

Wholesale Energy Risk Management Policy Resolution

Date of this Brief	06/18/10		
Supersedes	Not Applicable		
Key Contacts	Name(s)	Phone	Short Title
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Council Action Required?	Y	If YES, within the next 3 months?	Y
Presenters (if applicable)	Not applicable		

Summary Statement

A resolution to amend existing Wholesale Energy Risk Management Policy.

Background

On August 8, 2008 the City Council passed resolution number 31053 endorsing City Light’s Wholesale Energy Risk Management Policy as the Policy that governs wholesale energy risk management at City Light. Since that time, City Light’s risk management capabilities have grown and certain refinements to the Policy are desirable as a result.

Key Issues

This amendment is evidence of continuous improvement in City Light’s risk management capabilities. The key changes to the Policy are: enabling the purchase of certain energy products that will serve as cost effective hedges on City Light’s hydroelectric volumetric risk and refining some risk limits:

- Purchase call options - Purchase the right but not the obligation to “call” on (buy) a fixed quantity of energy at a fixed delivery point, for a stated fixed price. This transaction type serves as a form of energy supply resource insurance. Calls will be useful to City Light for availing additional resources, at a known price, that may be needed in times of anticipated supply deficit and in forward markets that City Light has previously sold forward.
- Purchase put options - Purchase the right, but not the obligation to “put” (sell) a fixed quantity of energy at a fixed delivery point for a stated fixed price. This transaction type serves as an additional surplus resource sales tool that will be used to lock in a floor price (guaranteed bottom). This is a useful tool to protect from the market price dropping below a stated price for a specified quantity of energy.

City Light Issue Paper

- Reducing the risk tolerance band on the 5% Tail Risk Metric limit for the current year from \$10 million to \$8 million.
- Reducing the risk tolerance band on the 5% Tail Risk Metric limit for the calendar year that follows the current year from \$15 million to \$12 million.
- Clarification of the annual reassessment of credit risk tolerance and how it is communicated.
- Improvement to the annual amendment process ensuring efficiency in making changes to this Policy.

Next Steps

The Energy, Technology, and Civil Rights Committee will be asked to endorse this amended Policy and refer it to the full City Council for endorsement.