# UTILITY COMMITTEE

The Utility Committee Meeting was held on August 27, 2012 at 5:30 p.m. with Chairman Bonar presiding. Members present were Mr. Blakeman, and Mr. Snaman. Mr. Perza and Mrs. Williams were absent. Members of Council present were Mr. Lynn and Mr. Hutchison. Mayor Carey was also present.

**AGENDA ADDITIONS/DELETIONS**

**By unanimous consent, the agenda was approved as presented.**

**Annual Review and Approval of Governing Policy for Energy Commodity Risk Management**
***(Deferred by Committee on August 13, 2012 Pending Further Information)***

During their meeting of August 13, 2012, members reviewed the Governing Policy for Energy Commodity Risk Management. Due to questions and concerns of members, this matter was deferred to allow staff the opportunity to respond. Members reviewed the following documents: 1) Two (2) pages from the 2011 Comprehensive Annual Financial Report (CAFR) for the City of Dover; 2) Counterparty Credit Risk as of 6/29/2012; 3) Dover Monthly Credit Report for August 2012; and 4) Governing Policy for Energy Commodity Risk Management (provided at the August 13, 2012 Utility meeting and included again in this meeting packet).

Referring to Page 13 of the Governing Policy, Mr. Scott Koenig, City Manager, noted the statement, "At no time will the City incur a credit exposure with any counterparty greater than $60,000,000." He explained that the City now has several counterparties (approximately 11) and that the $60M limit was based on having only a few counterparties. He also advised members that in order to obtain a $60M credit limit, a triple A bond rating would be required. As detailed on the information provided regarding the Counterparty Credit Risk, he noted that if those individual amounts were totaled, the City's exposure would be significant. He stated that the amount of power (power hedges) that the City purchased last year totaled approximately $40M and that in years past, the City has purchased as much as $70M-$80M. It was his feeling that since the cost of power was decreasing, the City's exposure on the hedges was coming down, and the per counterparty exposure was decreasing (due to the City developing several counterparty agreements).

Mr. Koenig requested that the $60M limitation remain in the Governing Policy for this year and that the matter be reviewed again in the next year. He anticipated this issue being considered again in April or May of 2013 to prepare for Fiscal Year 2014. He explained that the amounts included in the Governing Policy were based on the risk associated with the counterparty. Mr. Koenig stated that the City's liability per counterparty must be reflected in the CAFR and felt that this was being reported very transparently. He reiterated that staff would review this matter over the next 12 months and would specifically ask The Energy Authority (TEA) if the number should be adjusted in the Policy at that time.

**Mr. Blakeman moved to recommend approval of the Governing Policy for Energy Commodity Risk Management *(Attachment #1)*, as presented. The motion was seconded by Mr. Snaman and unanimously carried.**

**Update - Green Energy Funding and Programming**

Mr. Scott Koenig, City Manager, reviewed an update on the Green Energy Funding and Programming. He stated that $802,265.68 had been collected since the City developed the Green Energy component of the bill. He advised members that the program involves an application process, an approval process, and a reimbursement process, and reimbursement often takes a significant amount of time. Mr. Koenig advised members that some applications from 2011 had not been completely paid off. Due to this backlog, the City has not accepted any new grant applications and is waiting for the funding stream to catch up, when grants will be opened to interested parties.

Responding to Mr. Bonar, Mr. Koenig stated that it was his recollection that the waiting list for reimbursement under the program was "a couple of years" and stated that he would obtain the exact timeframe.

Mr. Koenig explained that the second component of the program involved a large sum of money reserved by the City for reimbursement for green energy improvements to the Library. He stated that the City would be making application to the fund. He reminded members that the City made application last fall in the amount of $48,267; half of these funds were available for others who applied for a grant, and the remaining half was reserved (as authorized by the City) for City of Dover projects.

**Update - Garrison Oak Technical Park Project**

Mr. Scott Koenig, City Manager, stated that the Performance Standards Review Application for the Garrison Energy Center (Calpine Project) was discussed at the Planning Commission meeting held on August 21, 2012 and that, to his knowledge, the project was moving forward. He indicated that there was an ongoing issue between White Oak Solar Energy and the Calpine Project and, although there had not been resolution, meetings had been held regularly and he had heard no statements that related discussions have been negative; therefore, he was hopeful that they were moving toward conclusion.

As previously reported, Mr. Koenig reminded members that the Calpine Project went before the Department of Natural Resources and Environmental Control (DNREC) for air permitting. An objection was filed by White Oak Solar Energy and comments were filed by the Environmental Protection Agency (EPA). It appeared that Calpine was taking action to obtain the necessary permits and design approval so that the project could be delivered to the grid in June 2015.

In response to Mr. Blakeman, Mr. Koenig confirmed that PJM had identified a list of improvements. It was his understanding that meetings were held with PJM and the required improvements had been negotiated. He stated that discussions were held at those meetings and that a final letter would be issued in the Fall (October) that would give Calpine details regarding access to the grid.

Responding to Mr. Hutchison with regard to gas lines, Mr. Koenig stated that, to his knowledge, Eastern Shore Natural Gas was working on alignments with Calpine and that there had been no negative comments regarding the pipeline being delivered in time.

**Mr. Blakeman moved for adjournment, seconded by Mr. Snaman and unanimously carried.**

**Meeting Adjourned at 5:45 P.M.**

David L. Bonar
Chairman

DLB/TM/jg/js/dd
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*Attachment*
*Attachment #1 - Governing Policy for Energy Commodity Risk Management*

# City of Dover, Delaware

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## Governing Policy

## For

## Energy Commodity
## Risk Management

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**Effective:**

**Approved by:**

**Date:**

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# PURPOSE OF THE RISK MANAGEMENT POLICY

## A. Introduction

The City of Dover ("**City**") and its customers are routinely exposed to energy price risk, volume variability risk, basis risk and credit risk – herein referred to collectively as energy commodity risk - in the normal conduct of serving its electric load requirements. Volatility of energy commodity prices and volumetric uncertainty (either supply/generation or load obligations) impose a substantial and direct risk to the City's financial and operating performance.

By authority of its charter, the City has responsibility for overseeing the City's electricity operations, including the management of its cost of serving Dover's customers. By agreement dated May 6, 2011 and approved by the City (the "**EMA**"), the City has engaged The Energy Authority, Inc. ("**TEA**") to assist the City with Asset Management and Strategic Planning Services, Risk Management Services, and Energy Management Services.

This Policy for Energy Commodity Risk Management ("**Policy**") is established the explicit understanding that the City has retained and delegated responsibilities to TEA to provide Risk Management Services.

Additionally, the City has issued this Policy for dealing with the philosophy, framework and delegation of responsibilities necessary to govern activities related to Dover's energy commodity risk management. As set forth herein, the City has established an organizational structure, delegated responsibility and established internal controls and procedures to ensure that all transactional and oversight activities are conducted in compliance with this Policy and in accordance with the City's normal reporting, legal, financing and regulatory requirements relating to energy assets and transactions.

## B. Scope of Policy

This Policy covers all transactions entered into the by the City of Dover designed to meet the City's electric load requirement and the management of risk related to these transactions.

In the event of conflict between this Policy and the EMA, the Policy shall control. This Policy is separate and distinct from enterprise risk management policies and procedures addressing the City's safe operation of its generating stations and energy infrastructure, insurance requirements, permit compliance, employee matters regulatory compliance with laws and regulations of the State of Delaware and Federal

Agencies such as EPA, FERC, NERC and CFTC or other potential risks to the City beyond the purchase and sale of fuel and electric power and its ancillary products.

### C. Objectives and Risk Philosophy

The objectives of the Policy are to identify energy commodity price and credit risk exposures and give the City a framework for the quantification and management of these exposures. The Policy will identify the reports needed to convey how the identified risk exposures can potentially impact the City's overall cost of providing electricity service to its customers and report on the risk management of the transactions associated with City's electric load requirements.

Under the Policy, risk management activities will be conducted consistent with the City's overall objective of appropriate risk mitigation. There are several objectives of the Policy which, when taken and executed together, serve to manage the City's energy commodity price exposures. Specifically, the Policy:

- Establishes framework for developing credit limits for counterparties and quantifies and manages the credit exposures related to potential counterparty abrogation
- Quantifies the impact of the above exposures on City's financial results
- Manages the impact of the above exposures in line with the City's identified level of risk tolerance
- Provides clear delineation of responsibilities and authority, outline a separation of duties, and ensure reporting of risk is timely and accurate.
- Ensures that the impact of any action affecting the City's position is consistently quantified, monitored and authorized.

*The City's risk management activities will be conducted consistent with its overall objective of appropriate risk mitigation and never for purposes of speculation.*

### D. Policy Administration

This Policy has been approved by the Executive Risk Management Committee and The Utility Committee of the Dover City Council. The Utility Committee must approve modifications to the Policy with the exception of the appendix information which can be modified with the approval of the Executive Risk Management Committee.

## MANAGEMENT AND CONTROLS

This Policy articulates the management and organization of the City and TEA to serve as a control framework outlining delegation of duties and responsibilities.

## A. Utility Committee of The City Council

The Utility Committee of The City Council (The Committee) has a responsibility to provide approval of this Policy. With this approval, The Committee also assumes additional duties. They will understand the risks the City is and could be exposed to due to their energy commodity risk management activities. In this role, the Committee will have a responsibility to also understand the City's policies and procedures, internal controls and systems which are used to help manage the City's energy commodity risks.

The Committee will approve any amendments to the Policy or limits within. The Executive Risk Management Committee will update the Committee periodically regarding the Policy and its functions. It will be the Committee's responsibility to:

- Discuss guidelines and strategic policies that govern the process by which the Energy Risk Management Committee assesses and manages risks
- Review and approve the risk policy at least annually
- Approve new members of the Executive Risk Management Committee
- Acknowledge the risk inherent in transactions covered under this Policy

## B. Executive Risk Management Committee

An Executive Risk Management Committee ("**ERMC**") has been formed to provide executive management oversight for the City's energy commodity risk management activities. The ERMC is charged with the creation, amendment and administration of this Policy, including acquiring any approvals required by the Utility Committee, and will ensure that all energy commodity risk management activities of the City are performed consistent with this Policy. The ERMC will meet at least monthly to review compliance and conduct its business as described in this Policy.

The ERMC shall be comprised of the following voting members: The City Manager, The Director of Utility, The City's Controller and TEA's Member Service Manager.

The City's ERMC will make decisions following the process outlined in this Policy. TEA's Member Services Manager may include representatives from other areas within TEA in the monthly ERMC meetings who will attend in person or by conference call as non-voting advisors. Other City employees and TEA staff may also be asked to attend meetings from time-to-time, as the ERMC deems necessary. The responsibilities of the ERMC shall include:

- Establish scope and frequency for management reporting to the Utility Committee.
- No less than annually, review the City's Energy Commodity Policies and Procedures for correctness and completeness.

- Review and approve any new risk report or change to an existing risk report provided by TEA to monitor risks outlined in this Policy.
- Understand and approve any models, methodologies, and assumptions used for measuring risks such as volume risk, process risk, counterparty risk and commodity risk.
- Monitor the City's risks and ensure they are within the limits and are being managed according to what is indicated within the City's Policy and associated procedures
- Understand the City's risk management objectives and risk tolerances.
- Review and approve the risk management and trading strategy programs and associated risk. Each program should be reviewed to ensure alignment with Policy objectives and compliance with risk limits within this Policy.
- Periodically review any risk management program approved in light of recent market changes, and ensure continued compliance with its established guidelines
- Review and approve new products, markets, trading counterparties and credit limits
- Review all violations and exceptions to this Policy and report such to the Committee.
- Approve the individuals or companies that engage in the City's commodity transactions and are subject to the limits within this Policy.
- Ensure that the individuals or companies authorized to transact on behalf of the City as well as manage its risks, are appropriately trained and qualified.
- Ensure independence and segregation of duties between front, middle and back office at TEA.

Recommend changes to this Policy to the City's Utility Committee for approval and ensure the Utility Committee understands the City's overall compliance with this Policy and associated procedures

The ERMC will meet at least monthly to review risks identified and reported on by the Policy, this meeting shall be chaired by The City Manager. Minutes of each meeting of the ERMC shall be recorded and reflect any decisions and follow-up action items to be performed. These minutes will be reviewed and approved by the members of the ERMC in a timely manner.

Each member of the ERMC has a unique role as defined below:

**1. City Manager**

The City Manager is independent of all commercial functions and carries the responsibility of establishment and maintenance of risk management for the City. The City Manager will be a voting member of the ERMC and act as a chair of the ERMC. Other responsibilities include:

- Ensure this Policy is maintained.

- Oversee reviews of the City's energy commodity risks, limits, risk measurement methodologies and models, and programs and recommend changes to the ERMC.
- Ensure potential transactions and their impacts on the City's risks and limits defined within this Policy.
- Develop and monitor the implementation of the Policy, and oversee other risk management processes and procedures established by this Policy or otherwise by the ERMC.

**2. Director of the Utility**

The Director of the Utility is responsible for all trading, hedging, pricing, structuring, and market and operational risk management activities associated with the City. The Director of the Utility will be a voting member of the ERMC. Other responsibilities include:

- Review the effectiveness of transaction processing systems and procedures relating to risk measurement.
- Recommend operational risk and business risk assessment guidelines.

**3. Controller**

The Controller is independent of all commercial functions and carries the responsibility of the City's accounting practices. The Controller will be a voting member on the ERMC. Other responsibilities include:

- Perform financial accounting including accounting for hedging and derivatives activities.
- Comply with tax rules and make appropriate tax elections.
- Record realized and unrealized gains and losses.
- Reconcile general ledger, cash transactions and margin accounts.
- Implement tax-hedge accounting policies and other regulatory tax requirements.
- Develop and maintain documentation outlining standard procedures for conducting business.
- Invoice counterparties and resolve billing disputes.
- Perform daily/weekly/monthly transaction checkout with counterparties.
- Develop and maintain documentation outlining standard procedures for conducting business.

**4. TEA Member Services Manager**

The TEA Member Service Manager roles and responsibilities are defined exhibit B of the EMA between the City and TEA. The TEA Member Service Manager will be a voting member on the ERMC. Other responsibilities include:

- Monitor risk reports between ERMC meetings.
- Report to the Committee and the ERMC on the City's adherence to all limits and functions within this policy.
- Engage the ERMC in discussions regarding events or developments that could expose the company to potential losses.
- Recommend to the ERMC specific risk limits consistent with the City's risk management objectives, risk tolerance, and risk management policy.
- Coordinate and distribute independent market fundamental analysis.
- Provide advisory support and recommendations as specified in Article 5 of the EMA.

## DISCUSSION OF RISKS

This Policy covers the management of all material energy market risks faced by the City. A comprehensive list of risks that are or could be relevant to City is shown in Appendix C of the Policy. Among the most critical of these risks are commodity risk, counterparty risk, process risk, volume risk, and budget risk. These risks are measured by the limit structure and controls outlined in the Policy.

Commodity risk represents the potential adverse impacts to the value of the City's portfolio due to changes in the market. Commodity risk encompasses volatility risk, forward price risk, basis risk, correlation risk and liquidity risk.

Counterparty risk represents the potential losses the City could incur due to delivery risk and receivable risk. Delivery risk stems from a supplier or trading counterparty that is unable or unwilling to perform on its commitments including but not limited to delivery or receipt of commodities. Receivable Risk includes the City's risk associated with a counterparty's timeliness of payment for services rendered.

Process risks represents the risks associated with process problems including, but not limited to, inaccurate data capture, untimely trade execution or settlement problems. Controls over process risks are embedded in the organizational structure of TEA through the design processes and operating procedures.

Volume Risk represents the potential for unforeseen changes from projections of excess or shortfall of capacity or energy from the actual needs. When variances are large coupled with large costs to transact and adverse moves in market prices this risk could be realized. In management of this risk, the City must be aware of the fact that unexpected variations in volume are often highly correlated with price movements.

Budget Risk represents the potential to deviate outside of tolerable bounds of the City's budget. Deviations from budget can be caused by forecast error or unforeseeable adverse changes in market prices.

## MARKETING AND TRADING PRACTICES

### A. Standards of Conduct

Individuals authorized to transact for the City shall not misrepresent, conceal or withhold information regarding energy commodity trading and risk management transactions to any person responsible for the accurate recording and/or reporting of such transactions; participate in any such transaction or similar activity for the benefit of any party other than the City; or hold or be a beneficiary of any financial interest in any entity with which the employee is engaged in trading or other business activity (other than ownership of an interest in a mutual fund managed by another party). Further, no employee authorized to place or execute such transactions may engage in trading power or energy commodities derivative instruments for his or her personal account.

### B. Products, Activities and Limitations

Pursuant to achieving the City's core objectives for the purpose of energy commodity risk management, the following limitations shall apply.

- Permissible instruments will be restricted to the products and instruments specified in Appendix A – Approved Products of the Policy;
    - All physical forward transactions shall be governed by the Edison Electrical Institutive (EEI), North American Energy Standards Board (NAESB), or similar agreements with counterparties approved by the City.
    - The City reserves the right to enter into financial hedge transactions to effectuate Policy objectives, but does not authorize TEA to enter into financial hedge transactions on its behalf. Any such financial transactions that the City may enter into shall be governed by ISDA agreements with counterparties as approved by the City.
- The maturity for each permissible instrument will be restricted to the maturity limits specified in the risk limits section of the Policy.
- Transaction volumes for each risk management transaction will be restricted to the amounts specified in the Risk Limits section of the Policy.
- Risk management transactions will be outlined in the ***City of Dover Hedge Program*** which will be approved by the ERMC. Risk management transactions may include the following:
    - Hedging the forward price of purchased power for delivery to the City as needed to meet its electric load requirements.

- Hedging the forward price of natural gas and fuels as needed to generate power to meet the City's electric load requirements.
- Unwinding of hedges to accommodate changes in expected load requirements, or for economic reasons subject to explicit constraints set by the ERMC.

## C. Contract Documentation and Confirmations

No over-the-counter transaction may be executed until an EEI, NAESB, or similar agreement has been authorized by the City, approved by the ERMC and fully executed by the parties.

Written confirmations will be required from counterparties, as defined in the Master Service Agreement between the City and counterparty, within one business day or such longer time as required by the contract in question for all risk management transactions. Contemporaneous with any commitments and prior to receipt of written confirmations, verbal commitments shall be memorialized internally as to instrument structure, quantity, relevant time horizon, price and any other relevant terms; such internal documentation shall be time stamped and correlated to the ultimate written confirmation to or from the counterparty. Both the internal documentation as well as the written confirmation from the counterparty shall be provided to TEA's Risk Control Group immediately upon receipt for verification.

In the event that there is a material failure to provide timely documentation or confirmations, then at the City Manager's sole discretion, the offending individual's authorization may be suspended. Similarly, if the failure to provide timely documentation or confirmations is due to the failure of counterparty, then at the discretion of the City Manager, a moratorium may be imposed on transactions with that counterparty. In such cases, the City Manager shall notify the ERMC of the issues leading to the suspension or moratorium shall.

Nothing herein shall inhibit the City Manager from bringing control issues to the TEA's Member Services Manager prior to a decision on materiality or the imposition of a suspension of trading privileges or counterparty moratorium.

## D. Training

The ERMC will ensure that all City employees and/or TEA Staff that will execute transactions on behalf of the City will have appropriate training in the markets in which the transactions occur.

## E. New Product Protocol

As required to manage the City's energy commodity risk the ERMC shall approve new products provided the requirements of the ***New Product Approval Procedure*** are met.

## RISK LIMITS AND RISK MEASUREMENTS

### A. Limits

The limit structure is designed to quantify the types of risk in City's energy commodity portfolio. The City will manage and report on its energy commodity market risk using Volume/Maturity/Value Limits, a Cost of Service Limit and a Hedge Loss Limit.

#### 1. Volume/Maturity/Value Limits

Transaction limits for the Individuals Authorized to execute transactions and the maturity limits for each permissible instrument are listed below. Transactions for amounts in excess of those listed may be executed only upon approval of the ERMC. This limit, maturity and value structure is not intended for use when transacting day-ahead and real time in the PJM market.

| **Volume/Maturity/Value Limits** | | **Maximum Daily Notional Limits** | |
|---|---|---|---|
| | | **Volume** | **Value ($000)** |
| Power (MW) Hourly Limit | Balance of the Month through 12 Months | 50 | 20,000 |
| | Between 13 Months and 24 Months | 50 | 20,000 |
| | Between 25 Months and 36 Months | 25 | 10,000 |
| | Between 37 Months and 48 Months | 25 | 10,000 |
| | Between 49 Months and 60 Months | 25 | 10,000 |
| Natural Gas (MMBtu) Monthly Limit | Balance of the Month through 12 Months | 30,000 | 400 |
| | Between 13 Months and 24 Months | 30,000 | 400 |
| | Between 25 Months and 36 Months | 10,000 | 200 |
| | Between 37 Months and 48 Months | 10,000 | 200 |
| | Between 49 Months and 60 Months | 10,000 | 200 |
| #2/#6 Fuel Oil (Bbl) Monthly Limit | Balance of the Month through 12 Months | 6,000 | 400 |
| | Between 13 Months and 24 Months | 6,000 | 400 |
| | Between 25 Months and 36 Months | 3,000 | 200 |
| | Between 37 Months and 48 Months | 3,000 | 200 |
| | Between 49 Months and 60 Months | 3,000 | 200 |

The amounts in the table above refer to the maximum volume of orders that can be placed in any one day the individuals authorized to conduct trades for the specified time period. On any one day the maximum transaction volume placed can be for up to 50 MegaWatts per hour for every hour during a single calendar month (including both on-peak and off-peak hours), OR 25,000 MMBtu per month for all months pertinent to the natural gas transaction, OR 6,000 Bbl per month for all months pertinent to the oil transaction.

For no reason should a transaction be executed that exceeds the City's electric load requirements. If there is an adjustment to the City's electric load requirements and the existing transactions greater than 100% of the adjusted electric load requirements the ERMC will review and approve the offsetting strategy deployed in sufficient proportion to mitigate the encroachment.

### B. Stress Testing and Back Testing

The City's positions shall be periodically stress tested and models shall be back tested. The processes around these tests are outlined in the ***Stress Testing and Back Testing Procedure***.

### C. Instances of Exceeding Risk Limits

Should the City or TEA enter into a transaction that causes the portfolio to exceed any above mentioned limits the Director of the Utility shall, in addition to notifying the ERMC, also notify the Chair of The Committee as soon as practicable and shall provide periodic reports to the Chair on the status the transactions for as long as the City is exceeding its limits. The ERMC will review and determine whether any liquidation or offsetting of transactions is warranted. The incident will be documented as a Policy Exception by the Director of the Utility.

## CREDIT POLICY

Credit Risk is the risk due to the uncertainty in a counterparty's ability to meet its contractual obligations. The primary objective of this credit policy is to mitigate, to the extent commercially reasonable, the credit risks associated with transactions covered in this Policy while still allowing the City to achieve its objectives.

### A. Measuring Credit Risk

The status of credit risk will be measured and reported through reports provided by TEA.

The current credit exposure will be reported at the agreement level via a Counterparty Credit Report provided by TEA. This information will be made available in real time to TEA trading personnel so that it can be checked prior to executing transactions for the City. Those responsible for risk oversight at the City and TEA will have access to this information no less frequently than once per day. The ERMC will monitor overall credit utilization and any credit exceptions at least monthly. When measuring the current credit risk, netting will be applied to the exposure if the City's contract with a counterparty includes provisions for netting.

## B. Analysis and Extension of Credit Limits

Physical and financial commodity transactions will be executed with counterparties approved by the ERMC with credit available to support the transactions. The creditworthiness of a counterparty will be determined by both qualitative and quantitative factors. Factors shall include, but not limited to:

- A company's debt credit ratings provided by the rating agencies.
- Financial data such as an analysis of the income statement, balance sheet, and cash flow, as well as liquidity and capital structure.
- Subjective factors such as company's fuel diversity, overall size, risk management policy and internal controls, geographic diversity, and market intelligence.

A credit limit is the amount of unsecured credit granted to a counterparty. Unsecured credit exposure includes amounts owed by the counterparty, whether billed or not, and the mark-to-market differences in value of any collateral which the counterparty has provided the City. Any net exposure above the collateral threshold will require the posting of collateral by a counterparty. Further information on the City's procedure for establishing credit is contained in the ***Counterparty & Credit Review Process***.

Collateral thresholds, term limitations and credit exposure limits will be subject to the maximums indicated in Appendix B, based upon the lower of the S&P and Moody's credit ratings.

**At no time will the City incur a credit exposure with any counterparty greater than $60,000,000.**

## C. Instances of Exceeding Credit Limits

The City and TEA are restricted by the credit limits approved by the ERMC. The ERMC can suspend trading with a counterparty, if that counterparty's credit limit has been reached or exceeded. **The City or TEA traders shall not exceed the Counterparty Credit Limit by executing transactions with any counterparty without approval of the ERMC.**

The ERMC will determine when it's appropriate to require additional collateral if a counterparty's credit exposure exceeds its credit limit. Collateral includes standing letter of credit, cash, and prepayments.

All credit exceptions will be documented and reported to the ERMC and the Committee as Policy Exceptions.

# REPORTING

## A. Risk Reporting

Preparation of timely reports is critical to monitoring risk. TEA will furnish the required reports on a regular frequency for the City in a format acceptable to the ERMC. In addition, the ERMC and its designees will be provided access to the City's risk reports as updated daily via TEA's secure Web Portal.

Reports required on a monthly basis and for periodic meetings of the ERMC include the following:

- **Profit and Loss Report**

The Profit and Loss (P&L) Report shows the daily realization of transactions at either the transaction price or the market price as transaction roll from unrealized to realized. This report should show volumes, transaction prices and market prices of realized physical and financial power and fuel transactions.

- **Mark to Market Report**

The Mark to Market ("MTM") Report conveys the potential transaction exposure if the energy commodity portfolio was liquidated at the most recent market settlement prices. This report should show volumes, transaction prices and market prices of unrealized physical and financial power and fuel transactions.

- **Activity Report**

The Activity Report presents a summary of all energy commodity risk management activities undertaken, including new transactions taken, existing transactions settled/liquidated, and any transactions unwound.

- **Cost of Service Report**

The City's exposure to energy price risk shall be monitored and reported on a Cost-of-Service basis. All calculations are at the wholesale level. The Cost-of-Service recognizes all prior (expired) months within the Power Year on the basis of actual (incurred) costs, and recognizes all forward (pending) months within the Power Year on the basis of expected forward power and fuel prices and expected forward load-following risks. As defined below, the Cost-of-Service is an aggregation of Forward Energy Commodity Portfolio Cost, the Load Following Cost Expectation and the City's Budget Target for Purchase Power Expense.

  - The Net Purchased Power Cost shows the net cost of all physical and financial transactions related to the City's anticipated commodity requirements for power and fuel and is based on the price of all hedge transactions plus the forward market price of all unhedged transactions valued at current forward prices for

energy commodities, customer-level cost per MWH of all physical and financial transactions related to Dover's actual plus anticipated energy.

- The expected fixed costs defined as load-serving entity (LSE) capacity costs, transmission costs and TEA management fees.
- The Expected Load-Following Cost for a specified power year is defined as the expected cost (or revenue) associated with intra-month load variations due to weather or other events affecting demand. As an interim measure due to lack of necessary market information and the rapid evolution of the PJM RTO market, the ERMC has specified $2.50 per MWH as an estimate of the Load Following Cost to be used for estimating the City's Forward Cost-of-Service Report. The ERMC will update the Expected Load Following estimate while lack of necessary market information persists no less than annually.
- The Budget Target for Purchase Power Expense represents the City's view of expected purchase power expense.

## B. Credit Reporting

- **Counterparty Credit Report**

The Counterparty Credit Report conveys the exposure to all counterparties with which the City has credit exposure resulting from its energy commodity risk management activities.

## C. Hedge Effectiveness Reporting

If the City's transactions require a hedge effectiveness test, those testing results will be reported to the ERMC no later than one month after the end of the financial reporting period. The report will include a summary of testing methodology, assumptions of the testing and the outcome of results with a pass or fail by transaction.

# INFORMATION TECHNOLOGY SYSTEMS

Since information systems play a vital role in The City's trading abilities, the City shall ensure that the information systems and technology used to store all transaction information is maintained and secure. The City's transactions will be stored in TEA's enterprise trading and risk management system. TEA uses the TriplePoint Commodity XL (CXL) system, integrated with Commodity XL for Credit Risk (Credit Risk). TEA has assigned a Database Administrator (DBA) that is charged with the database security and maintenance for the transaction database, CXL.

The following safeguards for data security and backup will be installed:

- Transaction data stored in the system of record will be replicated daily to ensure data redundancy;

- The CXL database will be backed up at least daily after the close of business.

## POLICY DISTRIBUTION AND COUNSEL

### A. Distribution Outside The City

The City's Policy is restricted to the use of the City and TEA organizations. It shall not be distributed outside these organizations without the consent the ERMC.

### B. Designated Counsel

Questions about the interpretation of any matters of this Policy should be referred to ERMC. The ERMC will provide clarification and explanation on any updates to this Policy.

All legal matters stemming from this Policy will be referred to the City's Legal Counsel.

## APPENDIX A – Approved Products

The following shall constitute a list of approved forward hedge products to be utilized by TEA to manage the City's energy commodity portfolio:

- Forward Physical Power Peak
- Forward Physical Power Off-Peak
- Forward Physical Power All Hours
- Forward Physical Natural Gas Delivered Dover via Eastern Shore Pipeline
- Forward Physical Residual Fuel Oil (#6) Delivered Dover
- Forward Physical Residual Fuel Oil (#2) Delivered Dover
- Capacity
- Forward Financial Power Peak
- Forward Financial Power Off-Peak
- Forward Financial Power All Hours
- Financial Call Option
- Financial Put Option

The above instruments can be executed by TEA on behalf of the City of Dover for the current and next two successive Power Years (July to June).

## APPENDIX B – Approved Counterparties and Threshold Tables

This Appendix establishes approved counterparties and their Collateral thresholds. Collateral thresholds, term limitations and credit exposure limits that are subject to the following maximums based upon the lower of the S&P and Moody's credit ratings:

### Credit Thresholds from Dover Extended to the Counterparty

**Constellation Energy**

| Threshold | S&P | Moody's |
|---|---|---|
| $ 60,000,000 | AAA | Aaa |
| $ 50,000,000 | AA- to AA+ | Aa3 to Aa1 |
| $ 50,000,000 | A- to A+ | A3 to A1 |
| $ 40,000,000 | BBB+ | Baa1 |
| $ 30,000,000 | BBB | Baa2 |
| $ 20,000,000 | BBB- | Baa3 |
| $ - | Below BBB- | Below Baa3 |

**Integrys**

| Threshold | S&P | Moody's |
|---|---|---|
| $ 20,000,000 | AAA | Aaa |
| $ 20,000,000 | AA- to AA+ | Aa3 to Aa1 |
| $ 15,000,000 | A- to A+ | A3 to A1 |
| $ 10,000,000 | BBB+ | Baa1 |
| $ 5,000,000 | BBB | Baa2 |
| $ 1,000,000 | BBB- | Baa3 |
| $ - | Below BBB- | Below Baa3 |

**Sempra Energy**

| Threshold | S&P | Moody's |
|---|---|---|
| $ 20,000,000 | A or above | A2 or above |
| $ 20,000,000 | A- to A+ | A3 |
| $ 15,000,000 | BBB+ | Baa1 |
| $ 10,000,000 | BBB | Baa2 |
| $ - | BBB- or lower | Baa3 or lower |

**Conectiv**

| Threshold | S&P | Moody's |
|---|---|---|
| Unspecified * | Above BBB+ | Above Baa3 |
| $ - | Below BBB- | Below Baa3 |

*** Conectiv does not have a defined credit threshold, so for planning purposes, a $10,000,000 threshold is imposed as a conservative limit**

**Macquarie Cook Power**

| Threshold | S&P | Moody's |
|---|---|---|
| $ 25,000,000 | AAA | Aaa |
| $ 20,000,000 | AA- to AA+ | Aa3 to Aa1 |
| $ 15,000,000 | A- to A+ | A3 to A1 |
| $ 10,000,000 | BBB+ | Baa1 |
| $ 5,000,000 | BBB | Baa2 |
| $ - | BBB- or below | Baa3 or below |

**FPL Energy**

| Threshold | S&P | Moody's |
|---|---|---|
| $ 30,000,000 | AAA | Aaa |
| $ 25,000,000 | AA- to AA+ | Aa3 to Aa1 |
| $ 20,000,000 | A- to A+ | A3 to A1 |
| $ 15,000,000 | BBB+ | Baa1 |
| $ 10,000,000 | BBB | Baa2 |
| $ - | BBB- or below | Baa3 or below |

**Deutsche Bank**

| Threshold | S&P | Moody's |
|---|---|---|
| $ 25,000,000 | AAA | Aaa |
| $ 20,000,000 | AA- to AA+ | Aa3 to Aa1 |
| $ 15,000,000 | A- to A+ | A3 to A1 |
| $ 10,000,000 | BBB+ | Baa1 |
| $ 5,000,000 | BBB | Baa2 |
| $ - | BBB- or below | Baa3 or below |

**Barclays Bank**

| Threshold | S&P | Moody's |
|---|---|---|
| $ 25,000,000 | AAA | Aaa |
| $ 20,000,000 | AA- to AA+ | Aa3 to Aa1 |
| $ 15,000,000 | A- to A+ | A3 to A1 |
| $ 10,000,000 | BBB+ | Baa1 |
| $ 5,000,000 | BBB | Baa2 |
| $ - | BBB- or below | Baa3 or below |

## Credit Thresholds from the Counterparty Extended to Dover

**Constellation Energy**

| Threshold | Fitch | Moody's |
|---|---|---|
| $ 40,000,000 | AA- or Above | Aa3 or above |
| $ 30,000,000 | A+ | A1 |
| $ 20,000,000 | A | A2 |
| $ 10,000,000 | A- | A3 |
| $ - | BBB or below | Baa1 or below |

**Integrys**

| Threshold | Fitch | Moody's |
|---|---|---|
| $ 20,000,000 | AAA | Aaa |
| $ 20,000,000 | AA- to AA+ | Aa3 to Aa1 |
| $ 15,000,000 | A- to A+ | A3 to A1 |
| $ 10,000,000 | BBB+ | Baa1 |
| $ 5,000,000 | BBB | Baa2 |
| $ 1,000,000 | BBB- | Baa3 |
| $ - | Below BBB- | Below Baa3 |

**Sempra Energy**

| Threshold | Fitch | Moody's |
|---|---|---|
| $ 27,000,000 | A- or above | A3 or above |
| $ 5,000,000 | BBB+ | Baa1 |
| $ 1,000,000 | BBB | Baa2 |
| $ - | BBB- or lower | Baa3 or lower |

**Conectiv**

| Threshold | Fitch | Moody's |
|---|---|---|
| Unspecified * | Above BBB+ | Above Baa3 |
| $ - | Below BBB- | Below Baa3 |

***Conectiv does not have a defined credit threshold, so for planning purposes, a $10,000,000 threshold is imposed as a conservative limit**

**Macquarie Cook Power**

| Threshold | Fitch | Moody's |
|---|---|---|
| $ 25,000,000 | AAA | Aaa |
| $ 20,000,000 | AA- to AA+ | AA3 to Aa1 |
| $ 15,000,000 | A- to A+ | A3 to A1 |
| $ 10,000,000 | BBB+ | Baa1 |
| $ 5,000,000 | BBB | Baa2 |
| $ - | BBB- or below | Baa3 or below |

**FPL Energy**

| Threshold | Fitch | Moody's |
|---|---|---|
| $ 23,000,000 | AAA | Aaa |
| $ 18,000,000 | AA- to AA+ | AA3 to Aa1 |
| $ 13,000,000 | A- to A+ | A3 to A1 |
| $ 8,000,000 | BBB+ | Baa1 |
| $ 3,000,000 | BBB | Baa2 |
| $ - | BBB- or below | Baa3 or below |

**Deutsche Bank**

| Threshold | Fitch | Moody's |
|---|---|---|
| $ 25,000,000 | AAA | Aaa |
| $ 20,000,000 | AA- to AA+ | AA3 to Aa1 |
| $ 15,000,000 | A- to A+ | A3 to A1 |
| $ 10,000,000 | BBB+ | Baa1 |
| $ 5,000,000 | BBB | Baa2 |
| $ - | BBB- or below | Baa3 or below |

**Barclays Bank**

| Threshold | Fitch | Moody's |
|---|---|---|
| $ 25,000,000 | AAA | Aaa |
| $ 20,000,000 | AA- to AA+ | AA3 to Aa1 |
| $ 15,000,000 | A- to A+ | A3 to A1 |
| $ 10,000,000 | BBB+ | Baa1 |
| $ 5,000,000 | BBB | Baa2 |
| $ - | BBB- or below | Baa3 or below |

## APPENDIX C – Business Risks

## APPENDIX D – Glossary