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Date: September 17, 2018
To: North Little Rock City Council
From: C. Jason Carter
RE: Risk Management Committee Quarterly Report (Q2, FY18)

FILED 10 A.M. P.M.
BY Jason Carter v/a email
DATE 9-18-18
Diane Whitby, 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, 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 second quarter of 2018.

II. ASSESSMENT OF RESULTS AND EFFECTIVENESS

During the second 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 three (3) special meetings in the second 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
4/10 ¹	FTR (BUY) Ark → NLR	0 - 10 MW	Summer 18 (Off Peak)	\$0.10/MWh (\$1,168.00)	-\$0.23/MWh (-\$2,715.90)
4/10 ¹	FTR (BUY) Ark → NLR	0 - 33 MW	Summer 18 (Peak)	\$0.10/MWh (\$3,854.40)	-\$0.37/MWh (-12,698.07)
4/10 ¹	FTR (BUY) Ark → NLR	0 - 5.0 MW	Fall 18 (Off Peak)	\$0.10/MWh (\$588.00)	-\$0.11/MWh (-\$646.30)
4/10 ¹	FTR (BUY) Ark → NLR	0 - 10 MW	Fall 18 (Peak)	\$0.10/MWh (\$1,176.00)	\$0.03/MWh (\$313.70)
4/10 ¹	FTR (BUY) Ark → NLR	0 - 5.0 MW	Winter 18 (Off Peak)	\$0.10/MWh (\$584.00)	-\$0.15/MWh (-\$865.45)
4/10 ¹	FTR (BUY) Ark → NLR	0 - 10 MW	Winter 18 (Peak)	\$0.15/MWh (\$1,752.00)	-\$0.10/MWh (-\$983.50)
4/10 ¹	FTR (BUY) Ark → NLR	0 - 5.0 MW	Spring 19 (Off Peak)	\$0.10/MWh (\$584.00)	-\$0.06/MWh (-\$358.50)
4/10 ¹	FTR (BUY) Ark → NLR	0 - 10 MW	Spring 19 (Peak)	\$0.10/MWh (\$1,168.00)	-0.31/MWh (-\$3,263.40)
4/17	ENERGY	10 MW	JUN - SEP 18 (ATC)	\$29.00/MWh (\$849,120)	\$27.60/MWh (\$808,128)
4/17	ENERGY	5 MW	JUN - SEP 19 (ATC)	\$27.50/MWh (\$402,600)	\$27.15/MWh (\$397,476)
4/24 ¹	FTR (BUY) Ark → NLR	0 – 10.0 MW	Summer 18 (Off Peak)	\$0.10/MWh (\$1,168)	-\$0.16/MWh (-\$1,829.50)
4/24 ¹	FTR (BUY) Ark → NLR	0 – 10.0 MW	Summer 18 (Peak)	\$0.10/MWh (\$1,040)	-\$0.31/MWh (-\$3,205.60)
5/10 ²	ENERGY	8 MW	JUN 18 (Peak)	\$31.50/MWh (\$84,672)	\$31.25/MWh (\$84,000)
5/16 ¹	FTR (SELL) PP → NLR	0 – 10.4 MW	JUN 18 (Off Peak)	\$0 /MWh (NO COST)	-\$0.06/MWh (-\$215.70)
6/14	ENERGY	10 MW	JUL 18 (ATC)	\$31.25/MWh (\$232,500)	\$31.25/MWh (\$232,500)
6/14	ENERGY	8 MW	JUL - AUG 19 (Peak)	\$34.00/MWh (\$191,488)	\$34.00/MWh (\$191,488)
6/14	CAPACITY	50 MW (Zone 8)	PY 19/20	\$0.40/kW-mo. (\$240,000)	Pending ³
6/14	CAPACITY	50 MW (Zone 8)	PY 20/10	\$0.50/kW-mo. (\$300,000)	Pending ³

Notes:

1: Approval during special meeting.

2: Original authorization to purchase 8 MW JUN-JUL @ \$32.75 did not execute due to brief price rally. This purchase was substituted by approval of RMC.

3: These transactions are pending counterparty risk analysis.

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. Four energy purchases were made during the quarter totaling 59,680 MWh at a cost of \$1,713,592.00, resulting in an average price of \$28.71/MWh. The purchases were targeted to reduce the risk of price exposure

during the summer months of 2018 and 2019, when prices are typically at the highest point for the year. Two capacity purchases were authorized to manage the risk of potentially volatile auction prices. While price and relevant terms were tentatively agreed, these transactions are still being analyzed for risk by our counterparty. 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) in the annual auction. Another FTR bid was submitted to gain value for the unused capacity on our transmission pathway to the Plum Point Energy Station (PP). As shown in the chart above, all FTR bids submitted cleared the market resulting in net revenue of \$26,468.22 to the City.

The RMC conducted three special meetings during the second quarter. These meetings were all necessitated by the timing of FTR auctions conducted by MISO between regular meetings of the Risk Management Committee. As shown on the preceding chart, the Risk Management Committee used special meetings to timely approve bid submissions to the FTR auction which reduced congestion risk and produced revenue for the City.

Pursuant to the Risk Management Policy, Mr. Scott Springer assumed his role as a voting member of the Risk Management Committee during the Committee’s regularly scheduled meeting in June. Mr. Springer had attended Risk Management Committee meetings for several months prior to assuming his role, resulting in a seamless transition. Operations were unaffected.

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.

IV. RECOMMENDATIONS

None.