



City of Denton

City Hall
215 E. McKinney Street
Denton, Texas
www.cityofdenton.com

AGENDA INFORMATION SHEET

DEPARTMENT: Denton Municipal Electric

CM/ DCM/ ACM: Todd Hileman

DATE: May 1, 2018

SUBJECT

Consider adoption of an ordinance of the City Council of the City of Denton, Texas repealing Ordinance No. 2014-060; approving and adopting the “2018 Denton Municipal Electric – Energy Risk Management Policy” (“2018 ERMP”); authorizing and approving the execution by the Mayor, or his designee, of the 2018 ERMP; expressly delegating authority as provided in the 2018 ERMP; authorizing and approving the subsequent execution of such other ancillary and related documents, including, without limitation, contracts, nominations, certificates, assignments, licenses, directions, instruments, confirmations, orders and statements as are authorized by the 2018 ERMP, which are incident to or related thereto; confirming and ratifying that the City of Denton, Texas, its Mayor, its City Council Members, its City Manager, or his designees, its City Attorney, or his designees, and its City Secretary, or her designees, shall be authorized and empowered to perform such acts and obligations as are reasonably required to consummate those future transactions which are provided for and authorized by the 2018 ERMP; finding that the purchase of electricity, natural gas and related commodities are exempt from the requirements of competitive bidding; adopting significant recitations, findings and conclusions, as are set forth in the preamble of the ordinance; that the purchase of electric energy, natural gas and related commodities are made by the City under the terms of the “Denton Municipal Electric – Energy Risk Management Policy” is in the public welfare of the citizens of Denton, Texas and the Denton Municipal Electric Ratepayers; authorizing the expenditure of funds therefor; providing an effective date.

BACKGROUND

The current DME Energy Risk Management Policy (“2014 Policy”), approved by the City Council on March 4, 2014 (Ordinance 2014-060), provides a framework under which the DME’s Energy Management Organization (EMO) manages the electric utility’s energy portfolio on a day to day basis. The Policy incorporates control structures and protocols that provide for 1) a clear segregation of duties and delegation of authority, 2) governance and oversight processes, 3) rigorous management reporting and 4) strict adherence to authorized hedging products and transaction limits.

The current Policy was sent to Council members for their review and comment in an Attorney memo on 2/4/2014. As a precautionary measure leading to the startup of the EMO in late 2014, Ordinance 2014-060 treated the Policy as a “Competitive Electric Matter” as defined under the provisions of §§551.086 and 552.133 of the Texas Government Code and ordered the Policy and related documents “sealed” by the City Secretary and withheld from public disclosure.

This proposed update to the 2014 Policy reflects lessons learned over the four years the EMO has been operating, organizational changes that have been made at the City and DME level, and recommendations from the Deloitte review of the EMO (presented to the City Council on 12/12/17). In accordance with the

City's commitment to open government and transparency, DME recommends releasing the updated Energy Risk Management Policy to the public and "unsealing" the 2014 Policy.

RECOMMENDATION

DME proposes to update the Energy Risk Management Policy in two phases. Phase One will incorporate the following changes:

- Annual re-authorization of Policy
- Clarification of Policy scope and program objectives
- Consolidate Strategy and Operating Committees into a single Risk Management Committee (RMC)
- Regular communication with City Council and PUB about DME's energy risk management activities through quarterly RMC meeting minutes and materials
- Update RMC membership to reflect current City and DME organizational structure
- Establish RMC Chairman and provide for formal meeting and voting procedures
- Explain the need to continue expanding EMO counterparty population
- Introduce concept of risk tolerances
- Description of quarterly reports that will be used to measure the success of the EMO program and for RMC, Council and PUB oversight
- Expanded description of Transaction and Risk Limits
- Increased specificity of approved Transaction Types

Phase Two, which DME expects to bring to the PUB and City Council in September 2018 for input and approval, will include the following changes:

- Quantification of DME's risk appetite and risk tolerances
- Standard report templates for communicating with RMC, Council and PUB
- Framework for evaluating hedge strategy and assessing EMO performance for fiscal year, including
 - Key Performance Indicators
 - Program objectives
 - Hedging strategy and targets
 - Risk identification and prioritization

The proposed update was presented to the PUB on 4/9/18 and to the City Council on 4/17. At its 4/23 meeting, the Public Utilities Board recommended to the Council, by a vote of 5 in favor and 0 opposed, that, that Ordinance No. 2014-060 and the associated 2014 Energy Risk Policy be repealed and that this updated Energy Risk Policy, along with the attached Ordinance be approved. The attached Risk Policy is unchanged from the version presented to the City Council on 4/17, except for slight revisions to the transaction limit tables on pages 25 and 26, where the limits have been tightened to reflect a more conservative approach to authorization levels and to incorporate lessons learned through recent negotiations to acquire fuel for the Denton Energy Center.

STRATEGIC PLAN RELATIONSHIP

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

Related Key Focus Area: **Organizational Excellence**

Related Goal: **1.1 Manage financial resources in a responsible manner**

EXHIBITS

1. Agenda Information Sheet
2. Proposed Ordinance adopting Updated Risk Policy
3. Updated Energy Risk Management Policy
4. Schedule for incorporating Deloitte recommendations into Energy Risk Management Policy

Respectfully submitted:
George Morrow
DME General Manager

Prepared by:
Philip DiPastena
Senior Risk Control Analyst