

City Light Advisory Committee Risk Management Update

Eric Campbell

Director of Risk Oversight

April 8, 2008

Agenda

- Energy Risk Policy Status Update
- Accomplishments & Improvements
- Risk Oversight Council Goals 2008
- Risk Metric
- Communication
- Q & A

Risk Policy Update

- Current Status:
 - The Mayor's Office transmitted the Policy to Council on March 25th
 - Based on the Council review timeline, we anticipate it being discussed at the May 7th Energy & Technology Committee meeting

Accomplishments & Improvements

- Segregation of Duties
- Risk Oversight on the Trading Floor
- Written Strategy and Hedging Plans
- Delegation of Authority
- Pre-Deal Risk Assessments
- End of Day Recaps
- Official valuation price curve
- Implemented the 5% Tail Risk metric

ROC Goals for 2008

- Obtain approval of City Light's first Wholesale Energy Risk Management Policy.
- Oversee completion of the Strategic Partner RFP project
- Continue development of the 5% Tail Risk metric
- Improve the Power Marketer's Incentive Compensation Plan
- Identify measure(s) to evaluate the effectiveness of energy risk management at City Light
- Initiate Enterprise Risk Management including determination of risks to be added to the purview of the ROC and whether the existing ROC may become a subcommittee of an Enterprise Risk Management Steering Committee.

The Risk Metric

Name: 5% Tail Risk Metric

What it measures:

Cash from Operations (not wholesale revenue)

The average of the lowest 5% of outcomes from a particular running of the Cash from Operations model.

The Risk Metric

Who owns it?: Financial Planning owns the model. It is part of the Wholesale Revenue model.

Key inputs: Load/resources and prices

Key assumption: Non-dysfunctional market

Implementing the Risk Metric

Items to Establish

- Frequency of Running the Model for Action
- Link results to a plan of action
- Timing and “Freshness” of Inputs

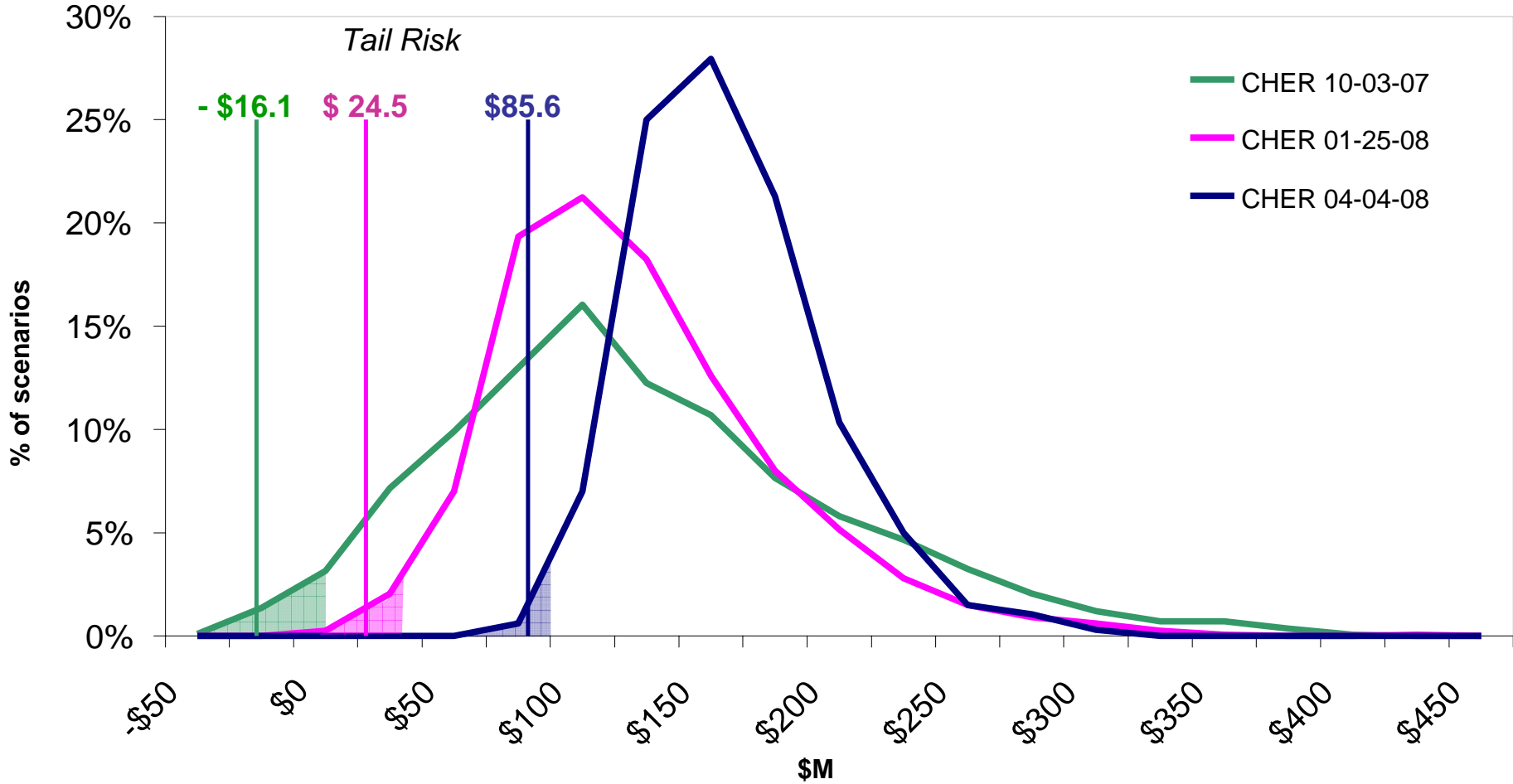
How Often to Run?

- Weekly
 - Build the Process
 - Gain Confidence in Program
- Monthly
 - For actual utilization to Hedging Plan
- Trigger Events
 - Run and Utilized for Action
 - Forward Price Curve Shift 30%
 - Change in Hydro Forecast of X%

Slides from 10/04/07

Presentation to the Risk
Working Group

Cash From Operations Model Results



Communication

- Many audiences
- Needs vs. wants
- Public documents
- System changes

Summary Status

	<u>% of 5 yr Avg</u>	<u>Current '08 Avg</u>	<u>5 Yr Avg</u>
SCL Hydro Generation	106%	1,161 MW	1,098 MW
Peak Market Prices	149%	\$75.33	\$50.65

Compliance to Policy Limits




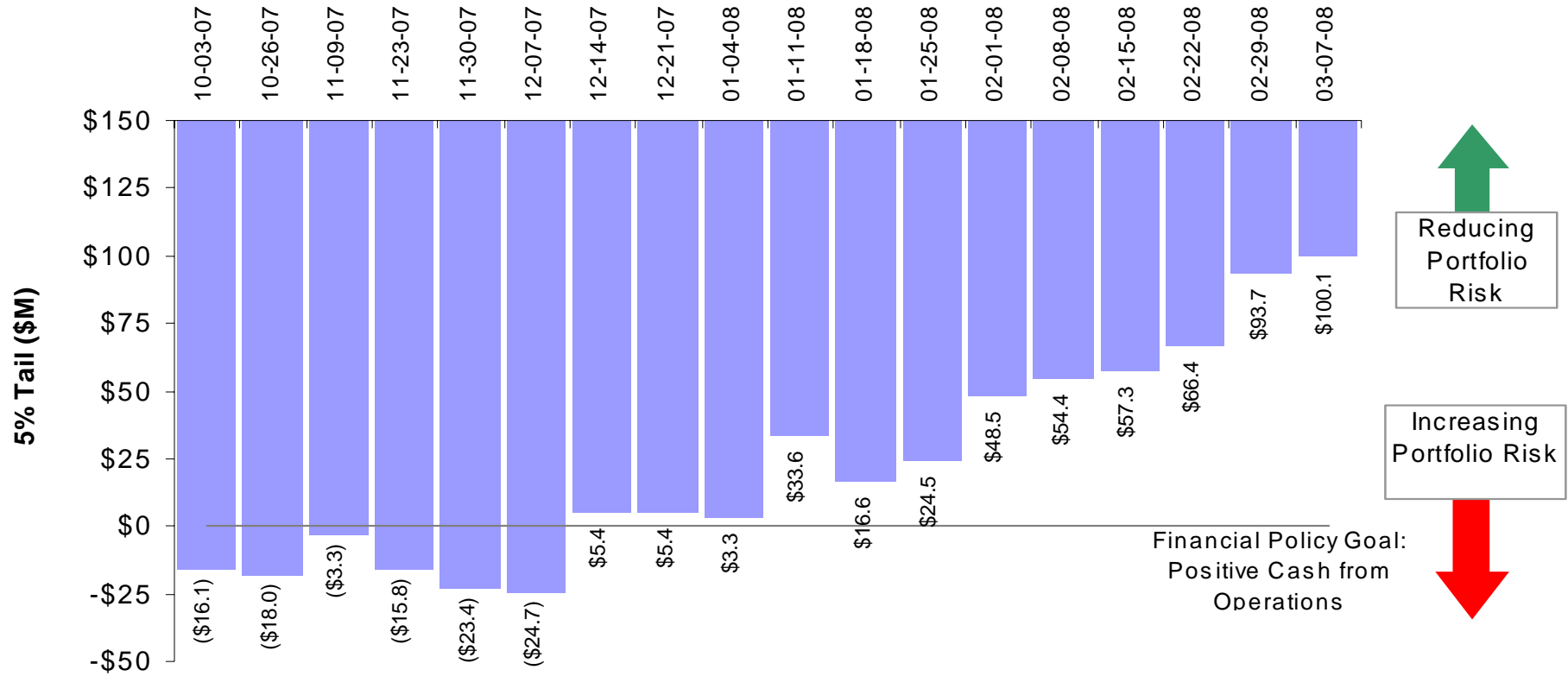
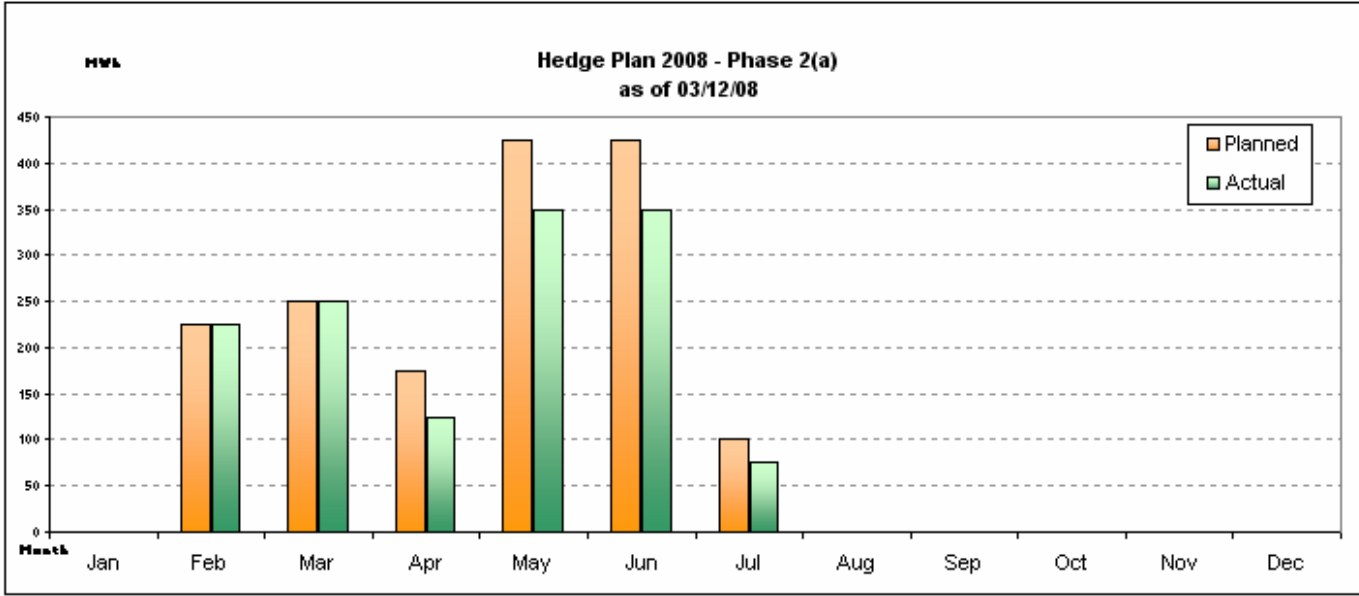
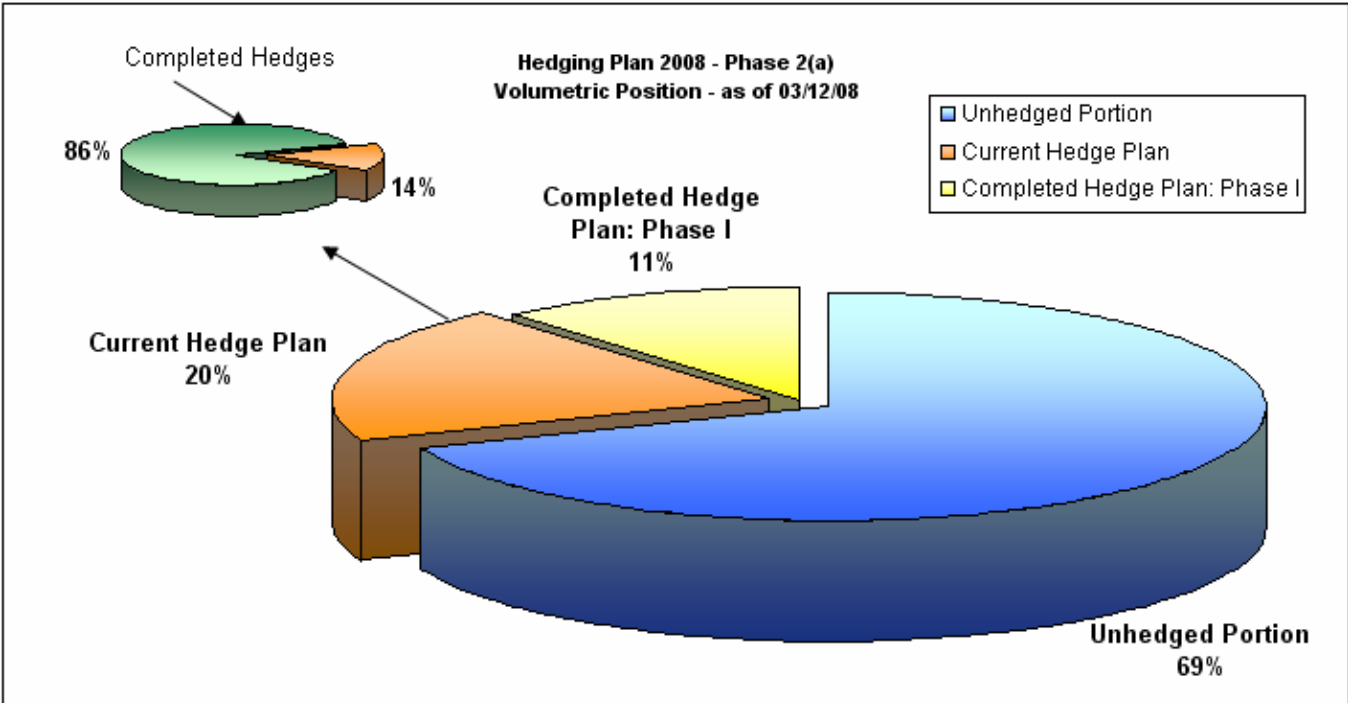
Tail Risk Limit	Rolling 4 Quarter Limit	Prompt Month Limit
		

Chart 1

Tail Risk

5% Tail of Cash from Operations





Seeking Council's Endorsement

- City Light is on the path of continuous improvement
- Lessons learned, experience gained
- Policy mandates an annual external opinion of compliance and adequacy of controls
- Endorsement from Council will:
 - Set the bar
 - Enable further improvement
 - Promote further cultural change within City Light
 - Send a favorable message to the Rating Agencies

Question/Comments

Eric Campbell
Director of Risk Oversight
(206) 684-3659
Eric.Campbell@seattle.gov