

ORDINANCE NO. \_\_\_\_\_

**AN ORDINANCE APPROVING A HEDGE PLAN FOR THE NORTH LITTLE ROCK ELECTRIC DEPARTMENT; WAIVING COMPETITIVE BIDDING; DECLARING AN EMERGENCY; AND FOR OTHER PURPOSES.**

WHEREAS, the North Little Rock Electric Department (“NLRED”) manages the city-owned electric utility system for the City of North Little Rock (“the City”), providing electric service to areas in North Little Rock, Sherwood and surrounding areas within Pulaski County, Arkansas; and

WHEREAS, with the adoption of Ordinance No. 8206 on October 12, 2009, the City Council approved an Integrated Resource Plan (“IRP”), a planning guide for future transmission, power supply, demand management and conservation programs for customers served by NLRED, with the plan calling for NLRED to diversify its power supply beginning January 1, 2014, and also requiring the development and adherence to a Risk Management Policy; and

WHEREAS, with the adoption of Ordinance No. 8771 on October 26, 2015, the City approved a Risk Management Policy (“RMP”) to identify risks and their economic impact on NLRED, to manage or mitigate risks, and to establish and define procedures and controls to be used by NLRED staff and a third-party energy trading and risk management entity (“Power Manager”) to manage risk; and

WHEREAS, after the approval of Resolution No. 8883 on November 23, 2015, the City entered contract with The Energy Authority, Inc. (“TEA”) to perform power management services for NLRED as contemplated within the RMP; and

WHEREAS, the Risk Management Committee (“RMC”) has conducted several meetings with TEA to develop a hedge plan for NLRED that would authorize the execution of contracts on behalf of the City within stated limits to manage the risk of cost fluctuations in the power market; and

WHEREAS, on January 12, 2016, the RMC met and unanimously recommended approval of the attached hedge plan.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF NORTH LITTLE ROCK, ARKANSAS:

SECTION 1: That the acquisition of electric power by contract is a unique and exceptional circumstance in which the traditional competitive bidding process has proven detrimental to the City, the citizens, and rate payers. Having determined that the

solicitation and negotiation of wholesale power contracts through a proper risk management framework is a beneficial process, competitive bidding is hereby waived.

SECTION 2: That based upon the recommendation of the North Little Rock Risk Management Committee and The Energy Authority, Inc., the hedge plan attached hereto as Exhibit A is approved. Specified officers, employees and agents of the City are hereby authorized to contractually bind the City to perform transactions authorized by the hedge plan according to the procedures described in the Risk Management Policy. Any and all deviations from the Risk Management Policy or this hedge plan shall be fully reported at the next regular meeting of City Council.

SECTION 3: That all ordinances or parts of ordinances in conflict herewith are hereby repealed to the extent of the conflict.

SECTION 4: That the provisions of this Ordinance are hereby declared to be severable and if any section, phrase or provision shall be declared or held invalid, such invalidity shall not affect the remainder of the sections, phrases or provisions.

SECTION 5: It is hereby found and determined that the price of wholesale power is subject to substantial fluctuations which may occur to the detriment of the City of North Little Rock and the ratepayers of the North Little Rock Electric Department, requiring the immediate passage of this ordinance in order to insure the financial stability of the City and predictable flow and cost of electricity for North Little Rock Electric Department rate payers, and being necessary for the immediate preservation of the public health, safety and welfare, THEREFORE, an emergency is hereby declared to exist and this Ordinance shall be in full force and effect from and after its passage and approval.

PASSED:

APPROVED:

\_\_\_\_\_

\_\_\_\_\_  
Mayor Joe A. Smith

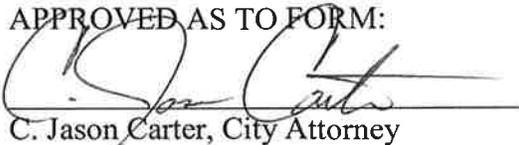
SPONSOR:

ATTEST:

  
\_\_\_\_\_  
Mayor Joe A. Smith

\_\_\_\_\_  
Diane Whitbey, City Clerk

APPROVED AS TO FORM:

  
\_\_\_\_\_  
C. Jason Carter, City Attorney

PREPARED BY THE OFFICE OF THE CITY ATTORNEY

FILED 11:50 A.M. \_\_\_\_\_ P.M.  
BY J. Carter, City Atty  
DATE 1-19-16  
Diane Whitbey, City Clerk and Collector  
North Little Rock, Arkansas  
RECEIVED by D. McBlair

## Appendix E: North Little Rock Electric Department Hedge Plan

### Introduction

In the course of business, North Little Rock Electric Department (“Department”) is routinely exposed to energy commodity price risk, volume risk, congestion risk, and operational risk. Volatility of energy commodity prices and volumetric uncertainty impose a substantial and direct risk to the financial and operating performance of the Department. The approval of this hedge plan by the North Little Rock City Council authorizes certain officers, employees and agents to contractually bind the City to perform transactions authorized by this hedge plan according to the procedures described in the City’s Risk Management Policy (Ordinance No. 8771) adopted on October 26, 2015.

This Risk Management Program (“Program”) document is being established for four primary reasons:

1. To articulate clearly and detail, the activities of the Program’s risk management strategies.
2. To implement the Program’s operational execution, accountability, authority and responsibilities that have been clearly delineated by the Department’s Power Supply Risk Management Policy (“Risk Policy”)
3. To identify, monitor, control, and report the status and expected effectiveness of the Corporation’s hedge portfolio before and after hedge positions are taken.
4. To ensure that the impact of any actions affecting the Corporation’s risk position is consistently quantified, monitored, reported and managed through authorized activities.

### Governance

This Program shall be governed by the Risk Policy approved by the City Council on October 26, 2015.

In the event that the Program and the Risk Policy are in conflict the Risk Policy shall take precedence.

### Objectives

The Program’s objective is to identify specific exposures of the Department’s portfolio to movements in energy prices, quantify the impact of those exposures on the Department’s overall cost of providing service to retail customers, manage the exposures in line with the Department’s identified level of risk tolerance. To also, monitor and report on the effectiveness of the Program’s risk mitigation strategies, and recommend risk mitigation strategies changes as necessary.

The primary goals of the program are:

- **Meet Core Business Objectives:** Secure price structures for capacity and energy that are suited to the Department’s objective of providing electric customers with rates that

# The Energy Authority®

are competitive with surrounding areas and provide price certainty in order to meet financial and budget objectives.

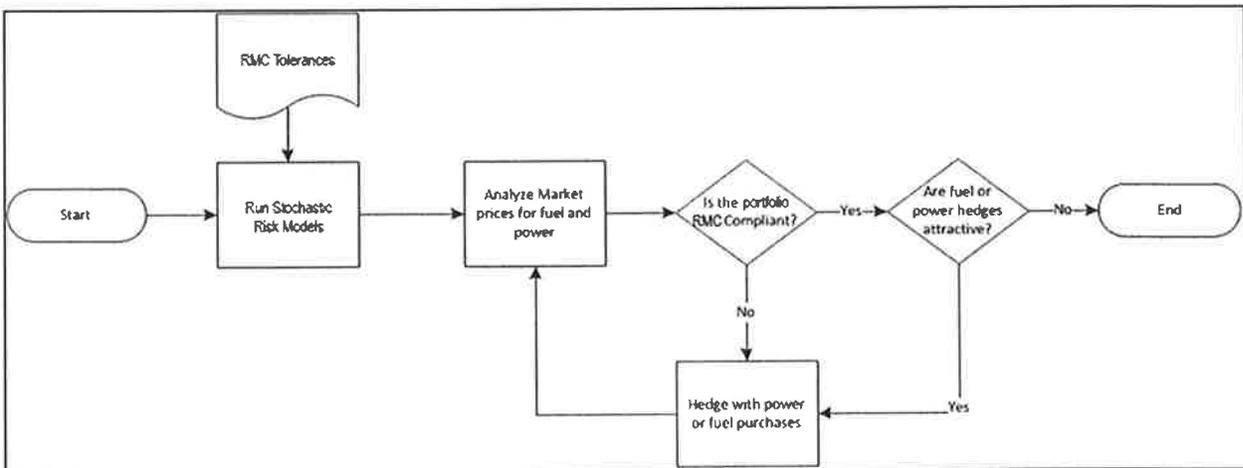
- **Manage Risk:** Manage the Department’s portfolio to mitigate the risk of potentially unfavorable results and the promotion of favorable results, in the most cost effective manner, that fall within acceptable, pre-defined boundaries.

## Delegation of Responsibilities

- The Risk Management Committee (“RMC) has been delegated the responsibility of implementing the Department’s Risk Policy. This Program describes the details of how the goals of the Risk Policy will be executed.
- The RMC will be responsible for:
  - Implementation and execution of the Program within the defined tolerances
  - Defining the strategies to be used to achieve the goals and risk tolerances of the Risk Policy on an annual basis
  - Reviewing and modifying the strategies, as needed, to achieve the goals and risk tolerances on a quarterly basis.

## Hedge Transaction and Decision Workflow

The effective execution of the Program comprises a sequence of controlled steps, which are detailed in the workflow diagram below.



# The Energy Authority®

## Metrics

The Department’s exposure to energy price risk shall be monitored and reported on a monthly basis. The primary metric used in the Program will be Total Power Cost (\$ MWh and total value) which is equal to all financial obligations of the Department, realized during a given calendar month in the delivery of electricity to the distribution system, including net generation costs, transmission, capacity, hedging, ancillary charges, administrative charges, and any other related expenses. The Department through the course of business may find value in adding other metrics to the program.

## Time Horizon and Programmatic Hedge Schedule

This Program will be bound by a rolling five year time horizon. The Program allows for Programmatic (required) and Discretionary (market opportunity) hedging levels. The Programmatic portion of the hedging strategy is designed to remove the emotion from making hedging decisions, and the positions must be placed at the best available market price. The “Minimum Hedge Percentage” table below represents the Programs Programmatic hedge protection levels in time. The “Maximum Hedge Percentage” table below represents the Program’s Discretionary hedge levels. The Discretionary hedge level allows for additional hedges to be placed above the Programmatic levels based on analysis and assessment of current market conditions.

<b>Fiscal Year</b>	<b>Minimum Hedge Percentage</b>	<b>Maximum Hedge Percentage</b>
FY1	70%	100%
FY2	60%	90%
FY3	50%	80%
FY4	40%	70%
FY5	30%	60%

## Capacity Obligations

The RMC will seek to find the lowest cost option to meet Department’s capacity obligation through bilateral agreements or the MISO auction.

## Reporting

Timely reports are critical to conducting an effective and orderly Program. At a minimum the reports provided to the RMC on a monthly basis shall include a record of:

1. Hedge Transaction and Position Report
2. Monthly Variance Report
3. Market Update Report/Operations Update
4. Metric (Budget vs Actual)
5. ARR/FTR Report

# The **Energy Authority**®

## **Flexibility**

It is recognized that the nature of energy markets is dynamic and that some flexibility may be required with respect to the Program. Any deviations from the Program must be reported, with a mitigation plan, to the RMC as soon as practical.