

City Of North Little Rock, Arkansas


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To: North Little Rock City Council
From: C. Jason Carter, City Attorney 
RE: Risk Management Committee Quarterly Report (Q1, FY17)

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 first quarter of 2017.

II. ASSESSMENT OF RESULTS AND EFFECTIVENESS

During the first quarter of 2017, 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 2017, the Risk Management Committee held four (4) 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
1/12	Energy	3MW	MAR, 2017 (Off Peak)	\$24.10/MWh (\$56,141)	Did not execute
1/12	Energy	10MW	APR, 2017 (Peak)	\$28.25/MWh (\$50,800)	Did not execute
1/12	Energy	5MW	Q3, 2018 (Peak)	\$31.50/MWh (\$158,760)	Did not execute
1/12	FTR PP → NLR	0 – 60 MW (SELL)	MAR, 2017 (Off Peak)	\$0 – \$0.25 / MWh	32.3MW @ \$0.13/MWh (-\$1,800.84)
1/12	FTR PP → NLR	0 – 59.9 MW (SELL)	MAR, 2017 (Peak)	\$0 – \$1.00 / MWh	7.3MW @ \$0.013/MWh (-\$139.21)
1/12	FTR PP → NLR	0 – 60 MW (SELL)	APR, 2017 (Off Peak)	\$0 – \$0.13 / MWh	Did not execute
1/12	FTR PP → NLR	0 – 59.9 MW (SELL)	APR, 2017 (Peak)	\$0 – \$0.30 / MWh	Did not execute
1/12	FTR Ark → NLR	0 – 0.8 MW (BUY)	FEB, 2017 (Off Peak)	\$0 – (\$0.50) / MWh	Did not execute
1/12	FTR Ark → NLR	0 – 7.2 MW (BUY)	FEB, 2017 (Peak)	\$0.50 – (\$0.50) / MWh	4.1MW @ \$0.28/MWh (\$373.26)
1/12	FTR Ark → NLR	0 – 7.1 MW (BUY)	MAR, 2017 (Off Peak)	\$0.50 – (\$0.25) / MWh	6.4MW @ -\$0.10/MWh (-\$232.06)
1/12	FTR Ark → NLR	0 – 26.3 MW (BUY)	MAR, 2017 (Peak)	\$0.90 – (\$0.75) / MWh	21.9MW @ -\$0.09/MWh (-\$761.03)
1/12	FTR Ark → NLR	0 – 15.1 MW (BUY)	APR, 2017 (Off Peak)	\$0.10 – (\$0.80) / MWh	10.3MW @ -\$0.06/MWh (-\$249.88)
1/12	FTR Ark → NLR	0 – 14.3 MW (BUY)	APR, 2017 (Peak)	\$0.30 – (\$0.75) / MWh	1.4MW @ \$0.26/MWh (\$114.34)
1/12	FTR Ark → NLR	0 – 2.1 MW (BUY)	MAY, 2017 (Off Peak)	\$0 – (\$1.25) / MWh	0.3MW @ \$0.12/MWh (-\$14.63)
1/12	FTR Ark → NLR	0 – 1.3 MW (BUY)	MAY, 2017 (Peak)	\$0 – (\$1.25) / MWh	Did not execute
2/14	Energy	8MW	APR, 2017 (Peak)	\$34.10/MWh (\$87,296)	\$29.50/MWh (\$75,520)
2/14	Energy	8MW	JUN, 2017 (Peak)	\$34.75/MWh (\$97,856)	\$33.00/MWh (\$88,704)
2/14	FTR PP → NLR	0 – 23.7 MW (SELL)	MAR, 2017 (Off Peak)	\$0 – \$1.00 / MWh	Did not execute
2/14	FTR PP → NLR	0 – 52.6 MW (SELL)	MAR, 2017 (Peak)	\$0 – \$1.00 / MWh	Did not execute

DATE APPROVED	PRODUCT	VOLUME	DELIVERY PERIOD	AUTHORIZED PRICE	EXECUTED PRICE
2/14	FTR PP → NLR	0 – 60 MW (SELL)	APR, 2017 (Off Peak)	\$0 – \$1.00 / MWh	Did not execute
2/14	FTR PP → NLR	0 – 59.9 MW (SELL)	APR, 2017 (Peak)	\$0 – \$1.00 / MWh	Did not execute
2/14	FTR Ark → NLR	0 – 0.7 MW (BUY)	MAR, 2017 (Off Peak)	\$0 – (\$1.00) / MWh	Did not execute
2/14	FTR Ark → NLR	0 – 4.4 MW (BUY)	MAR, 2017 (Peak)	\$0 – (\$1.00) / MWh	1.4MW @ -\$0.02/MWh (-\$11.86)
2/14	FTR Ark → NLR	0 – 4.8 MW (BUY)	APR, 2017 (Off Peak)	\$0.10 – (\$1.00) / MWh	4.0MW @ -\$0.02/MWh (-\$32.72)
2/14	FTR Ark → NLR	0 – 12.9 MW (BUY)	APR, 2017 (Peak)	\$0.10 – (\$1.00) / MWh	10.4MW @ -\$0.38/MWh (-\$1,262.77)
2/14	FTR Ark → NLR	0 – 1.8 MW (BUY)	MAY, 2017 (Off Peak)	\$0.10 – (\$1.00) / MWh	1.3MW @ \$0.01/MWh (\$6.16)
2/14	FTR Ark → NLR	0 – 1.3 MW (BUY)	MAY, 2017 (Peak)	\$0.10 – (\$1.00) / MWh	1.0MW @ -\$0.24/MWh (-\$82.72)
3/9	Energy	10MW	APR, 2017 (Peak)	\$29.75/MWh (\$95,200)	\$29.75/MWh (\$95,200)
3/9	Energy	5MW	JUN-AUG, 2017 (Peak)	\$36.10/MWh (\$187,720)	\$35.25/MWh (\$183,300)
3/9	Energy	5MW	JUN-SEP, 2018 (ATC)	\$29.10/MWh (\$426,024)	\$26.88/MWh (\$393,523)
3/9	FTR PP → NLR	0 – 60 MW (SELL)	APR, 2017 (Off Peak)	(\$0.25) - \$2.00 / MWh	42.5MW @ \$0.12/MWh (\$2,034.05)
3/9	FTR PP → NLR	0 – 60 MW (SELL)	APR, 2017 (Peak)	(\$0.60) - \$2.00 MWh	51.5MW @ -\$0.26/MWh (-\$4,250.30)
3/9	FTR Ark → NLR	0 – 0.8 MW (BUY)	APR, 2017 (Off Peak)	\$0.50 – (\$1.00) / MWh	Did not execute
3/9	FTR Ark → NLR	0 – 20.5 MW (BUY)	APR, 2017 (Peak)	\$0.50 – (\$1.00) / MWh	13.4MW @ \$0.13/MWh (\$545.65)
3/9	FTR Ark → NLR	0 – 0.5 MW (BUY)	MAY, 2017 (Off Peak)	\$0.50 – (\$1.00) / MWh	0.3MW @ -\$0.08/MWh (-\$9.29)
3/9	FTR Ark → NLR	0 – 0.3 MW (BUY)	MAY, 2017 (Peak)	\$0.50 – (\$1.00) / MWh	0.2MW @ -\$0.27/MWh (-\$19.06)
3/9	Capacity	30MW (ZRCs)	PY 17/18	\$0.30 kW-Mo.	\$0.20 kW-mo. (\$72,000)

Each transaction was recommended by the Power Manager. 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 energy. Energy purchases totaled 28,288 MWh at a cost of \$836,247.00, resulting in an average price of \$29.56/MWh. The purchases were targeted to reduce the risk of price exposure attributable to Plum Point’s outage through April of 2017, and to fill-in unmet energy requirements for the summer months of 2017 and 2018, consistent with the Risk Management Policy. Numerous FTR transactions were used to control risk of price differentials between our notional transaction point (ARK) and our local price node (NLR), and to gain value for the unused capacity on our transmission pathway to the Plum Point Energy Station (PP). First quarter FTR transactions resulted in net revenue for the City of \$5,792.64. While approaching the annual capacity auction, the Risk Management Committee approved an acquisition of 30 ZRCs to reduce exposure to a potentially volatile pricing; fortunately, the City’s remaining capacity needs were filled by favorable auction prices.

Overall, thirteen transactions were authorized without execution in the month following approval. This is often due to some unexpected upward swing in pricing. The Power Manager and Risk Management Committee have developed processes to review transactions that cannot be executed as expected to ensure hedging goals are met.

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. No emergency operations were necessary.
2. All voting members of the Risk Management Committee have performed an annual review of the Risk Management Policy and NLRED Ethical Standards.

IV. RECOMMENDATIONS

None.

FILED 11:12 A.M. _____ P.M.
BY City Atty Carter
DATE 6/6/17
Diane Whitby, City Clerk and Collector
North Little Rock, Arkansas
RECEIVED by [Signature]