MERCED IRRIGATION DISTRICT
BOARD OF DIRECTORS
RISK MANAGEMENT COMMITTEE MEETING

June 3, 2014
2:00 PM

MERCED IRRIGATION DISTRICT
744 West 20th Street
Merced, CA 95340

PLEDGE OF ALLEGIANCE

ROLL CALL

CONSIDER CORRECTIONS OR ADDITIONS TO THE AGENDA

The Board will consider corrections or additions to the agenda of items requiring immediate action that have come to the attention of the Board after posting of the agenda.

OPPORTUNITY FOR PUBLIC COMMENT (5 minutes per speaker)

Interested persons in the audience are welcome to introduce any topic within the District's jurisdiction. Matters presented under this heading may be discussed but no action will be taken by the Board at this meeting.

CONSENT CALENDAR

All matters listed under Consent Calendar are considered routine by the Board of Directors and will be adopted by one action of the Board unless any Board Member has any question or wishes to make a statement or discuss an item. In that event, the President of the Board will remove that item from the Consent Calendar and place it for separate consideration.

1. Committee Minutes - September 25, 2012 and March 3, 2014

ACTION ITEMS

1. **Introductions**
2. **Market Update**
3. **Hedging Requirements**
4. **Credit Update**
5. **Risk Management Policy Changes**

   The Risk Management Committee (RMC) will review important changes to the Risk Management Policy ("Policy") intended to improve the performance of the Policy, meet current and future needs and conform to the new federal Dodd/Frank regulations.
6. **MID Power Cost Adjustment Proposed**

   The Risk Management Committee (RMC) will review the benefits of implementing a Power Cost Adjustment (PCA).
7. **MID Environmental Charge Proposed**

   The Risk Management Committee (RMC) will review the benefits of implementing an Environmental Charge.

REPORT ITEMS

CLOSED SESSION

ADJOURNMENT

<u>NOTE</u>: No action may be taken on any items not appearing on this agenda unless:

: There is a finding of an emergency situation by majority.

: A two-thirds vote of the legislative body or a unanimous vote if less than two-thirds of the members are present.

: An item was properly posted, but carried over for five days.

Any materials that are public records that relate to an agenda item, and are distributed to the board of directors less than 72 hours prior to the meeting shall be available for public inspection at the offices of the Merced Irrigation District, 744 W. 20th Street, Merced, CA during normal business hours. Additionally, any materials presented during open session are available for public inspection at the same address.

MEETING OF THE RISK MANAGEMENT COMMITTEE OF THE MERCED IRRIGATION DISTRICT

DATE: 6/3/2014

AGENDA ITEM:
Committee Minutes - September 25, 2012 and March 3, 2014

ATTACHMENTS:

Description	Type
September 25, 2012 - Draft Minutes	Backup Material
March 3, 2014 - Draft Minutes	Backup Material

MERCED IRRIGATION DISTRICT
RISK MANAGEMENT COMMITTEE MEETING
UNAPPROVED MINUTES
September 25, 2012

The Risk Management Committee of the Board of Directors of the Merced Irrigation District met on the above date, pursuant to notice, at 9:04 A.M. at the Executive Conference Room.

Roll call showed the following Committee member present:

Director:	**Tim Pellissier**	*Division 1*
Director:	**Suzy Hultgren**	*Division 4*

The following District employees were also present:

General Manager	John Sweigard
General Counsel	Phillip R. McMurray
Deputy General Manager, Energy Resources	Don Ouchley
Director of Finance	Brian Stubbert
Analyst, Energy Resources	Richard Dragonajtys

Other persons present:

The Energy Authority, Consultant	Randy Gregg
The Energy Authority, Consultant	Marty Parsons (by telephone)
The Energy Authority, Consultant	Mike Trobaugh (by telephone)

CONSENT CALENDAR

1. Committee Minutes June 26, 2012

Upon motion by Committee Member Hultgren, seconded by Committee Member Pellissier; the Committee Members unanimously approved the Consent Calendar item.

REPORT/ACTION

Mike Trobaugh, consultant with The Energy Authority (TEA), provided the Committee with an update on the electric and gas market. Natural gas storage is relatively full on a national level; Mr. Trobaugh anticipates that prices will remain relatively level. Mr. Trobaugh recommends that pricing for 2013 be watched closely. Mr. Trobaugh answered a number of questions from staff and the Committee regarding impacts to the District given changes in stressors on the market.

Energy Resources Analyst Dragonajtys provided a review of the District's short and long term electric load and power forecast, through 2017. A number of different scenarios were analyzed and discussed, providing the Committee with information regarding impacts to District revenues and costs should certain market stress events take place.

Randy Gregg, consultant with The Energy Authority (TEA), provided the Committee a review of the District's current and future hedging policies. Mr. Gregg answered a number of questions from staff and the committee regarding the District's hedging policies.

Energy Resources Analyst Dragonajtys provided a review of the District's Risk Management Policies and discussed potential policy updates. The committee took no action at this time.

CLOSED SESSION

There was no closed session.

ADJOURNMENT

The Risk Management Committee adjourned at 11:08 A.M. The next Risk Management Committee meeting is tentatively scheduled for Tuesday, February 26, 2013 at 10:00 A.M.

___________________________________	___________________________________
Tim Pellissier, Committee Member	Billy Pimentel, Committee Member

MERCED IRRIGATION DISTRICT
RISK MANAGEMENT COMMITTEE MEETING
UNAPPROVED MINUTES
March 3, 2014

The Risk Management Committee of the Board of Directors of the Merced Irrigation District met on the above date, pursuant to notice, at 9:00 A.M. at the Executive Conference Room.

Roll call showed the following Committee member present:

Director:	**Tim Pellissier**	*Division 1*
Director:	**Billy Pimentel**	*Division 5*

The following District employees were also present:

General Manager	John Sweigard
General Counsel	Phillip R. McMurray
Deputy General Manager, Energy Resources	Don Ouchley
Director of Finance	Brian Stubbert
Analyst, Energy Resources	Richard Dragonajtys

Other persons present:

The Energy Authority, Consultant	Randy Gregg
The Energy Authority, Consultant	Josh McCall (by telephone)
Pacific Gas & Electric, Representative	Lane Puckett

CONSENT CALENDAR

1. Committee Minutes — June 26, 2012 and September 25, 2012

The June 26, 2012 minutes were removed from the Consent Calendar since they had been previously approved. The September 25, 2012 minutes were tabled for further review.

REPORT/ACTION

For efficiency and convenience of the Committee members, Action/Discussion items 1-8 were discussed as part of 1 larger presentation and discussion. Mr. Dragonajtys indicated that the District's goal and intent of hedging policy is to maintain stable and economical rates for customers, while remaining competitive with PG&E rates. TID's power rates to District are structured so that they can change daily, which can increase risk. The power markets can also be influenced by factors outside of our region, like the Pacific Northwest. Risk Management Committee always has to look at when/whether to lock in hedges to control risk, within the policy hedging guidelines adopted by the MID Board. The Board could authorize variances to the adopted policy if it chooses, and has done so in the past.

Mr. Gregg walked the Committee through an example of a financial hedge, and responded to Committee questions regarding the policy and the example, including a summary of the costs of a typical transaction. Mr. Gregg provided a summary of the financial hedges the District currently has in place. Mr. Dragonajtys provided the Committee with alternatives to District's currently hedging requirements intended to reduce costs of the hedging program. The alternatives include reducing the minimum amount of power that needs to be hedged from month to month. Mr. Sweigard and Mr. Ouchley discussed with the Committee members that between this meeting and next meeting, staff would ask the Committee to provide the Board with a recommendation to adopt some variation of the alternatives to the hedging policy being considered.

Mr. McCall provided the Committee with a brief weather update across the country, which is affecting national power and gas prices. Nationwide, Mr. McCall indicated this is the coldest winter that has been seen for more than 30 years. Mr. McCall provided a discussion of the volatility of natural gas pricing over the last several months as well as forecasts of prices going forward. There was also discussion about the ongoing drought conditions in CA, and how it might impact power production and pricing. There was a similar discussion of solar and wind production in CA and how increasing production will impact power pricing.

Mr. Dragonajtys and Mr. Gregg provided the Committee with an update on the District's hedging and credit levels. The Board has waived hedging requirements for 2014, but it still makes sense to put some hedges in place - there was a discussion of potential hedges for this year, particularly in the 1st and 3rd quarters of the year. The Committee and Board will need to address the 4th quarter of 2014 and all of 2015, and moving forward from there. Staff suggests no substantial changes to the hedging policy for now, and through the completion of the current contract for power with TID which ends in 2017. Mr. Gregg provided a summary of the recommended hedges for 2015 and moving forward after that.

Mr. Gregg provided the Committee with an update on credit reports with the District's various financial counterparties, which he indicated looked very good right now. Mr. Dragonajtys provided the Committee with an update on District financial results from hedges. Most importantly, the District is well above its required minimum debt service coverage and revenue requirements. Mr. Dragonajtys provided a review and responded to questions of the impacts of potentially changing conditions, if the District does not put hedges in place, or if there was an unexpected decrease in the District's load.

Mr. Dragonajtys provided the Committee with a review of changes that might be suggested to the District's rate structure, including a proposed Power Cost Adjustment policy that the Board may see in the near future. The Board may also see proposals for RPS and greenhouse gas cost recovery. Considerations will be based on cost of service, debt management and the District's reserve policy. The District's last rate increase was more than 6 years ago.

Mr. Gregg provided the Committee with a review of Dodd-Frank requirements and their applicability to District activities. TEA is the District's QIR for hedging services. Mr. Gregg completed the presentation with a summary of recommended hedges. The Committee had no questions or comments to staff's plan to make hedges for 2014 and agreed that the planned hedges are prudent.

CLOSED SESSION

There was no closed session.

ADJOURNMENT

The Risk Management Committee adjourned at 11:00 A.M. The next Risk Management Committee meeting is tentatively scheduled for Wednesday, May 28, 2014 at 9:00 A.M.

____
Tim Pellissier, Committee Member

____
Billy Pimentel, Committee Member

MEETING OF THE RISK MANAGEMENT COMMITTEE OF THE MERCED IRRIGATION DISTRICT

DATE: 6/3/2014

AGENDA ITEM:
The Risk Management Committee (RMC) will review important changes to the Risk Management Policy ("Policy") intended to improve the performance of the Policy, meet current and future needs and conform to the new federal Dodd/Frank regulations.

RECOMMENDED ACTION:
The Risk Management Committee (RMC) recommend to the Board of Directors approval of changes to the Policy.

BACKGROUND:

Staff and the District's Qualified Independent Representative (QIR) – The Energy Authority (TEA) – have reviewed the Risk Management Policy as it relates to the past performance of the District's financial hedging program and forward energy market price trends. Additionally the Policy was reviewed and revised to comply with the Dodd/Frank Act.

The changes being proposed to the Policy in relation to the forward financial energy market hedging requirements are as follows:

- A decrease in minimum hedging requirements as outlined in the table in the proposed policy (attached). When entering into a given month, the new recommended minimum hedging requirement is 60% of expected load. The current requirement is 79% of expected load.
- Shortening the time frame for future hedges. Staff proposes hedging no more than 27 months into the future vs. up to 36 months with existing policy.

  Energy markets have changed since the District's policy was last revised and volatility risk is not as prevalent as in past years. One reason is that natural gas prices, which is the major factor in our energy purchase price, have become relatively stable and is projected to remain as such for years to come. The extensive reserves and production of shale natural gas has significantly positively impacted natural gas availability and resulted in downward pressure on pricing. The result is there is and will be less risk exposure to forward market energy pricing and therefore justifying less financial hedges.

The changes being proposed to the Policy in relation to the Dodd/Frank regulations are as follows:

- Incorporate into policy Qualified Independent Representative (QIR) requirements. The QIR requirements ensure that MID, as a "Special Entity", can participate in SWAP markets on a level playing field with major SWAP participants.
- Incorporate into the policy additional trade documentation requirements. These ensure full disclosure of terms and risks of individual SWAP trades.

ALTERNATIVES/PROS AND CONS OF RECOMMENDED ACTION:

PROS:

1) Comprehensive changes to the Risk Management Policy better reflect the hedging needs of the District in light of current and forward financial energy market conditions.

2) Lowers hedge costs.

3) Meets the requirements of the federal Dodd/Frank Act.

CONS:
1) May decrease hedging coverage for the District.

2) More verbiage to comply with the Dodd/Frank Act.

ALTERNATIVES:
1) Continue with existing Policy provisions.

2) Consider other alternative Policy provisions.

DEPARTMENT CONCURRENCES:
Energy Resources Department; Finance Department, General Counsel, General Manager

FISCAL IMPACT:
Total impact uncertain; however, hedge costs will most probably be lower. These policy changes are intended to modernize the Policy requirements for financial energy purchase hedges considering current and future needs and conditions.

ATTACHMENTS:

Description	Type
Revised RMP Table Draft	Cover Memo
Proposed Policy Changes - Presentation	Presentation

- Higher-order combinations of approval types such as extendable swaps.

V. Risk Limits

A. Net Position Limits

Net Position limits shall apply to Energy Resources load. MID will also be exposed to Hydro supply and price risk when the Exchequer/McSwain Hydro complex (Hydro) comes under MID control on 7/1/2014. While the market risk associated with Energy Resources load and Hydro will partially offset one another, MID acknowledges that Water Resources owns and manages the Hydro resources under a separate financial system. The supply and price risk of Hydro will be managed separately by Water Resources and will not be considered under these Net Position limits. If MID determines that it would be advantageous to manage the net position of both Hydro and load, these limits will be revised.

MID recognizes the basic tension between wanting to hedge 100% of its forward positions to achieve retail rate stability, meet budget targets and avoid potential financial losses, while at the same time wanting to participate in potential favorable changes in future market prices that may reduce retail rates and improve MID's competitive position vis-à-vis PG&E. Towards meeting these conflicting objectives, MID will observe net position limits for the following time periods:

Delivery Period	Minimum Hedged Position as a % of Expected Load	Maximum Hedged Position as a % of Expected Load
Note: the following is based on Merced's fiscal year which starts each April		
Limits for each two Quarter period By start of quarter period 6 months before start 12 months before start 18 months before start	 65% 50% 25% 10%	 115% 115% 115% 115%
The two different two quarter periods are Q2/Q3 and Q4/Q1. For instance, on March 31, Q2/Q3 of the prompt fiscal year (which would start the next day) must be at 65% and Q4/Q1 must be at 50%. Q2/Q3 of the prompt fiscal		

Risk Management Committee Meeting

June 3, 2014

Agenda

MERCED IRRIGATION DISTRICT
WATER & POWER

1) Introductions – All
2) Market Update – Josh McCall, TEA
3) Hedging Requirements – Randy Gregg, TEA
4) Credit Update – Randy Gregg, TEA
5) Risk Management Policy Changes – Rich Dragonajtys, MID
6) Power Cost Adjustment Proposed– Rich Dragonajtys, MID
7) Environmental Charge Proposed – Rich Dragonajtys, MID

5) Risk Management Policy Changes

Risk Management Policy Changes

MERCED IRRIGATION DISTRICT
WATER & POWER

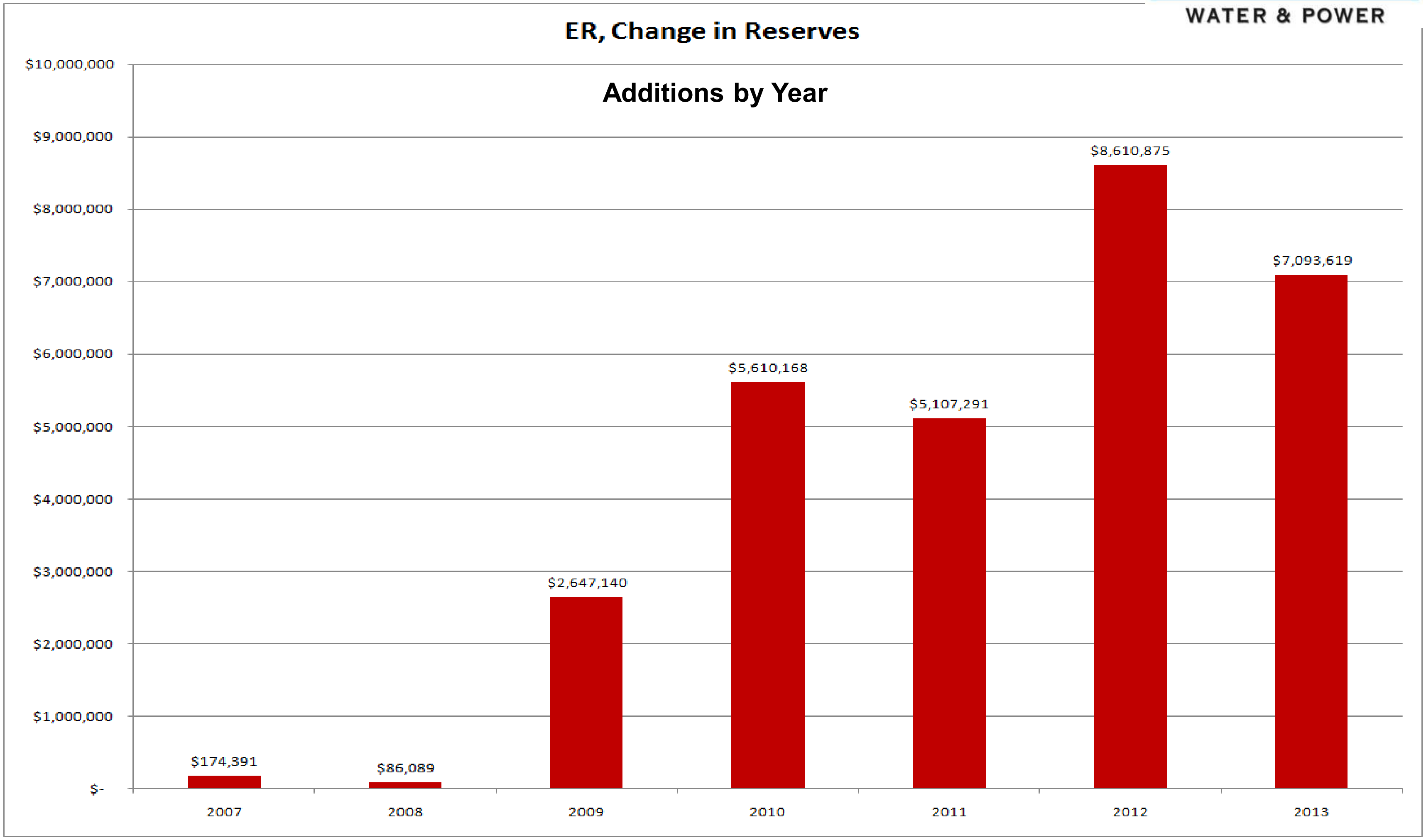
- **Current**
  - Financial Hedges – District Energy Resources Dept. Absorbs All Risk/Reward.
  - Reserves fluctuate to keep rates constant.
- **Future**
  - Utility Standard
    - Financial Hedges with
    - Power Cost Adjustment (PCA)
      - Customers share in Risk/Reward
    - Environmental Charge
      - Direct pass through
  - Reserves Stability

Energy Resources (ER) Reserves

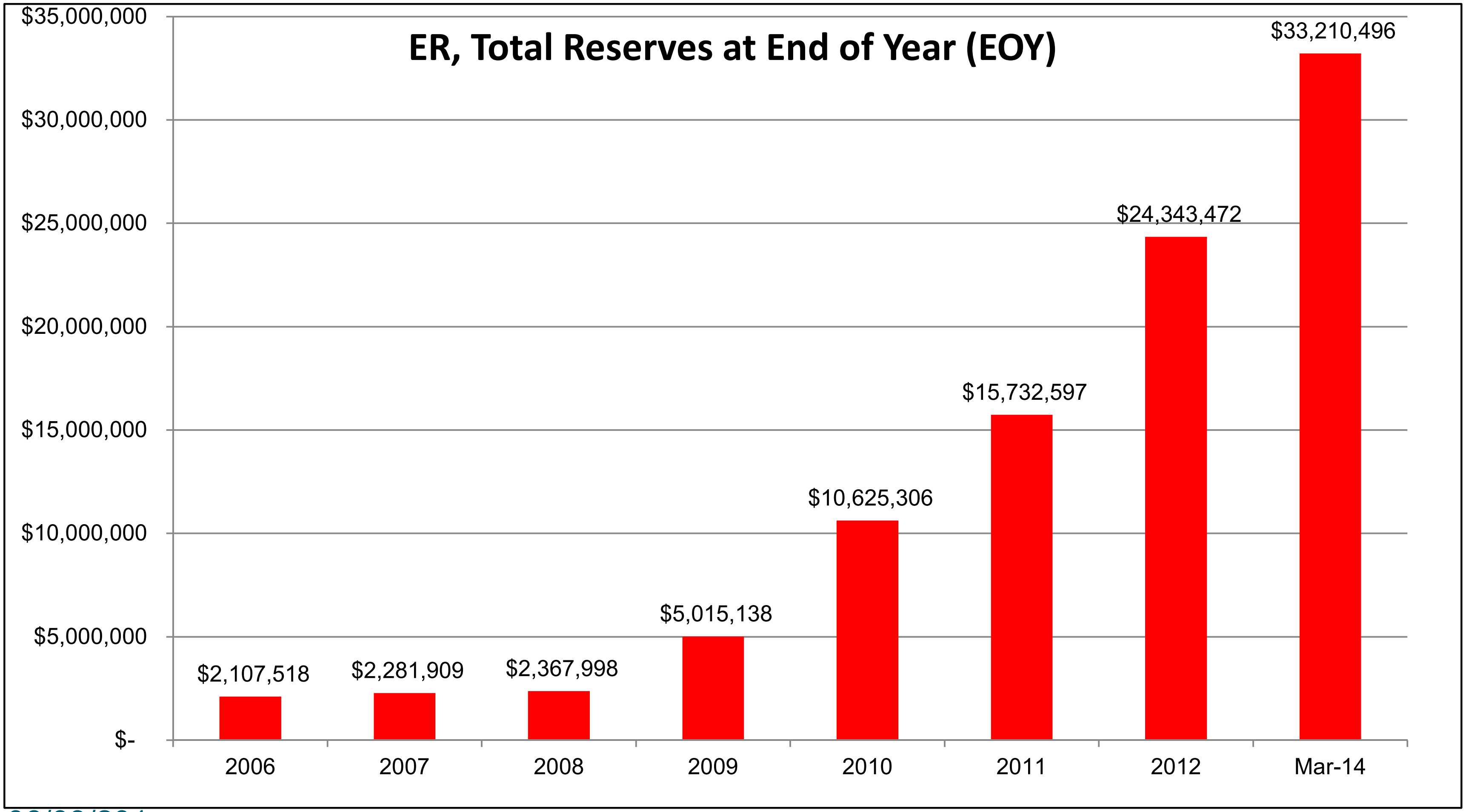
MERCED IRRIGATION DISTRICT
WATER & POWER

- ER Reserve Policy requires a Purchased Power Reserved Fund with the following:
  - Minimum 25% of budgeted Power Supply Expense
  - Target 30% of budgeted Power Supply Expense
  - Maximum 40% of budgeted Power Supply Expense
  - For the 2014-2015 Budget:
    - Minimum ~ $8 Million
    - Target ~ $9.6 Million
    - Maximum ~ $12.8 Million

Energy Resources (ER) Reserves



Energy Resources (ER) Reserves

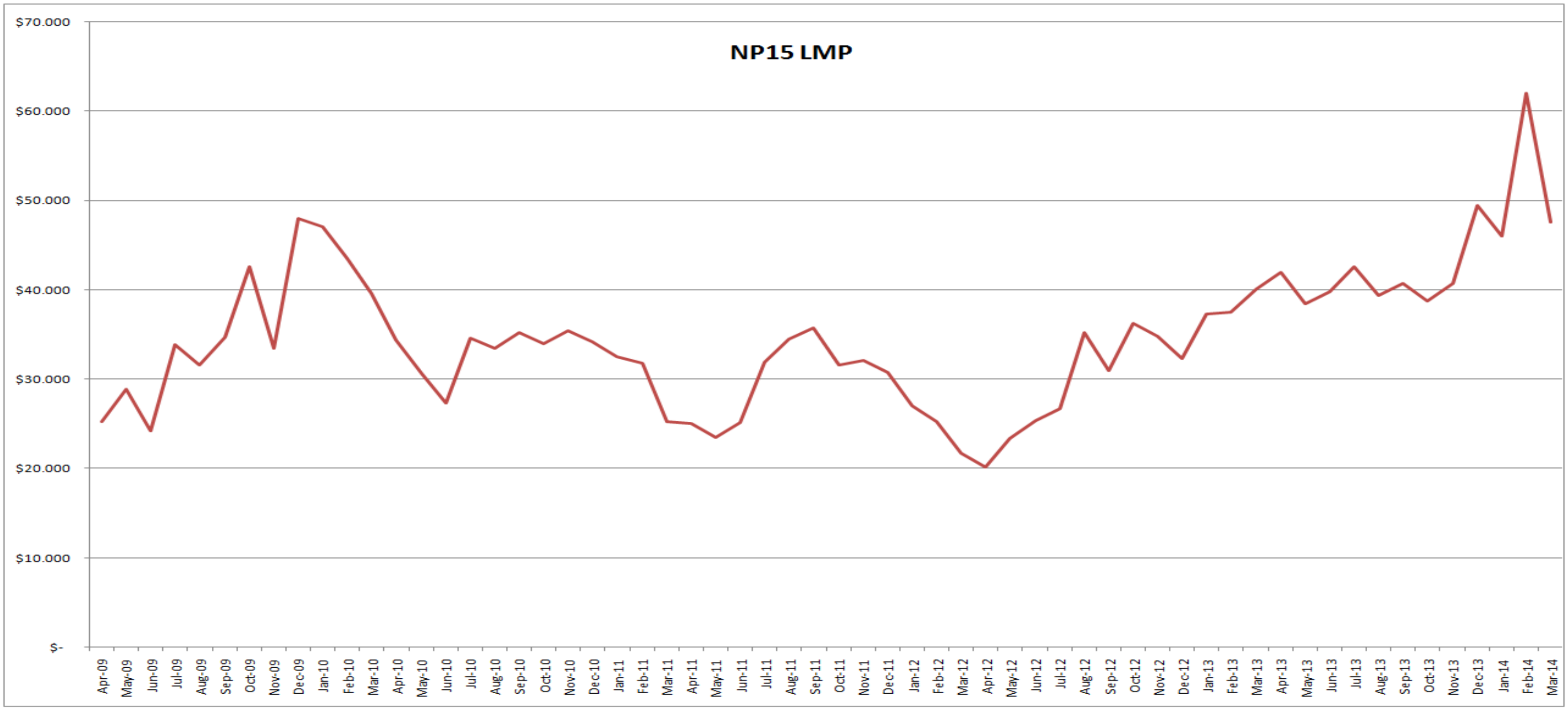


Risk Management Policy Changes

MERCED IRRIGATION DISTRICT
WATER & POWER

Risk Management – Currently

- Manage Financial Risks of Future Market Energy Pricing (Locational Marginal Price).
- Reduce Rate Volatility to Consumer due to Forward Market Energy Pricing with hedges.



Risk Management Policy Changes

MERCED IRRIGATION DISTRICT
WATER & POWER

Risk Management – Why Change?

- Industry Standard
- Cost Recovery
  - Fixed Components (Environmental Charge)
  - Variable Components (PCA)
  - Financial Responsibility
  - Stabilize Reserves (more predictability)
- Establish Industry Standard to alleviate Power Market Risks
- More predictable long term financial forecasting
- Reduce need for constant rate evaluations
- Favored by the Bond Rating Agencies

Risk Management Policy Changes

MERCED IRRIGATION DISTRICT
WATER & POWER

☐ Risk Management – Why Good for Customers?

- Small fluctuations in monthly bill versus potential large annual rate changes.
- Customer shares in reward as well as risk (PCA can be a credit on bill).
- Clearly identifies regulatory costs imposed upon MID (Environmental Charge).
- Ensures financial stability and long term viability of MID.

MID Financial Planning Considerations

MERCED IRRIGATION DISTRICT
WATER & POWER

- **Cost of Service Study Update**
  1) Power Cost Adjustment (PCA)
  2) Environmental Charge(s), Pass Thru
  3) Debt Management
  4) Reserve Policy
  5) Bond Requirements
  6) Capital Requirements

  Most recent draft of Cost of Service and Rate Design Study is dated September, 2012. Update has begun for future consideration.

Risk Management Policy Change Recommendations

MERCED IRRIGATION DISTRICT
WATER & POWER

Current Position Limits

Delivery Period	Minimum Hedged Position as a % of Expected Load^	Maximum Hedged Position as a % of Expected Load
Limits for Current Calendar Year:		
Prompt Month	79%	120%
Current Quarter	79%	120%
Prompt Quarter	75%	120%
Limits for Next Calendar Year:		
By Mar 31st of current year	35%	120%
By June 30th of current year	45%	120%
By Sept 30th of current year	55%	120%
By Dec 31st of current year	65%	120%
Limits for Next Calendar Year +1:		
By Dec 31st of current year	20%	120%

^ Expected Load is determined by Sr. Planning Engineer.

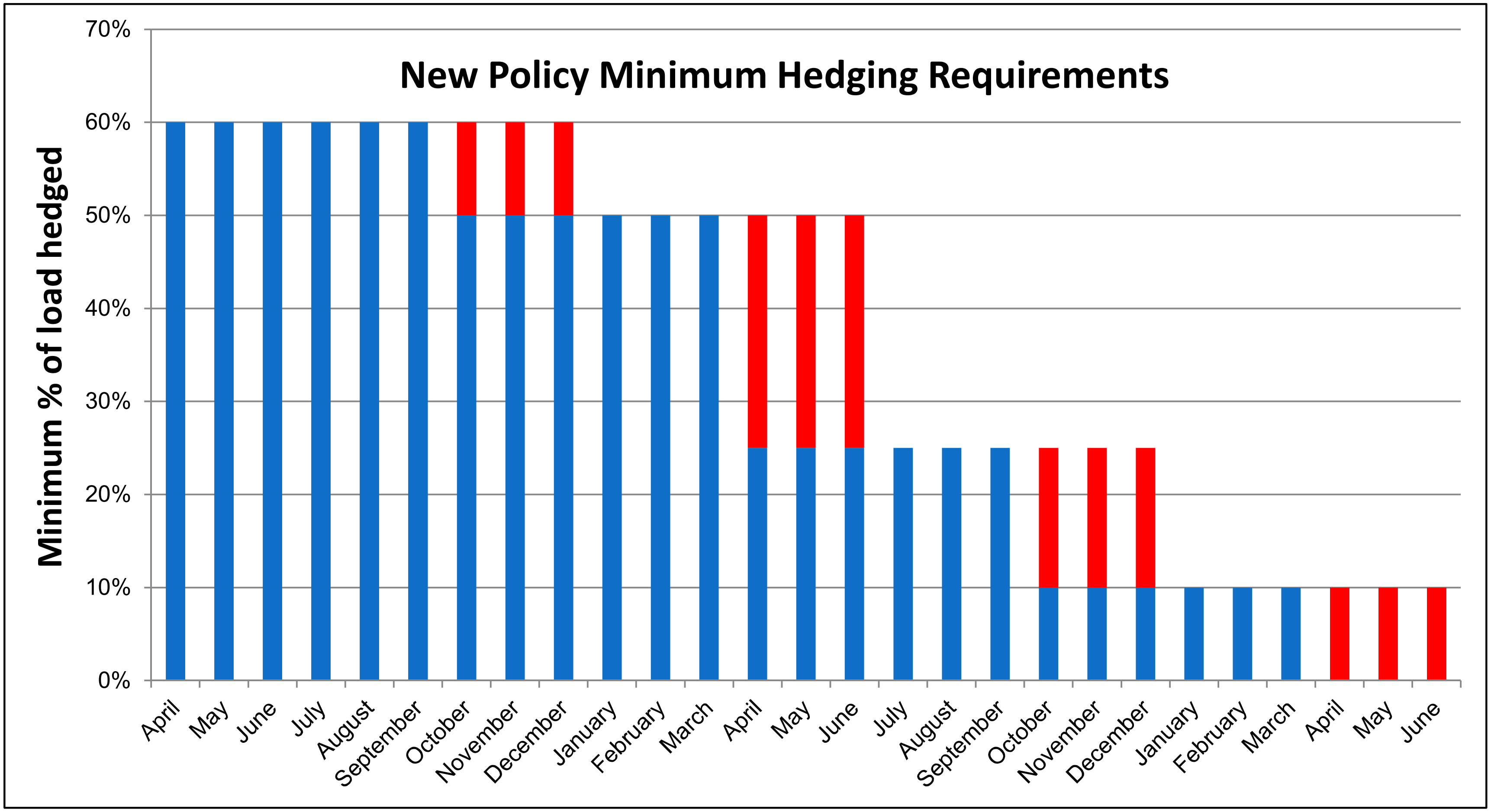
Risk Management Policy Change Recommendation #1

MERCED IRRIGATION DISTRICT
WATER & POWER

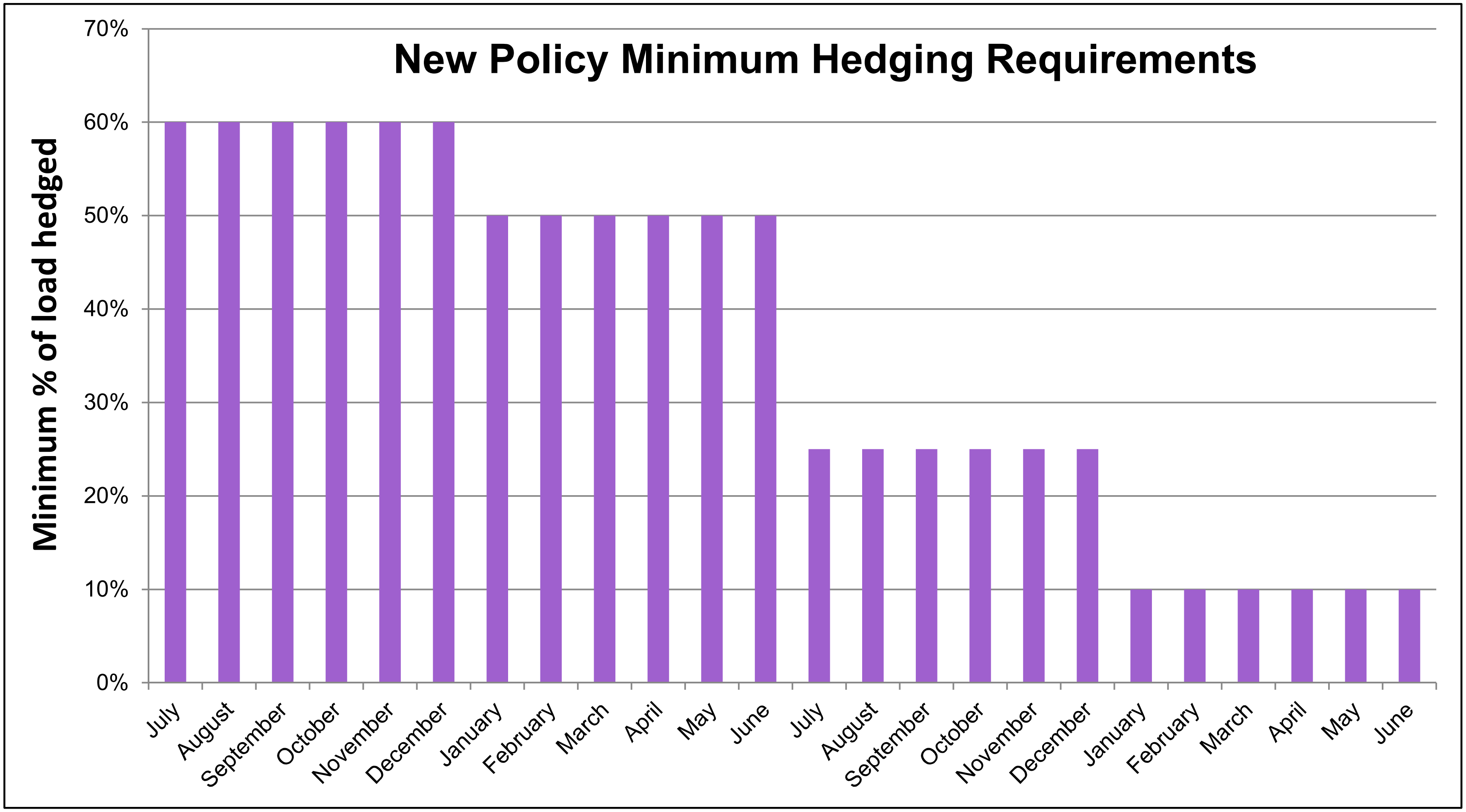
5) Proposed Position Limits

Delivery Period	Minimum Hedged Position as a % of Expected Load	Maximum Hedged Position as a % of Expected Load
Note: the following is based on Merced's fiscal year which starts each April		
Limits for each two Quarter period		
By start of each quarter period	60%	115%
6 months before start of any quarter	50%	115%
12 months before start of any quarter	25%	115%
18 months before start of any quarter	10%	115%

Risk Management Policy
Change Recommendation #1



Risk Management Policy
Change Recommendation #1



Risk Management Policy Changes

MERCED IRRIGATION DISTRICT
WATER & POWER

1) Decrease minimum hedged position at start of a six month period from 79% to 60% of load.
   - If approved by the Board, more power cost recovery through the implementation of a Power Cost Adjustment (PCA).
2) Shortening of the hedging time horizon from 36 to 27 months.
   - Hedging of energy prices too far into the future has cost the District heavily in the recent past.
3) Decrease in maximum hedged position.
   - Same logic as 1) above.

Risk Management Policy
Change Recommendation #2

MERCED IRRIGATION DISTRICT
WATER & POWER

Dodd/Frank Considerations

5) **Recommendation #2 – Incorporate into Policy Qualified Independent Representative (QIR) Requirements**
   1) As a quasi-State or Local Government entity, MID is considered a "Special Entity" by the CFTC. SE's are considered at risk and at a disadvantage when dealing with major SWAP participants.
   2) As a Special Entity, MID is required to be represented by a QIR when dealing with major swap participants.
   3) TEA has stepped up and fulfilled MID's QIR requirement.
   4) Staff recommends we write into policy this QIR function and how we select and monitor the performance of our QIR.
   5) Appendix A to current policy is proposed, with the following content:

Appendix A - Proposed

MERCED IRRIGATION DISTRICT
WATER & POWER

Purpose:
To ensure that MID, a Special Entity under the Dodd-Frank Financial Reform Act, selects a Qualified Independent Representative ("Representative") to provide advice and guidance when entering into swap transactions with Swap Dealers or Major Swap Participants.

Policy:

Selection: MID shall endeavor to seek and employ an individual or entity that will voluntarily act as a Representative for all energy commodity swap transactions between MID and any Swap Dealer or Major Swap Participant. The Representative must meet the following qualifications identified in 17 C.F.R. 23.450(b):

(i) Has sufficient knowledge to evaluate the transaction and risks;

(ii) Is not subject to a statutory disqualification;

(iii) Is independent of the swap dealer or major swap participant;

(iv) Undertakes a duty to act in the best interests of the Special Entity it represents;

(v) Makes appropriate and timely disclosures to the Special Entity;

(vi) Evaluates, consistent with any guidelines provided by the Special Entity, fair pricing and the appropriateness of the swap; and

(vii) In the case of a Special Entity as defined in § 23.401(c)(2) or (4), is subject to restrictions on certain political contributions imposed by the Commission, the Securities and Exchange Commission, or a self-regulatory organization subject to the jurisdiction of the Commission or the Securities and Exchange Commission; provided however, that this paragraph (b)(1)(vii) of this section shall not apply if the representative is an employee of the Special Entity.

The Representative and MID shall enter into a legal agreement that binds the Representative to comply with items (i) through (vii) in this policy.

At no longer than any 12 month interval, MID shall review the performance of the Representative to ensure compliance with items (i) through (vii) in this policy.

Risk Management Policy
Change Recommendation #3

MERCED IRRIGATION DISTRICT
WATER & POWER

Dodd/Frank Considerations

5) Recommendation #3 – Incorporate into Policy Additional Trade Documentation Requirements

Proposed additional RMP content:

Documentation of each transaction (composed of trade ticket, email/fax approval and confirm) shall include the following pre- and post-transaction information.

- Description of the transaction;
- Effective date and term;
- Quantity;
- Financial or Physical transaction;
- Price targets or thresholds set by the District, if applicable;
- Evidence of District approval by email or fax;
- Actual transaction price;
- Settlement terms;
- Buy or sell;
- Delivery point;

Risk Management Policy
Change Recommendation #3

MERCED IRRIGATION DISTRICT
WATER & POWER

Dodd/Frank Considerations

5) Recommendation #3 – Incorporate into Policy Additional Trade Documentation Requirements (continued):

Proposed additional RMP content:

Documentation of each transaction (composed of trade ticket, email/fax approval and confirm) shall include the following pre- and post-transaction information (continued) -

- For options, option type, strike and execution instructions;
- For financial swaps, the reference index;
- Starting delivery date and hour;
- Ending delivery date and hour;
- Product type;
- Any other date, hour and/or capacity data needed to define a shaped product;
- Broker or electronic trading site and fee, if applicable;
- If the trade is a swap;
- Reporting Counterparty.

MEETING OF THE RISK MANAGEMENT COMMITTEE OF THE MERCED IRRIGATION DISTRICT

DATE: 6/3/2014

AGENDA ITEM:
The Risk Management Committee (RMC) will review the benefits of implementing a Power Cost Adjustment (PCA).

RECOMMENDED ACTION:
The Risk Management Committee (RMC) recommend to the Board of Directors that a PCA be implemented.

BACKGROUND:

The PCA is an additional financial energy market risk tool for the District's Energy Resources energy market risk management strategy and will offer more reliable cost recovery for variations in power costs. PCA's are a commonly utilized electric industry tool to help mitigate volatile energy market prices.

The PCA, for MID electric customers, will be a cost per kilowatt hour (kWh) credit (or charge) billed monthly just like the State Surcharge and will be based on previous 12 months average power costs/kWh. PCA adjustment amount changes (down or up) will be made twice a year and the adjustments shown as a separate line item on customer bills.

ALTERNATIVES/PROS AND CONS OF RECOMMENDED ACTION:

PROS:
1) The PCA will provide another tool for Energy Resources to manage its financial energy market risks.

2) The PCA, when combined with financial hedging as an overall energy market risk strategy, may decrease the amount of financial energy market hedging needed.

CONS:
1) As a separate line item it may increase the complexity of bills.

2) Any new billing item may be perceived as a rate increase, which is generally not favored by customers.

ALTERNATIVES:
1) Continue with current practice.

2) Rely on rate increases if power costs escalate.

DEPARTMENT CONCURRENCES:
Energy Resources, Finance Department, General Counsel, General Manager

FISCAL IMPACT:
A small cost to implement changes to the billing system. All additional revenue from this charge is a pass through to fund purchase power costs of the District resulting in no fiscal impact on the District. However, the general impact will be to develop more predictable reserve levels, while the annual revenue generated will be more variable.

ATTACHMENTS:

	Description	Type
🗋	MID Power Cost Adjustment Proposed - Presentation	Presentation

6) MID Power Cost Adjustment Proposed

MID Financial Planning Considerations

MERCED IRRIGATION DISTRICT
WATER & POWER

6) Power Cost Adjustment (PCA)

1) Based on TID costs plus hedge costs.
2) Baseline Power Cost per kWh needs to be established from which future cost adjustments are made. Calculate upon implementation of PCA.
3) Every 6 months a new baseline will be recalculated from the same sets of Power Costs looking back 12 months.
4) The difference between the current period baseline and the previous baseline creates a PCA value credited (or charged) to customers to pay back decreases (or recoup increases) in Power Cost over that time period.
5) This reduces, but does not eliminate, the need for hedges in the RM Program.

MEETING OF THE RISK MANAGEMENT COMMITTEE OF THE MERCED IRRIGATION DISTRICT

DATE: 6/3/2014

AGENDA ITEM:
The Risk Management Committee (RMC) will review the benefits of implementing an Environmental Charge.

RECOMMENDED ACTION:
The Risk Management Committee (RMC) recommend to the Board of Directors that an Environmental Charge be implemented.

BACKGROUND:

The District faces multiple new regulatory environmental compliance expenses imposed by the California Energy Commission (CEC) and the California Air Resources Board (CARB). Senate Bill X1-2 imposed aggressive Renewable Portfolio Standards (RPS) on electric utilities through 2020 which include requiring that utilities procure at least 33% of their electric generation from renewable resources. AB 32 imposed strict Green House Gas emission requirements that also resulted in the creation of the California Cap and Trade program. Both of these programs represent unfunded mandates to be paid for by the utilities. The Environmental Charge is a tool to charge these mandated costs directly to the customers as a line item pass through on their bills as opposed to the being embedded into rates.

The Environmental Charge for MID electric customers will be a cost per kilowatt hour charge billed as a separate monthly charge based on our annual budget for these items. At fiscal year-end a true up will be made comparing budget costs to actual and differences incorporated into the next year's Environmental Charge.

ALTERNATIVES/PROS AND CONS OF RECOMMENDED ACTION:

PROS:

1) The adoption of this new billing item will allow Energy Resources to manage mandated environmental costs without rate increases for this purpose.

2) Electric customers will have a much better understanding of the environmental charges as components of their overall energy costs.

CONS:
1) Will add another billing line item to the customer's bills, which may increase the complexity of the bills.

2) May be perceived as a rate increase, which is generally not favored by customers.

ALTERNATIVES:
1) Continue to pay for environmental costs out of operating income and reserves.

2) Pay for environmental costs by implementing rate increases as needed.

DEPARTMENT CONCURRENCES:
Energy Resources, Finance Department, General Counsel, General Manager

FISCAL IMPACT:
A small cost to implement changes to the billing system. All additional revenue from this charge is a pass through to fund environmental costs of the District resulting in no fiscal impact on the District.

ATTACHMENTS:

Description	Type
MID Environmental Charge Proposed - Presentation	Presentation

7) MID Environmental Charge Proposed

MID Financial Planning Considerations

MERCED IRRIGATION DISTRICT
WATER & POWER

7) Environmental Charge (EC)

1) Comprised of Renewable Portfolio Standard (RPS) (as dictated by the California Energy Commission, CEC) and Green House Gas (GHG) (as dictated by the California Air Resources Board, CARB) related costs.
2) Combining these costs into one pass through cost easier for Billing and customers.
3) RPS cost already paid for by MID include Iberdrola Wind Contract and WAPA Allocation.
4) Pass through of these costs eliminates the need for a rate increase to cover these growing costs.
5) Added Costs: Residential (800 kWh) ~ $4/mo (TID ~ $21.52/mo), ED-4 (7000 kWh) ~ $35/mo (TID ~ $188/mo).

MID Financial Planning Considerations

MERCED IRRIGATION DISTRICT
WATER & POWER

- **Rate Increases – Discussion Only**
  1) It has been six years (2008) since MID's last rate increase.
  2) Current Rates did not take into account all Cap & Trade Costs, RPS Costs, the need to fund major capital projects, and the need to reduce ER's Debt/Equity Ratio.
  3) South Transmission Project will increase capital spending significantly in the next three years.
  4) NERC/WECC compliance continues to put upward pressure on MID's overall costs.