

City Of North Little Rock, Arkansas

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July 21, 2016

To: North Little Rock City Council

From: C. Jason Carter, City Attorney



RE: Risk Management Committee Quarterly Report (Q2, 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 second quarter of 2016.

II. ASSESSMENT OF RESULTS AND EFFECTIVENESS

During the second 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 second quarter of 2016, the Risk Management Committee held three (3) 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
4/14	Energy	8MW	June, 2017 (ATC)	\$26.60/MWh (\$153,216)	\$25.65/MWh (\$147,744)
4/14	Energy	5MW	July-August, 2017 (ATC)	\$29.30/MWh (\$217,992)	\$26.85/MWh (\$199,764)
4/14	Energy	5MW	Q4, 2017 (ATC)	\$25.90/MWh (\$286,066)	\$24.75/MWh (\$273,364)
4/14	FTR Auction	PP + 5MW	Summer, 2016 – Spring, 2017	(-\$1.00) – (- \$0.50) /MWh	-\$53,791
5/10	Energy	5MW	March-April, 2017 (ATC)	\$29.05/MWh (\$212,646)	\$27.00/MWh (\$197,640)
5/10	Energy	8MW	June, 2017 (ATC)	\$26.10/MWh (\$150,336)	\$26.05/MWh (\$150,048)
5/10	Energy	8MW	Q3, 2017 (Peak)	\$33.80/MWh (\$272,563)	\$33.00/MWh (\$266,112)
6/9	Energy	20MW	March, 2017 (Peak)	\$32.30/MWh (\$237,728)	\$32.26/MWh (\$237,434)
6/9	Energy	15MW	July, 2017 (Peak)	\$38.25/MWh (\$183,600)	Did not execute

Each transaction was recommended by the Power Manager. Each approved recommendation was supported by nonvoting members of the Risk Management Committee and unanimously approved by the voting members of the Risk Management Committee.

Second-quarter transactions reduced the City’s net exposure to price volatility of energy and generated revenue from transmission rights through the MISO auction. Energy purchases totaled approximately 52,750 MWh at a cost of \$1,472,106, with an average price of \$27.91/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.

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.

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| <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 Karen Scott for the meeting on 4/14/2016. The appointment of a substitute was accomplished in accordance with the Risk Management Policy.
2. Hedge percentages were modified on 5/23/2016 through Ordinance No. 8815.
3. No emergency operations were necessary.

IV. RECOMMENDATIONS

None.