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Date: September 1, 2017  
To: North Little Rock City Council  
From: C. Jason Carter, City Attorney  
RE: Risk Management Committee Quarterly Report (Q2, FY17)

FILED 8:00 A.M. P.M.  
BY Via email  
DATE 9/5/17  
Diane Whitbey, City Clerk and Collector  
North Little Rock, Arkansas  
RECEIVED by [Signature]

**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 2017.

**II. ASSESSMENT OF RESULTS AND EFFECTIVENESS**

During the second 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 second quarter of 2017, the Risk Management Committee held five (5) meetings. In addition to three (3) regular meetings, two (2) special meetings were held to discuss seasonal and monthly FTR auctions. 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
4/13	Energy	8MW	JUN, 2017 (Peak)	\$32.80/MWh (\$92,365.00)	\$32.50/MWh (\$91,520.00)
4/13	Energy	5MW	JUL-AUG, 2017 (Peak)	\$38.60/MWh (\$132,784.00)	\$38.10/MWh (\$131,064.00)
4/13	Energy	5MW	JUN-SEP, 2018 (Peak)	\$32.50/MWh (\$218,400.00)	\$31.38/MWh (\$210,873.60)
4/13	FTR PP → NLR	0 – 17 MW (SELL)	MAY, 2017 (Off Peak)	<i>Any positive price</i>	Did not execute
4/13	FTR PP → NLR	0 – 7.9 MW (SELL)	MAY, 2017 (Peak)	<i>Any positive price</i>	7.9MW @ \$20.74/MW (-\$163.85)
4/13	FTR Ark → NLR	0 – 0.2 MW (BUY)	MAY, 2017 (Off Peak)	<i>Any negative price</i>	0.2MW @ -\$157.16/MW (-\$31.43)
4/13	FTR Ark → NLR	0 – 0.1 MW (BUY)	MAY, 2017 (Peak)	<i>Any negative price</i>	0.1MW @ -\$108.68/MW (-\$10.87)
5/11	Energy	5MW	JUN-AUG, 2018 (Peak)	\$31.65/MWh (\$164,580.00)	\$31.65/MWh (\$164,580.00)
6/8	Energy	5MW	OCT, 2017 (Peak)	\$32.25/MWh (\$56,320.00)	\$30.77/MWh (\$54,155.20)
6/8	FTR Ark → NLR	0 – 12.6 MW (BUY)	JUN, 2017 (Off Peak)	<i>NTE: \$983.81</i>	12.6MW @ \$78.08/MW (\$983.81)*
6/8	FTR Ark → NLR	0 – 13.1 MW (BUY)	JUN, 2017 (Peak)	<i>NTE: \$3,099.20</i>	13.1MW @ \$236.58/MW (\$3,099.20)*
6/8	FTR Ark → NLR	0 – 33 MW (BUY)	JUL, 2017 (Off Peak)	<i>NTE: \$2,756.00</i>	20.3MW @ \$129.07/MW (\$2,620.12)
6/8	FTR Ark → NLR	0 – 76 MW (BUY)	JUL, 2017 (Peak)	<i>NTE: \$3,050.00</i>	18MW @ \$122.14/MW (\$2,198.52)
6/8	FTR PP → NLR	0 – 3.0 MW (SELL)	JUL, 2017 (Peak)	<i>NTE: \$90.00</i>	0.9MW @ \$88.32/MW (\$79.49)
6/8	FTR Ark → NLR	0 – 33 MW (BUY)	AUG, 2017 (Off Peak)	<i>NTE: \$2,444.00</i>	26MW @ \$93.39/MW (\$2,428.14)

DATE APPROVED	PRODUCT	VOLUME	DELIVERY PERIOD	AUTHORIZED PRICE	EXECUTED PRICE
6/8	FTR Ark → NLR	0 – 76 MW (BUY)	AUG, 2017 (Peak)	<i>NTE: \$3,512.00</i>	Did not execute
6/8	FTR PP → NLR	0 – 6.0 MW (SELL)	AUG, 2017 (Peak)	<i>NTE: \$260.00</i>	2.3MW @ \$107.89/MW (\$248.15)
6/8	FTR Ark → NLR	0.3MW (BUY)	FALL, 2017 (Peak)	<i>Any negative price</i>	Did not execute
6/8	FTR Ark → NLR	0.1MW (BUY)	WINTER, 2017 (Peak)	<i>Any negative price</i>	Did not execute

*\* These transactions were approved by RMC through email vote on 5/22/2017. The email vote was required by the timing of FTR auctions between scheduled RMC meetings.*

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.

Second-quarter transactions reduced the City’s net exposure to price volatility of energy. Energy purchases totaled 19,936 MWh at a cost of \$652,192.80, resulting in an average price of \$32.71/MWh. The purchases were exclusively targeted to reduce the cost of power during peak hours in 2017 and 2018, consistent with the Risk Management Policy. Several FTR positions were offered in the MISO auction in order to control the risk of price differentials between our notional transaction point (ARK) and our local price node (NLR), and to protect against congestion and price fluctuations along our transmission pathway to the Plum Point Energy Station (PP).

The volume of transactions in the second quarter was less than the first quarter, which reflects both a stable hedging position and slightly less-favorable market. Prompt month natural gas prices often exceeded \$3.20/MMBtu during the second quarter when higher temperatures were anticipated. As summer has proven to be far cooler than normal, prices have now dipped back below the \$3.00/MMBtu mark.

### III. MEASURED PERFORMANCE

The Risk Management Committee, in conjunction with the Power Manager, recently reviewed the overall performance of the City’s hedging strategy to date. Market risk was evaluated using approximately two thousand (2000) iterations of stochastic modeling to estimate prices under varying conditions. Risk exposure may be measured as the gap between expected (50%) market outcomes and high-risk (95%) market outcomes. A successful hedge strategy should incrementally reduce the City’s measured risk exposure.

In order to measure performance of the City’s hedging strategy, the City’s risk exposure with hedges was compared to what the City’s risk exposure would be without hedges, for years 2017 through 2019. As shown in the table below, hedging strategies have reduced the City’s risk exposure during this period by over \$4.5M.

<b>Power Cost at Risk</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Unhedged</b>	\$ 3,251,199.15	\$ 1,726,262.32	\$ 1,854,073.32
<b>Hedged</b>	\$ 742,438.70	\$ 672,577.14	\$ 757,469.62
<b>Hedge Impact</b>	\$ 2,508,760.45	\$ 1,053,685.18	\$ 1,096,603.70

Based upon this analysis, the City's hedging strategies, as described in the Risk Management Policy, are properly functioning to reduce the City's risk associated with power costs. Please contact me if you would like to review additional data that is summarized in the table above.

#### IV. 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.

## V. RECOMMENDATIONS

1. **I recommend the creation of a “standing alternate” position on the Risk Management Committee.** Section II.A.2 of the City’s Risk Management Policy states, “Each member of the RMC may temporarily designate a qualified and capable representative to serve in his/her absence.” For the reasons stated below, I believe the City would benefit by changing this rule to use a standing alternate to serve during the absence of any voting member of the RMC.

a. The RMC functionally uses a standing alternate. In practice, all members of the RMC have designated Jill Ponder to serve as their representative during any absence, which has worked well.

b. A standing alternate facilitates continuity. Because Mrs. Ponder regularly attends RMC meetings, she is always generally aware of the goals, restrictions, and processes of the RMC. This benefit should be codified in the Risk Management Policy.

c. A standing alternate reduces record-keeping. Currently, the RMC maintains records reflecting each time a representative is appointed. By creating a standing alternate, no appointment, or record-keeping of the same, would be required.