

Middle Fork Project Finance Authority

# Energy Marketing Oversight Policy

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**Initially Adopted: October 16, 2014**  
**Prior Revised: July 20, 2017**  
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## Middle Fork Project Finance Authority

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### OVERVIEW

The Middle Fork Project Finance Authority (“Finance Authority” or “MFPFA”) was established on January 10, 2006, under a Joint Exercise of Powers Agreement (JPA) by and between the County of Placer (County) and the Placer County Water Agency (Agency). One of the primary responsibilities of the Finance Authority is the approval of electrical energy sales from the Middle Fork American River Hydroelectric Project (MFP).

The County and the Agency have adopted resolutions delegating their authority to approve contracts for sale of power from the Middle Fork Project to the MFPFA. All contracts for the sale of MFP energy and energy products must be reviewed and approved by the MFPFA as referenced by the Joint Exercise of Powers Agreement for the MFPFA, Article IV, Section 4.03. Through this policy, the MFPFA delegates certain authorities to the Agency to enter into and execute the contractual relationships necessary to sell MFP energy products, subject to the procedures defined herein. The Agency, through its Energy Risk Management (“ERM”) Policy further delegates certain energy contracting authority, subject to specified thresholds, to Agency staff in order to facilitate energy product transactions.

The Agency owns and operates the MFP to dispatch water and generate electrical energy consistent with the following prioritized objectives:

1. Operating the MFP in a Safe and Prudent Manner - All operations of the MFP facilities will be conducted with safety of staff and the public as a paramount concern.
2. Meeting Regulatory Requirements - All operations of the MFP will be conducted in accordance with regulatory requirements.
3. Reliability and Asset Preservation – The MFP shall be operated and maintained in a manner that ensures a high level of reliability and long-term preservation of asset value.
4. Managing Water Supply for Placer County – Water management within the MFP shall ensure a reliable water supply to meet the consumptive needs of Placer County residents and businesses.
5. Energy Generation – Consistent with the above priority objectives and the guidance contained in this policy, the Agency shall market, at favorable times and

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rates, the energy generation, ancillary services capabilities, and other energy attributes of the MFP with the goal of maximizing revenue.

### PURPOSE

The purposes of this EMO Policy are to:

1. Provide a framework for cooperation between County and Agency staff to ensure that a high level of communication of information, strategies, opportunities, and perspectives on matters related to MFP energy marketing is maintained;
2. Ensure that the authority to engage in energy market transactions is provided and exercised in a manner consistent with the risk and revenue objectives of the Finance Authority as outlined in this and other Finance Authority policies;
3. Define an approach and the parameters for the marketing of MFP energy and energy related products that (a) reflects MFP's contractual, regulatory, and operational constraints, (b) promotes transparency and competition, (c) provides a framework for managing market and counter-party risks, and (d) maximizes the value of MFP energy products; and
4. Provide a framework through which recommendations to the Finance Authority Board by the Executive Director and Secretary, related to MFP energy marketing, can be developed.

### SCOPE

This EMO Policy applies to all employees and authorized agents of the Agency and the County transacting directly or indirectly in energy markets with regard to the MFP.

### ENERGY MARKETING OVERSIGHT WORKING GROUP (EMOWG)

#### Responsibility and Membership:

Energy marketing oversight will be the responsibility of the Finance Authority's Executive Director and Secretary. Together they will select staff from their respective organizations forming an Energy Marketing Oversight Working Group ("EMOWG") to prepare all information related to joint energy marketing and to provide information to the Executive Director and Secretary, allowing them the opportunity to make recommendations to the Finance Authority Board as needed. The EMOWG will ensure that energy marketing

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strategies are consistent with this EMO Policy, all Finance Authority Policies, and Federal and state regulations.

The EMOWG shall be comprised of six staff members: three from the Agency and three from the County, appointed by the Finance Authority Executive Director and Secretary, respectively. The EMOWG shall meet at least quarterly with the Executive Director and Secretary in order to inform them on items of interest to the Finance Authority.

The purpose and responsibilities of the EMOWG are to:

1. Ensure the marketing of energy and energy related products from the MFP is in accordance with this EMO Policy;
2. Monitor market conditions, trends and opportunities;
3. Review the Agency's compliance with its Energy Risk Management Policy;
4. Review the Agency's Annual Operating Plan for MFP water management, storage and generation and associated revenue estimates;
5. Regularly update the Executive Director and Secretary on the near and long-term energy marketing and financial risk management strategies available to maximize the value of the MFP, while minimizing risk;
6. Participate in marketing strategy discussions with Agency's energy marketing operations staff, and monitor performance;
7. Develop power sales performance metrics and reporting guidelines;
8. Create a Strategic Business Plan to provide guidance to Agency and County management and staff regarding power marketing strategies, concepts, and operational needs. The Plan shall be updated every five years or as energy market conditions evolve; and
9. Facilitate communications between the Agency and the County related to power sales, water sales, regulatory actions, legislative affairs, and other processes or circumstances that affect the operation of the MFP.

In order to inform the Executive Director and Secretary of the current state of the energy market and the MFP's participation in that market, the EMOWG shall develop and maintain the following products for review by the Executive Director and Secretary:

1. In accordance with the Finance Authority's General Financial Policies Section 3.3.2

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- (1), the EMOWG shall work with the MFPFA Treasurer to develop the Proposed Annual Budget to be submitted to the Finance Authority Board annually at their October meeting.
2. Each year, when hydrological conditions are known, the EMOWG shall prepare an Annual Marketing Report for MFP energy-related products for the calendar year.
    - a. The Annual Marketing Report will include information regarding the total projected MFP energy product and ancillary services sales, projected renewable attribute sales, projected energy product purchases to manage sales positions, and projected revenue or cost for each of these categories.
    - b. The EMOWG will present the Annual Marketing Report to the Executive Director and Secretary as an informational item. If projected MFP revenues will not be sufficient to fund the annual budgeted appropriations, the Finance Authority Treasurer shall notify the MFPFA at the next regularly scheduled meeting.

### INFORMATION EXCHANGE AND REVIEW

The Agency shall regularly provide the following to the EMOWG in order to ensure the most current information is available for review in relation to energy marketing strategy discussions:

1. An Annual Operating Plan that reflects MFP hydrology, market conditions, Agency water needs and regulatory requirements;
2. The projected market value of water stored within the MFP system available for production of energy and ancillary energy market products;
3. A description of current trading strategies and associated trading limits for authorized energy products.

### POWER SALES AND ENERGY MARKETING

The intent of this section is to meet the specific requirement of the Bond Purchase Contract, dated March 29, 2006, between the MFPFA and the Placer County Treasurer, Section 6 Representations, Warranties, Covenants and Agreements of the Authority, paragraph (t) regarding “power sales policies.”

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This power sales and energy marketing section establishes guidelines, for the periodic marketing to qualified counter-parties, necessary to promote the primary goal of maximizing revenue from MFP energy products and attributes. This policy will function in conjunction with or complement the following Finance Authority and Agency policies:

- Finance Authority's General Administrative Policies
- Finance Authority's Operations Protection Policies
- Finance Authority's General Financial Policies
- Agency's Energy Risk Management Policy

The MFPFA recognizes that price volatility in energy market products, along with the amount of water and energy available each year from the MFP, are outside the control of the Agency. As such, the MFPFA also recognizes that the Agency is unable to (a) precisely forecast annual MFP revenue and (b) ensure, in any year, that MFP revenues will exceed the project's operating costs or reserve funding requirements. Reflecting this, the primary goal of the Finance Authority, in its delegation of authority to enter into various energy related sales agreements through this policy, is to maximize revenue in each year, while also working to stabilize revenue in future years to the extent possible.

### MFP Energy and Energy Related Marketing Solicitation Processes

The marketing of MFP energy and energy related products will be conducted in competitive and transparent solicitation processes, through qualified brokers or agents, and/or on liquid commodity exchanges.

The Agency is authorized to:

1. Participate in California Independent System Operator ("CAISO") markets and/or on other exchange-traded platforms that offer liquidity, transparency, and adequate counter-party credit assurances.
2. Market MFP energy and energy related products to end-users on a term basis. The Agency will conduct public solicitation processes of sufficient scope to attract qualified counter-parties. The results of these solicitations shall be presented to the EMOWG for review, prior to recommending to the Executive Director and Secretary that contracts be considered for approval by the MFPFA and award by the Agency Board.

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3. Retain the services of energy marketing professionals. For the solicitation of energy marketing agent professional services, the Agency will solicit written quotes from qualified agents or brokers, which shall be presented to the EMOWG for review, prior to recommending to the Executive Director and Secretary that service contracts be considered for approval by the MFPFA and award by the Agency Board. Physical and financial transactions made through energy marketing agents or brokers shall be subject to the Agency ERM policy.
4. Participate in solicitations proffered by entities that are in need of MFP energy related products or services. Offers shall be approved by the EMOWG before submittal to the proffering entity, and any resulting contract shall be presented for review by the EMOWG, prior to recommending to the Executive Director and Secretary it be considered for approval by the MFPFA and award by the Agency Board.

### Authorized Marketable MFP Energy Products, Term of Contract Commitments, & Price Structures

Appendix A, which is included and made a part of this Energy Marketing Oversight Policy, summarizes the parameters under which Agency staff can market MFP energy and related products, specifically addressing:

- a. The type and nature of energy and energy related products Agency staff can market;
- b. The tenure or contract term and quantity under which Agency staff can commit MFP energy and energy related products; and
- c. The types of price structures Agency staff can market MFP energy and energy related products.

The product marketing limitations described in Appendix A are intended to guide marketing efforts; the making of contracts for sale of MFP products is subject to the policies described in this section.

### Speculative Trading

Speculative buying and selling of energy products are prohibited.

Speculation is defined as buying energy not needed to fill a contractual obligation, or selling energy or energy related products that exceeds MFP's physical or expected output. In no event shall transactions be executed that speculate on market conditions.

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### Risk Oversight

In conjunction with energy marketing, the Agency will adopt and maintain an Energy Risk Management Policy, which will include an energy risk management governance and organization structure. The risk governance structure shall be appropriately segregated at the operational level so that sufficient and appropriate checks and balances between functions exist such that the reviewing, monitoring and reporting of energy transactions are independent of trading activities. Included in this Agency policy shall be the establishment of the following:

- An Energy Risk Oversight Committee to oversee risks associated with energy marketing activities, counter-party credit, market liquidity, and to ensure compliance with trading transacting authorities and guidelines and standards of conduct.
- Consistent with industry practice, the duties of execution of energy transactions, risk monitoring and settlement reporting shall be separated into the following three functional areas: Front Office, Middle Office and Back Office

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### APPENDIX A

#### Middle Fork Project Energy & Energy Product Marketing Parameters

Under most circumstances, it is anticipated that MFP energy and energy products will be marketed separately (i.e. on an unbundled basis); however, there is no prohibition on bundling products where value dictates that approach is appropriate.

Agency staff are authorized to market MFP energy and energy related products directly with counter-parties or through a marketing agent or broker, and to recommend contracts for MFPFA approval and execution by the Agency, subject to the following parameters:

#### A. Authorized Marketable Energy Products

Agency staff are authorized to market the following energy products:

1. Energy
2. Ancillary Services
3. Resource Adequacy
4. Renewable Energy Credits
5. Carbon Free Credits

#### B. Approved MFP Energy Products Marketing Contract Term & Quantity Commitments

Maximum Contract Term Commitment:

- a. MFP energy and energy products can be sold forward for a term of contract up to, but not exceeding, sixty (60) months.

Maximum Aggregate Contract Quantity:

- a. For a term from the then current date up to twelve (12) months forward: Agency Staff can market up to 100% of the estimated energy and energy products output of the MFP on a forward basis.
- b. For a term beginning thirteen (13) months to sixty (60) months forward from the then current date: Given unknown hydrological conditions, Agency staff will not market aggregate quantities of MFP energy and energy related products that

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exceed the historical minimum annual output of the MFP (i.e. 300,000 MWh per year).

### C. Approved Pricing Structures

Agency staff are authorized to sell MFP energy and energy related products using the following price structures:

1. Fixed price: involves the marketing and physical delivery or financial obligation of energy and/or energy-related products at a fixed price.
2. Index or “Market Price”: involves the marketing and physical delivery or financial obligation of energy and/or energy related products at prices that are indexed to a specific delivery point at reported market clearing prices.