SPECIAL UTILITY COMMITTEE
A G E N D A

JULY 24, 2014 - 3:00 P.M.

CITY HALL COUNCIL CHAMBERS
15 LOOCKERMAN PLAZA
DOVER, DELAWARE

Public comments are welcomed on any item and will be permitted at appropriate times. When possible, please notify the City Clerk (736-7008 or e-mail at CityClerk@dover.de.us) should you wish to be recognized.

AGENDA ADDITIONS/DELETIONS

1. **Energy Risk Management - Overview and Training**

2. **Adjournment**

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THE AGENDA ITEMS AS LISTED MAY NOT BE CONSIDERED IN SEQUENCE. THIS AGENDA IS SUBJECT TO CHANGE TO INCLUDE THE ADDITION OR THE DELETION OF ITEMS, INCLUDING EXECUTIVE SESSIONS.

Dover Hedging
July 2014



The Energy Authority®
The Strategic Partner for Public Power

teainc.org

What is Risk?

Risk is:

- The possibility of an undesirable outcome

Risk has 3 elements:

- The perception that something could happen
- The likelihood of something happening
- The consequences if it does happen

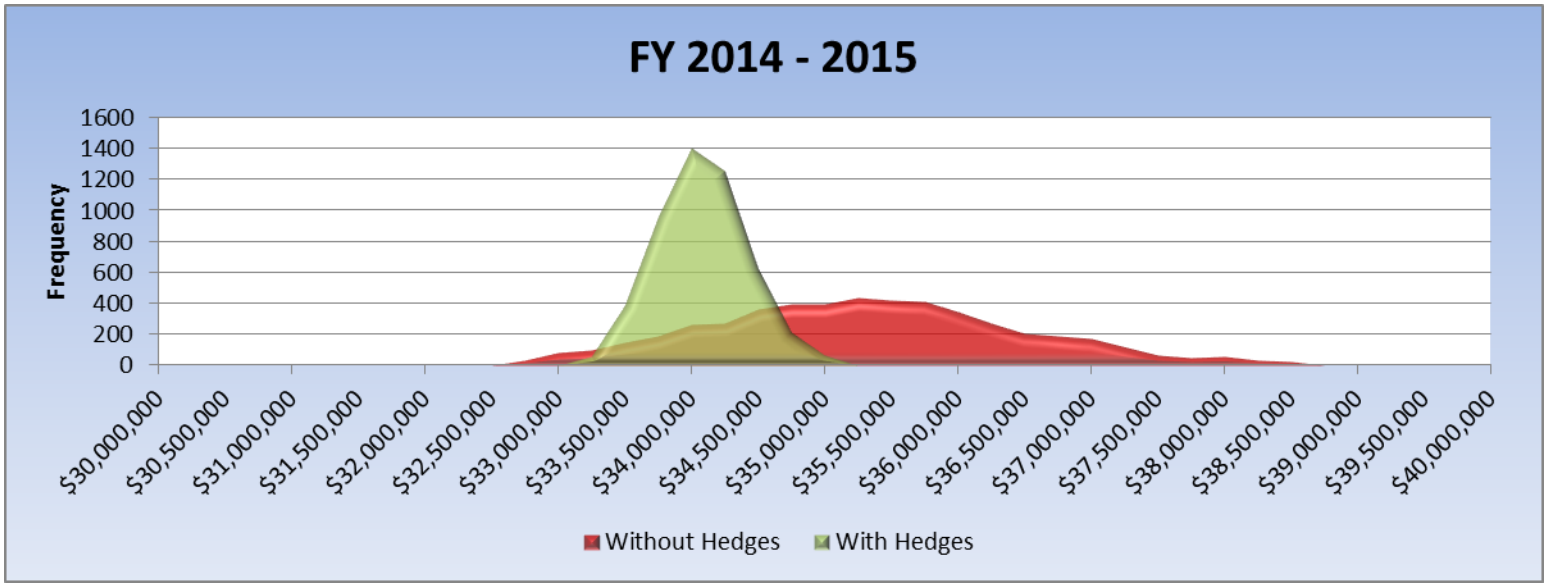
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City of Dover Power Price Risk?

- Risk of Power price increase
  - Ultimate impact would be rate increases
- Mitigation
  - Hedging Forward Power Prices
  - Rate Stabilization Reserve
  - Power plant portfolio
    - Limited impact in the winter and shoulder months

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2014/15 Hedged Vs. Unhedged



	Expected Power Cost	95th Percentile Power Cost	Power Cost at Risk
Unhedged	$ 35,202,815.10	$ 37,228,429.67	$ 2,025,614.57
Hedged	$ 33,953,572.42	$ 34,528,629.95	$ 575,057.53
Hedge Impact	$ (1,249,242.68)	$ (2,699,799.72)	$ (1,450,557.04)

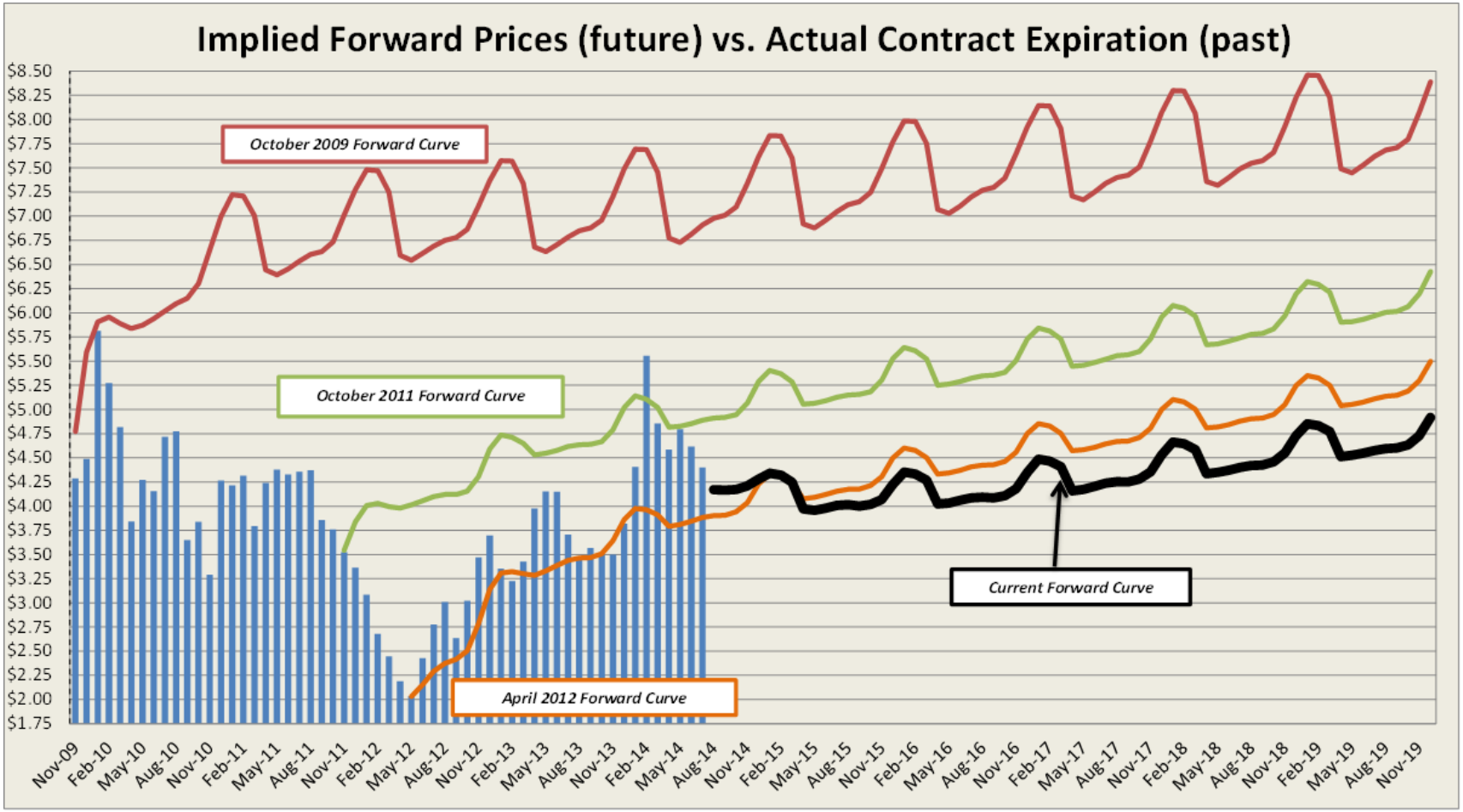
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January 2014

- Hedge Benefit - $3,660,449
  - Utilities Cost Variance would have been 80% greater
- Rate Stabilization Reserve - $3,000,000
- Generation Cost
  - Ranged from $260 - $340

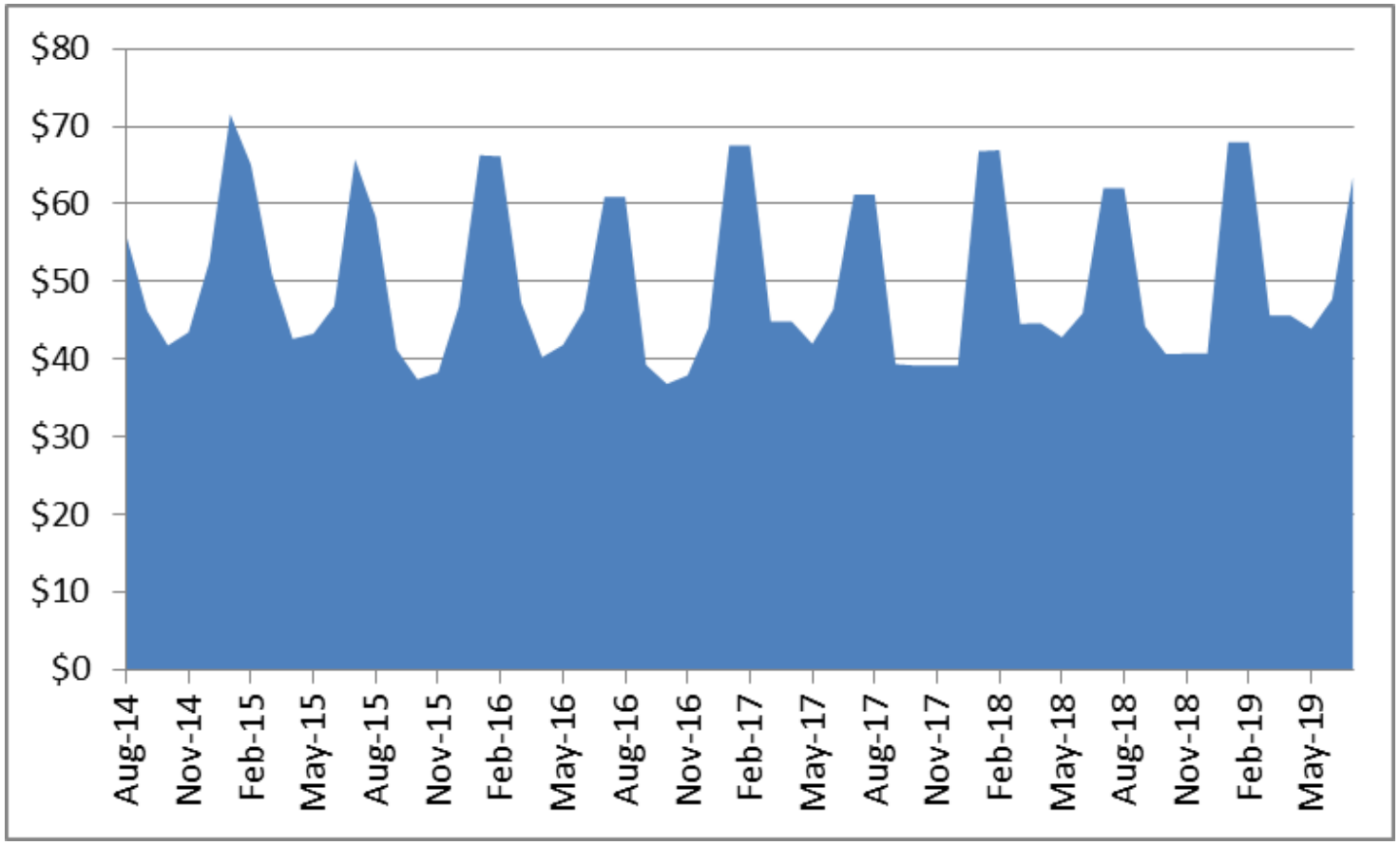
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Natural Gas Forward Curves



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PJM West 5 Year Forward Curve



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Disclaimer

- TEA's Natural Gas Hedging Service is designed solely to provide its customers with a framework for managing their exposure to the uncertainty of natural gas prices. The Service consists of fundamental market analysis and monitoring, risk measurement and reporting, and a formal, structured approach to hedging. The structured aspect includes TEA's proprietary Price Model, TEA's proprietary Volatility Model, and the Strategy Overlay, which incorporates the customer's goals, objectives and constraints. Together, the pieces of the Service are intended for non-speculative purposes, to focus on a long-term horizon, and to manage price risk. The service is not designed to identify the highs and lows of natural gas prices or to otherwise detect levels of which hedging decisions can be expected to generate returns (or cost savings).

- The structured aspect consists of two components, one of which calls for placing hedges on a certain portion of the underlying exposure regardless of current prices. The second component identifies price points which are lower than recent price averages. These points serve as signals to look closely at the markets to see if fundamental factors and/or individual hedging needs might warrant additional hedging decisions. Historic prices are not indicative of future prices; and certain unanticipated factors such as regulatory developments, technological changes, and general economic conditions may cause actual results to vary from the statements contained in this document. TEA makes no guarantees, endorsements, or warranties, express or implied, as to the actual results that may be generated by using the information contained herein. Past performance is not indicative of future results.

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