HOUSE RESEARCH

Bill Summary

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Subject: Hennepin County; energy forward pricing mechanisms

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Overview

This bill gives Hennepin County authority to use energy forward pricing mechanisms substantially similar to the authority the state and the Metropolitan Council have.

Section

1 **Energy forward pricing mechanisms.** Adds Minn. Stat. § 383B.1588.

Subd. 1. Definitions. Defines "energy" to mean natural gas, heating oil, diesel fuel, unleaded fuel, or other energy source, except electric. Defines "forward pricing mechanism" to mean a contract or financial instrument that obligates Hennepin County to buy or sell a specified amount of an energy commodity at a future date and at a set price, or an option to buy or sell the contract or financial instrument.

Subd. 2. Authority provided. Permits Hennepin County to use forward pricing mechanisms to reduce budget risks.

Subd. 3. Conditions. Prohibits the amount of energy forwarded price from exceeding the estimated energy use for county operations for the period of time covered by the forward pricing mechanism. Prohibits the holding period and expiration date for any forward pricing mechanism from exceeding 24 months from the trade date. Requires separate accounts for each transaction.

Subd. 4. Written policies and procedures. Requires written policies and procedures.

Subd. 5. Oversight process. Requires an oversight process including internal or external audit reviews, annual reports for an internal investment committee, and internal management control.

Effective the day after enactment.

Metropolitan Council
Minn. Stat. § 473.1293 Energy Forward Pricing Mechanisms.

Subdivision 1. Definitions. The following definitions apply in this section.
(a) "Energy" means natural gas, heating oil, diesel fuel, or any other energy source, except electric, used in Metropolitan Council operations.
(b) "Forward pricing mechanism" means either:
(1) a contract or financial instrument that obligates an entity to buy or sell a specified amount of an energy commodity at a future date and at a set price; or
(2) an option to buy or sell the contract or financial instrument.

Subd. 2. Authority provided. Notwithstanding any other law to the contrary, the council may use forward pricing mechanisms for budget risk reduction.

Subd. 3. Conditions. (a) Forward pricing transactions made under this section must be made only under the conditions in paragraphs (b), (c), and (d).
(b) The amount of energy forward priced must not exceed the estimated energy usage for council operations for the period of time covered by the forward pricing mechanism.
(c) The holding period and expiration date for any forward pricing mechanism must not exceed 24 months from the trade date of the transaction.
(d) Separate accounts must be established for each operational energy for which forward pricing mechanisms are used under this section.

Subd. 4. Written policies and procedures. Before exercising authority under subdivision 2, the council must have written policies and procedures governing the use of forward pricing mechanisms.

Subd. 5. Oversight process. (a) Before exercising authority under subdivision 2, the governing body of the council must establish an oversight process that provides for review of the council's use of forward pricing mechanisms.
(b) The process must include:
(1) internal or external audit reviews;
(2) quarterly reports to, and review by, an internal investment committee; and
(3) internal management control.
History: 1Sp2003 c 16 s 2

State purchasing
Minn. Stat. § 16C.143 Energy Forward Pricing Mechanisms.

Subdivision 1. Definitions. The following definitions apply in this section:
(1) "energy" means natural gas, heating oil, propane, diesel fuel, and any other energy source except electricity used in state operations; and
(2) "forward pricing mechanism" means a contract or financial instrument that obligates a state agency to buy or sell a specified quantity of energy at a future date at a set price.

Subd. 2. Authority. Notwithstanding any other law to the contrary, the commissioner may use forward pricing mechanisms for budget risk reduction.

Subd. 3. Conditions. Forward pricing mechanism transactions must be made only under the following conditions:
(1) the quantity of energy affected by the forward pricing mechanism must not exceed 90 percent of the estimated energy use for the state agency for the same period, which shall not exceed 24 months; and
(2) a separate account must be established for each state agency using a forward pricing mechanism.

Subd. 4. Written policies and procedures. Before exercising the authority under this section, the commissioner must develop written policies and procedures governing the use of forward pricing mechanisms.
History: 2005 c 156 art 2 s 23; 2007 c 68 s 1