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City Of North Little Rock, Arkansas

Office Of The City Attorney

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April 25, 2016

To: North Little Rock City Council

From: C. Jason Carter, City Attorney 

RE: Risk Management Committee Quarterly Report (Q1, FY16)

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The North Little Rock Energy Risk Management Policy (“Risk Management Policy”) was adopted by the North Little Rock City Council on October 26, 2015 through 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.

As City Attorney, I am a nonvoting member of the Risk Management Committee. I am tasked to ensure legal compliance with applicable laws, including the Risk Management Policy. Thus, while the Risk Management Policy does not assign the quarterly reporting duty to any person, I believe it is most appropriate that I generate the required quarterly report. This report will address all activity of the Risk Management Committee in the first quarter of 2016.

**I. ASSESSMENT OF RESULTS AND EFFECTIVENESS**

During the first 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 first quarter of 2016, the Risk Management Committee held five (5) meetings. 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
2/9	Capacity	120MW	2017	\$0.40/kW-mo. (\$576,000)	\$0.33/kW-mo. (\$475,200)
3/8	Energy	5MW	2017 (ATC)	\$28.25/MWH (\$1,237,350)	\$26.20/MWH (\$1,147,560)
3/8	Energy	10MW	2017-Q3 (ATC)	\$29.10/MWH (\$642,528)	\$28.23/MWH (\$623,318)
3/16	Capacity	25MW	2017	\$0.24/kW-mo. (\$71,190)	\$0.24/kW-mo. (\$71,190)

Each type of 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.

First-quarter transactions reduced the City’s net exposure to price volatility of capacity and energy. The City entered the MISO capacity auction with only 14% market exposure, a significant improvement from FY15. Even though MISO capacity prices have been low, the market is extremely unpredictable. Bilateral capacity purchases allowed the City to manage this volatility. Energy purchases reduced the City’s market exposure to better align with the FY17 risk tolerances of the Risk Management Policy.

## II. COMPLIANCE

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

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

Comments:

1. All Q1 transactions complied with NLR Ethical Standards. However, all members of the RMC did not acknowledge reading the standards as required annually. This requirement was fully met on 4/25/16.
2. All Q1 transactions complied with the NLR Risk Management Policy. However, all members of the RMC did not acknowledge reading the standards as required annually. This requirement was fully met on 4/25/16.
3. Hedge percentages exceed authorized limits for +FY5.
4. No emergency operations were necessary.

**III. RECOMMENDATIONS**

Given the physical generation assets of NLRED, the maximum hedge restriction for +FY5 is unreasonable and should be amended. The current hedge restriction is 60%. The City's interests in Plum Point Energy Station, Murray Hydroelectric Plant, and the Two Pines biomass generator can exceed this limit. I recommend increasing the maximum hedge percentage in +FY5 to *at least 70%*.

FILED \_\_\_\_\_ A.M. 3:07 P.M.  
BY City Atty Carter  
DATE 4-25-16  
Diane Whitbey, City Clerk and Collector  
North Little Rock, Arkansas  
RECEIVED by [Signature]