

#6



NORTH LITTLE ROCK CITY ATTORNEY'S OFFICE

116 Main Street—P. O. Box 5757
North Little Rock, AR 72119
Phone: 501-975-3755
Fax: 501-340-5341

MEMORANDUM

TO: North Little Rock City Council
FROM: Amy Beckman Fields, City Attorney
SUBJECT: Energy Risk Management Policy Compliance Report
DATE: May 27, 2025

On October 26, 2020, the North Little Rock City Council adopted Ordinance No. 9296, adopting a revised Energy Risk Management Policy for the North Little Rock Electric Department. Appendix E of the Energy Risk Management Policy sets out a Hedge Plan, which requires a minimum hedge percentage of 79% for the month of June 2025. I have attached a copy of the Hedge Plan for your reference. I have also attached a copy of the Compliance Analysis that was presented to the Risk Management Committee at its May 21, 2025 meeting that shows that the hedge percentage for June 2025 is at 78% as opposed to the required 79%.

The Risk Management Committee discussed at length the factors that led to June 2025 being out of compliance with the Hedge Plan. June 2024 was extremely hot and well above average, with high temperatures atypically extending into the off peak hours. Despite our peak hedge position for June 2025 projected to be 84%, the sustained heat last June drove our off peak position down to 72%. Given that off peak energy prices are generally lower than on peak prices at Arkansas Hub—and our peak position exceeding the 80% minimum threshold, where the majority of our exposure and price volatility typically reside—the Risk Management Committee agreed that the overall 78% ATC hedge position remained acceptable.

Although August and October 2025 are not yet out of compliance, they are anticipated to fall below the minimum hedge requirement. With August Around the Clock and October peak bilateral hedge prices trading approximately 39% and 29% above market prices realized in the previous two years, respectively, the Risk Management Committee believes that the potential cost savings from holding a position only 2% below the minimum requirement outweigh the benefits of increasing coverage at this time. The committee will continue to monitor bilateral hedge prices closely and will likely increase the portfolio's position for these two months should prices retreat to more favorable levels.

FILED 10:44 AM P.M.
BY email Amy Fields
DATE 5/27/25
Diane Whitby, City Clerk and Collector
North Little Rock, Arkansas
RECEIVED by [Signature]

E-Mail Addresses

afields@nlr.ar.gov
abetton@nlr.ar.gov
cyielding@nlr.ar.gov

mmiller@nlr.ar.gov
rhogan@nlr.ar.gov
krtrevino@nlr.ar.gov

Appendix E - Hedge Plan

The Risk Management Committee (“RMC”) will enter into contracts as authorized by the Risk Management Policy in order to manage the City’s exposure to wholesale energy market risk within acceptable limits described in this hedge plan. The goal of the hedge plan is to reduce the City’s exposure to market volatility through incremental transactions conducted over months or years.

The hedge plan will measure and manage near-term risk on a monthly basis implementing required compliance with monthly hedge limits on a rolling twelve (12) month basis and recommended compliance with monthly hedge limits on a rolling thirteen to twenty-four (13-24) month basis. For long-term risk management, the RMC is required to periodically report on long-term market opportunities.

The basis for modeling city-owned asset generation under the hedge plan will be historic five-year averages. It is recognized that the nature of energy markets is dynamic and some flexibility may be required under the hedge plan. Should historic five-year average generation vary significantly from expected future generation, the basis for measuring city-owned asset generation under the hedge plan may be based on a reasonable substitute model. Any deviation in modeling city-owned assets from historic five-year averages will be noted in the model. The RMC will manage the financial risk of significant under-production from these long-term power resources independently from the Hedge Plan.

Months in which planned generation outages have occurred in the past are exempt from the minimum hedge limit requirements until one month prior to the start of the planned outage. Once confirmation of the upcoming outage dates has been received, the RMC will begin taking action to move the month in which the outage is set to occur into compliance.

Required Monthly Hedge Limits

	Minimum Hedge Percentage	Maximum Hedge Percentage
Current Month	80	100
Month +1	79	100
Month +2	78	98
Month +3	77	98
Month +4	76	96
Month +5	76	96
Month +6	75	95
Month +7	75	95
Month +8	75	95
Month +9	74	94
Month +10	73	93
Month +11	72	92
Month +12	72	92

Note: Minimum limits applicable to shoulder months (April, May, October, and November) will be five percent lower than those show in the chart above.

Recommended Monthly Hedge Limits

	Minimum Hedge Percentage	Maximum Hedge Percentage
Month +13	71	91
Month +14	70	91
Month +15	70	91
Month +16	69	90
Month +17	68	90
Month +18	67	89
Month +19	67	89
Month +20	66	88
Month +21	66	88
Month +22	66	88
Month +23	65	87
Month +24	65	87

Note: Minimum limits applicable to shoulder months (April, May, October, and November) will be five percent lower than those show in the chart above.

Compliance Analysis



Compliance Analysis							In Compliance?	
Month:	Minimum Hedge Percentage	Maximum Hedge Percentage	NLR Hedge Percentage					
Month +1	75	100	80				YES	
Month +2	79	100	78				NO	
Month +3	78	98	80				YES	
Month +4	77	98	78				YES	
Month +5	76	96	83				YES	
Month +6	71	96	73				YES	
Month +7	70	95	88				YES	
Month +8	75	95	82				YES	
Month +9	75	95	85				YES	
Month +10	74	94	81				YES	
Month +11	73	93	84				YES	
Month +12	67	92	49				NO	EXEMPT
Month +13	67	92	86				YES	
Month +14	71	91	74				YES	
Month +15	70	91	67				NO	
Month +16	70	91	68				NO	
Month +17	69	90	79				YES	
Month +18	63	90	68				YES	
Month +19	62	89	82				YES	
Month +20	67	89	76				YES	
Month +21	66	88	85				YES	
Month +22	66	88	81				YES	
Month +23	66	88	85				YES	
Month +24	65	87	49				NO	EXEMPT

Shoulder Months Defined:			
April	May	October	November

Notes:

- Shoulder months have a minimum hedge percentage of 75
- April exempt from policy due to Plum Point's annual outage

Key:

Indicates months outside of the 2 year window during which NLR can transact on TEA's books.

Indicates that additional hedges will have to be purchased in the future to maintain compliance.