,000 for carbon allowances and renewable energy credits for a total of \$141,806,000.

FISCAL IMPACT

The adoption of the amended Energy Risk Management Policy and GWP Trading Authority Policy will not have a direct fiscal impact. Furthermore, Glendale Water and Power's adopted budget for Fiscal Year 2021-22 includes line item accounts for Purchased Power, Fuel - Natural Gas, Carbon Allowances, and Renewable Energy Credits in the Electric Works Revenue Fund, Power Management Cost Center (5820-GWP-4680) in the amount of \$141,806,000, as follows:

Power Management Cost Center (4680) Maintenance & Operation Budget		
<u>Account #</u>	<u>Description</u>	<u>Amount</u>
45502	Fuel - natural gas	\$ 16,500,000
45506	Carbon allowances	\$ 3,800,000
45507	Renewable energy credits	\$ 30,000
45510	Purchased power	\$ 121,476,000
	Total	\$ 141,806,000

Therefore, sufficient funds have been budgeted for contracts related to purchase of energy commodities and services for Fiscal Year 2021-22 within the aforementioned account categories.

ALTERNATIVES

Alternative 1: The City Council may adopt the revised Energy Risk Management Policy and the revised GWP Trading Authority Policy, dispense with competitive bidding, and authorize the City Manager or GWP General Manager, or their designees, to enter into contracts for the purchase or sale of energy commodities and services not to exceed five years in duration.

Alternative 2: The City Council may decline to adopt the revised Energy Risk Management Policy and the revised Trading Authority Policy, in which case the 2019 Energy Risk Management Policy and 2020 Trading Authority Policy would remain in effect, and City Council may require competitive bidding for contracts for the purchase and sale of energy commodities and services. These would put Glendale at a disadvantage and prevent the ability to efficiently procure electric power and gas commodities and services.

Alternative 3: The City Council may consider any other alternative not proposed by staff.

CAMPAIGN DISCLOSURE

None applicable.

EXHIBIT(S)

Exhibit 1: Proposed Energy Risk Management Policy

Exhibit 2: Redline of Energy Risk Management Policy (showing changes from current Policy)

Exhibit 3: Proposed GWP Trading Authority Policy

Exhibit 4: Redline of Trading Authority Policy (showing changes from current Policy)