

Comm #2

City Of North Little Rock, Arkansas

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November 16, 2016

To: North Little Rock City Council

From: C. Jason Carter, City Attorney



RE: Risk Management Committee Quarterly Report (Q3, FY16)

I. INTRODUCTION

This quarterly report is submitted to the North Little Rock City Council in compliance with the North Little Rock Energy Risk Management Policy (“Risk Management Policy”) adopted on October 26, 2015 as Ordinance No. 8771. The Risk Management Policy created the City’s Risk Management Committee, delegated certain authority to the Risk Management Committee, and imposed quarterly reporting requirements. The quarterly report must include: (1) an assessment of the program’s results and effectiveness; (2) confirmation that the program guidelines are being followed, and (3) a discussion regarding recommendations for material modifications to the Risk Management Policy. This report will address all activity of the Risk Management Committee in the third quarter of 2016.

II. ASSESSMENT OF RESULTS AND EFFECTIVENESS

During the third quarter of 2016, implementation of the Risk Management Policy has proven effective. This conclusion is supported by evaluating the Risk Management Policy against its stated objectives, which are summarized as follows:

1. Manage the price volatility and volume risk of the City’s net position consistent with the risk tolerance of the City Council.
2. Manage credit risks and monitor movements in the forward market price (mark-to-market) for wholesale power and fuel.
3. Provide the requisite information to NLRED staff given the responsibility for oversight of power management and the risks inherent in it.
4. Allow NLRED staff to proactively demonstrate to the City Council that appropriate diligence is being exercised regarding oversight of power supply activities.

During the third quarter of 2016, the Risk Management Committee held four (4) meetings, including one special meeting on July 20, 2016. At each meeting, the City’s Power Manager

briefed members on existing portfolio risk, market activity, and opportunities to manage market risk. The following transactions were approved and subsequently executed:

| DATE APPROVED | PRODUCT | VOLUME | DELIVERY PERIOD | AUTHORIZED PRICE | EXECUTED PRICE |
|---------------|------------------|-----------|-------------------------|---------------------------|---------------------------|
| 7/14 | Energy | 5MW | MAY-JUN, 2017 (Peak) | \$33.25/MWh (\$117,040) | \$31.50/MWh (\$110,880) |
| 7/14 | Energy | 8MW | JUL-AUG, 2017 (ATC) | \$33.00/MWh (\$392,832) | \$30.65/MWh (\$364,858) |
| 7/14 | Energy | 10MW | JUL-AUG, 2018 (ATC) | \$33.45/MWh (\$497,736) | \$31.80/MWh (\$473,184) |
| 7/20 | Energy | 10MW | FY18 – FY21 (Peak) | \$32.60/MWh (\$8,378,200) | \$30.55/MWh (\$7,851,350) |
| | | 5MW | FY18 – FY21 (Off Peak) | | |
| 8/11 | Energy | 8MW | APR, 2017 (ATC) | \$26.40/MWh (\$152,064) | \$26.25/MWh (\$151,200) |
| 8/11 | Energy | 5MW | Q3, 2017 (ATC) | \$28.35/MWh (\$312,984) | \$27.90/MWh (\$308,016) |
| 9/8 | Energy | 5MW | MAR-APR, 2017 (Peak) | \$31.20/MWh (\$107,328) | Did not execute |
| 9/8 | Energy | 5MW | Q3, 2017 (Peak) | \$34.60/MWh (\$174,384) | Did not execute |
| 9/8 | Capacity | 60MW | PY 17/18 | \$0.31/kW-mo. (\$223,200) | \$0.27/kW-mo. (\$194,400) |
| 9/8 | FTR Ark → NLR | 0 – 5 MW | Spring, 2017 (Off Peak) | \$0.20 – (0.05) / MWh | 1.6MW @ \$0.035/MWh |
| 9/8 | FTR Ark → NLR | 0 – 10 MW | Spring, 2017 (Peak) | \$0.30 – (\$0.50) / MWh | 5.7MW @ -\$0.177/MWh |

Each transaction was recommended by the Power Manager, although the Risk Management Committee made specific decisions regarding the volume of capacity purchases. Each recommendation was supported by nonvoting members of the Risk Management Committee and unanimously approved by the voting members of the Risk Management Committee.

Third-quarter transactions reduced the City’s net exposure to price volatility of energy. Energy purchases totaled 304,104 MWh at a cost of \$9,259,488, with an average price of \$30.45/MWh. The purchases were targeted for specific periods of time that would best reduce the City’s exposure to price volatility, consistent with the Risk Management Policy. Energy purchases in the third quarter are noteworthy in that blocks were secured for both on and off peak periods from FY18 through FY21 with favorable pricing. Also noteworthy, a pricing bubble in September prevented the execution of approved transactions. However, as of the publication date of this report, market prices had returned to previous levels and facilitated purchase of the targeted energy blocks.

The City acquired additional capacity hedges in the third quarter. The value of capacity in MISO’s Zone 8 has remained stable and affordable. However, as several power plants are forecasted for

decommissioning, prices will likely increase over time. The City's participation in the FTR Auction again resulted in minor Departmental revenue.

III. COMPLIANCE

The Risk Management Policy constrains the Risk Management Committee, and members, from certain acts described below.

| <i>YES</i> | <i>NO</i> | <i>N/A</i> | <i>Requirement</i> |
|-------------------|------------------|-------------------|--|
| <u>X</u> | ___ | ___ | 1. Code of Conduct compliance. |
| <u>X</u> | ___ | ___ | 2. Annual acknowledgement of Risk Management Policy. |
| <u>X</u> | ___ | ___ | 3. Counterparty suitability. |
| <u>X</u> | ___ | ___ | 4. Transactions do not exceed counterparty credit limit (\$5M) |
| <u>X</u> | ___ | ___ | 5. Transactions limited to approved products (App. B). |
| <u>X</u> | ___ | ___ | 6. Maturity of each transaction within policy limit (72 months). |
| <u>X</u> | ___ | ___ | 7. Term of each transaction within policy limit (60 months). |
| <u>X</u> | ___ | ___ | 8. Notional dollars of each transaction within policy limit (\$10M). |
| <u>X</u> | ___ | ___ | 9. Segregation of duties maintained. |
| <u>X</u> | ___ | ___ | 10. Speculative trading prohibited. |
| <u>X</u> | ___ | ___ | 11. Hedge compliance. |
| <u>X</u> | ___ | ___ | 12. Procedural compliance. |
| <u>X</u> | ___ | ___ | 13. Record-keeping compliance. |
| ___ | ___ | <u>X</u> | 14. Emergency operations |

Comments:

1. Jill Ponder served in place of Danny Bradley for the meeting on 8/11/2016. The appointment of a substitute was accomplished in accordance with the Risk Management Policy.
2. No emergency operations were necessary.

IV. RECOMMENDATIONS

None.

FILED 11:45 A.M. _____ P.M.
 BY Attorney Carter
 DATE 11/22/16
 Diane Whitbey, City Clerk and Collector
 North Little Rock, Arkansas
 RECEIVED by I. McGraw