

Carter Law Firm, LLC

P.O. Box 307, North Little Rock, Arkansas 72118 | (501) 352-9587 | jason@carterlaw.us

FILED _____ A.M. 2:23 P.M.

BY Via email

DATE 6/27/18

Diane Whitby, City Clerk and Collector
North Little Rock, Arkansas

RECEIVED by [Signature]

Date: June 27, 2018

To: North Little Rock City Council

From: C. Jason Carter

RE: Risk Management Committee Quarterly Report (Q1, FY18)

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, and thereafter amended from time to time. 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 2018.

II. ASSESSMENT OF RESULTS AND EFFECTIVENESS

During the first quarter of 2018, implementation of the Risk Management Policy has proven effective. This conclusion is supported by evaluating Risk Management Committee activity against the stated objectives of the Risk Management Policy, 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.

The Risk Management Committee held three (3) regular meetings and two (2) special meetings in the first quarter of 2018. At each regular meeting, the City’s Power Manager briefed members on weather, relevant industry changes, 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
1/11	ENERGY	10MW	APR 18 (Peak)	\$30.15/MWh (\$101,304)	\$29.70/MWh (\$99,792)
1/11	FTR (BUY) Ark → NLR	0 – 15.0 MW	APR 18 (Peak)	\$1.00 - \$1.75 /MWh (NTE: \$5,103)	\$3,379.20
1/11	FTR (BUY) Ark → NLR	0 – 5.0 MW	MAY 18 (Peak)	\$0.50 - \$1.50 /MWh (NTE: \$1,408)	\$546.80
1/11	FTR (BUY) PP → NLR	0 – 5.3 MW	MAR 18 (Off Peak)	\$0 – \$0.75 /MWh (NTE: \$784)	-\$82.68
1/11	FTR (BUY) PP → NLR	0 – 2.8 MW	MAR 18 (Peak)	\$0 – \$1.00 /MWh (NTE: \$528)	-\$509.63
1/11	FTR (SELL) PP → NLR	0 – 40.7 MW	APR 18 (Off Peak)	\$0 – \$1.50 /MWh (NO COST)	Did not execute
1/11	FTR (SELL) PP → NLR	0 – 49.2 MW	APR 18 (Peak)	\$0 – \$2.00 /MWh (NO COST)	Did not execute
2/8	ENERGY	5MW	SEP – OCT 18 (Peak)	\$29.85/MWh (\$100,296)	\$28.40/MWh (\$95,424)
2/8	CAPACITY	25MW (Zone 8)	PY 18/19	\$0.15/kW-mo. (\$45,000)	Did not execute
2/8	FTR (SELL) PP → NLR	0 – 40.7 MW	APR 18 (Off Peak)	\$0 /MWh (NO COST)	Did not execute
2/8	FTR (SELL) PP → NLR	0 – 49.2 MW	APR 18 (Peak)	\$0 /MWh (NO COST)	Did not execute
2/14*	CAPACITY	30MW (Zone 9)	PY 18/19	\$0.25/kW-mo. (\$90,000)	\$0.25/kW-mo. (\$90,000)
3/12	ENERGY	8 MW	JUN 18 (Peak)	\$31.90/MWh (\$85,747)	\$29.92/MWh (\$80,425)
3/12	ENERGY	5 MW	JUL - AUG 18 (ATC)	\$28.50/MWh (\$212,040)	\$28.30/MWh (\$210,552)
3/12	FTR (SELL) PP → NLR	0 – 40.7 MW	APR 18 (Off Peak)	\$0 /MWh (NO COST)	Did not execute
3/12	FTR (SELL) PP → NLR	0 – 49.2 MW	APR 18 (Peak)	\$0 /MWh (NO COST)	Did not execute

*Indicates approval during special meeting.

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. Four energy purchases were made during the quarter totaling 16,848 MWh at a cost of \$486,193.00, resulting in an average price of \$28.86/MWh. The purchases were targeted to reduce the risk of price exposure: (1) during the summer months of 2018, when prices are typically at the highest point for the year; and (2) during periods of peak usage in certain shoulder months (April, September and October). One capacity purchase was made to manage the risk of volatile pricing prior to the capacity auction at a cost of \$90,000. Nominal Financial Transmission Rights

(“FTR”) bids were used to manage the risk of price differentials between our notional transaction point (ARK) and our local price node (NLR) during peak usage periods of April and May. Other FTR bids were submitted to gain value for the unused capacity on our transmission pathway to the Plum Point Energy Station (PP) and to manage congestion risk related to a shift in the PP outage schedule. As shown in the chart above, FTR bids submitted for excess PP capacity did not clear the market. First quarter FTR transactions resulted in net cost of \$3,333.69

The RMC conducted two special meetings during the first quarter. The first special meeting was conducted on 2/14/2018 in response to unexpected increases in capacity pricing, as seen in the table above. The second special meeting was conducted on 3/7/2018 to approve the nomination of Auction Revenue Right (“ARR”) entitlements in the PY 18/19 FTR auction. While an explanation of ARR nominations and related risks would turn highly technical, it is accurate to report that the RMC submitted nominations that were consistent with advice from the Power Manager and NLRED Staff and reflected a balanced approach to market risk of congestion, in keeping 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.
<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. Compliance with annual ethics and Risk Management Policy review (see para. VII.A) have been met.

IV. RECOMMENDATIONS

None.