

# VALLEY ELECTRIC ASSOCIATION, INC.

## Corporate Policy #112

### TRADING AUTHORITY POLICY

Dated: **June 29, 2017**  
Supersedes Date: **January 25, 2013**  
Formerly: Policy 120

#### 1. **POLICY PURPOSE**

The purpose of the authority policy is to define the authority granted by the Valley Electric Association, Inc. ("VEA") Board of Directors to the Chief Executive Officer ("CEO") to execute and delegate authority to execute energy related transactions. Furthermore, it sets forth clarity and empowerment among those with trading authority and is designed to encourage communication among individuals with trading authority and the Board of Directors.

#### 2. **OBJECTIVE**

The objective of VEA's Trading Authority Policy is to define:

- Who has authority to execute transactions,
- The commodities and products that can be transacted,
- The authorized lead-time and term for each transaction,
- The authorized maximum price and volume,
- Counterparty contract and credit requirements,
- The process for approving new commodities, products or locations,
- VEA's intentions regarding hedging and speculating,
- And other relevant factors associated with due diligence in authorizing transactions to be executed.

#### 3. **PROCEDURAL REQUIREMENTS**

The following defines procedural requirements that apply to all commodities and products transacted upon this trading authority policy.

##### **A. Execution Authority**

Execution Authority is outlined by commodity in the authority matrix sections found below. All column limits in these matrices are applied independently of one another for each authority level, in that no individual column limit may be exceeded without authorization, regardless of whether a transaction does not exceed another column limit for that same authority level. Trading Day Limits and Aggregate Limits, as applicable, for each level of authority are cumulative, and include all column limits up to and including that level.

The trading limits apply to both purchases and sales. Trading Day Limits are applied to gross amounts transacted in total for the day, and not to buys and sells netted together.

This policy identifies Board authorized levels for the CEO and explicitly gives the CEO the authority to delegate authority levels to VEA staff and ACES Power Marketing ("APM"). The CEO has the authority to modify authority levels at his sole discretion as long as the delegated authority does not exceed his own authority per this policy.

Individuals who are listed in the authority matrices in this policy are authorized to execute trades under the stated limits and may delegate their authority to others as long as the delegated authority does not exceed their own authority per this policy.

#### **B. Contract Requirements**

Transactions with counterparties shall only be permitted if VEA has:

- An active, valid, and executed agreement enabling such trading activity with that counterparty.
- Long-form confirmations may be used as a valid agreement in lieu of a permanent agreement, when necessary if approved by the VEA Executive Chief Financial Officer

#### **C. Credit Requirements**

Credit limits for each counterparty shall not be intentionally exceeded. *(Note: Since credit exposures are a function of not only positions traded, but also a function of market pricing and volatility, credit exposure to a counterparty may unintentionally exceed a credit limit purely due to changes in the forward market).*

Entering into unsecured transactions with a counterparty that has total credit exposure greater than or equal to its open line of credit and the total of any security currently provided, will not be allowed unless approved in writing by the VEA Executive Chief Financial Officer (ECFO).

#### **D. Slewing**

No slewing transactions for credit or contract purposes shall be executed. Credit slewing is an arrangement where a more financially reputable entity acts as a middleman for a smaller undercapitalized entity in the execution of a transaction. Contract slewing is an arrangement where an entity acts as a middleman between two entities to bridge a contract gap that exists between the two entities.

#### **E. Trading on Premises**

All bilateral trades transacted verbally must be executed on either a voice recorded communication line or via an online broker account that is maintained and controlled by personnel who are independent of the trading function. Trading on cellular phones or through instant messaging is prohibited. Off premises trading is prohibited.

#### **F. Deal Capture**

Any transactions executed by a VEA employee must be promptly forwarded to APM after deal execution.

## **G. Speculation**

No speculative trading activities shall be permitted, and no speculative trading positions shall be initiated. Trading will be permitted only for purposes of hedging and portfolio optimization.

## **H. Non-Standard Products**

The Board must approve any transaction that involves commodities or products not listed in this policy.

## **I. Transactions Requiring Board of Directors ("Board") Approval**

Transactions, which meet any of the following criteria, must be approved by the Board prior to execution:

- The transaction is a new commodity or product not previously traded by VEA;
- The transaction is at a location in which no trading is permitted;
- The transaction is for something other than: a physical spot or forward electricity transaction, a power transmission transaction, an exchange traded power or natural gas transaction, an over-the-counter financial power or natural gas transaction, or an over-the-counter (OTC) power option
- Examples of new instruments would include the use of derivatives with different risk characteristics or the use of derivatives to implement different business strategies or goals. New instruments or locations would also include those instruments or locations that may be traded on a "one-off" basis, which would be implementation of a derivative instrument or entry into a commodity market that, despite the anticipation of being transacted just once, would still fit the definition of a new instrument or location.

The purpose of defining a process for such transactions as noted above is to ensure that the exposures associated with them are thoroughly reviewed and understood by the Board and appropriate trading controls are in place. The Board must approve the use of such transactions prior to execution using the process defined below:

- Transaction Proposal - The proposal is the responsibility of the person or business group proposing the transaction. The proposal should address the business need, risks, trading controls, valuation methodology, accounting methodology, operations workflow/methodology, and assessment of legal and regulatory issues.
- Board Review - The CEO will perform a review on behalf of, and make a recommendation to, the Board on the benefits and risks of the proposed transaction. The Board will assess the proposed transaction and make a determination whether to add the proposed transaction to the approved list.
- Approval (Pilot Program) – The Board may approve limited use of the proposed transaction to insure that proper controls are in place to monitor the activity. The Board may approve the proposed transaction without instituting a Pilot Program, if the proposed transaction is going to be used once (one off) where it would not be prudent to test it in a shorter time frame or smaller quantity, due to constraints such as liquidity or length of term of product. The Board will use more scrutiny in approval of one-off transactions.

#### 4. Bilateral Electric Power and Transmission Trading Authority

The following outlines transaction limits, definitions, and procedural requirements for power and power transmission transactions.

Title	Product	Per Transaction Limits (up to)				Per Trading Day Limits (up to)		Aggregate Limits (up to)	
		Term	Lead Time	MW Size	\$/ MWH	Total Volume MWH	Total \$	Total Volume MWH	Total \$
Board of Directors	Electric Power and	No Limit	No Limit	No Max.	No Max.	No Max.	No Max.	No Max.	No Max.
CEO or ECOO	Electric Power and Trans	> 1 Year ≤ 3 Years	≤ 3 Years	75	\$100	1,500,000	\$100 Million	1,500,000	\$100 Million
		≤ 1 Year		No Max.	No Max.				
ECFO	Electric Power and Trans	> 1 Day ≤ 1 Week	≤ 1 Week	75	\$100	12,600	\$500 k	50,000	\$500k
		≤ 1 Day	≤ 1 Week	150	\$100	3,600	\$90,000		
Mgr. Power Supply	Electric Power and Trans	> 1 Day ≤ 1 Week	≤ 1 Week	75	\$100	12,600	\$500 k	50,000	\$500k
		≤ 1 Day	≤ 1 Week	150	\$100	3,600	\$90,000		
AEPCO/AP M	Electric Power and Trans.	> 1 Day ≤ 1 Week	≤ 1 Week	75	\$100	12,600	\$500 k	50,000	\$500k
		≤ 1 Day	≤ 1 Week	150	\$100	3,600	\$90,000		

##### A. Bilateral Electric Power and Transmission Trading Authority Matrix Explanations

- Transaction Limits represent the MW volume per hour and dollars/MWH for each transaction executed.
- Per Trading Day Limits represent the total MWH volume and dollars for all transactions executed in a trading day.
- Aggregate Limits represent the sum total MWH volume and dollars for all forward transactions.
- Lead time represents the time period from the date a trade is executed to the start of the trade.
- The dollar limits are based upon electric power only and do not include transmission, however, the Term, Lead Time, and Quantity limits do apply to transmission.
- Authorized products include electric power and transmission, including both physical and financial derivatives, as well as capacity and ancillary services. Financial derivatives may only be Over-the-Counter or Exchange Traded.
- Per Trading Day Limits represent the total MWh volume for all transactions executed in a trading day. Per Trading Day Volume and Total dollar Limits shall

increase by 2 times solely to accommodate trading on a Thursday for a Friday and Saturday or trading on a Friday for a Sunday and Monday and shall increase up to 4 or 5 times solely to accommodate trading for holiday weekends, as applicable.

**B. Delivery Locations**

Trading at delivery locations that are normal to the daily course of business for VEA, to the extent transmission is available, is authorized as follows:

Unrestricted Delivery Locations

- WECC
- CAISO

Trading at any other delivery location will only be permitted with written approval of the VEA CEO.

**C. Firmness of Power**

The product firmness of all transactions must be provided for in an executed agreement between VEA and the appropriate counterparty. Sales commitments must never be more firm than the supply source, including the purchase side of back-to-back sales, swaps, or spreads unless the CEO gives explicit written authority to sell power that is more firm than the supply source.

**D. Transmission Firmness and Volume**

Transmission purchases need to be as firm as possible to the energy component that such transmission is associated with. Transmission purchases need to be of equal volume to the energy component that such transmission purchase is associated with, unless pre-approved otherwise by the APM VP of Portfolio Management/Portfolio Director. (Note: Purchasing small percentages of additional transmission to cover transmission losses is permitted.)

**5. CAISO Trading Authority**

The following outlines transaction limits, definitions, and procedural requirements for CAISO products.

CAISO Per Transaction Limits

Title	Product	Delivery Lead Time	Term *	MW Size	\$/MWh
Board of Directors	All CAISO Products	No Limit	No Limit	No Max	No Max
CEO/ECOO	Generation Awards	None			
	Demand Awards	As Required by CAISO	1 Operating Day	No Max	CAISO Price Cap
	Inter SC Transactions			No Max	
	Imports/Exports			No Max	
	Ancillary Services	None			
	Virtual Transaction Awards	None			
	Congestion Revenue Rights	< 10 Years	< 10 Years	150	\$10

ECFO	Generation Awards	None			
	Demand Awards	As Required by CAISO	1 Operating Day	175	CAISO Price Cap
	Inter SC Transactions			100	
	Imports/Exports			175	
	Ancillary Services	None			
	Virtual Transaction Awards	None			
	Congestion Revenue Rights	≤ 5 Years	≤ 5 Years	100	\$12
Mgr. Power Supply	Generation Awards	None			
	Demand Awards	As Required by CAISO	1 Operating Day	150	CAISO Price Cap
	Inter SC Transactions			75	
	Imports/Exports			150	
	Ancillary Services	None			
	Virtual Transaction Awards	None			
	Congestion Revenue Rights	≤ 1 Year	≤ 1 Year	90	\$10
AEPCO/APM	Generation Awards	None			
	Demand Awards	As Required by CAISO	1 Operating Day	150	CAISO Price Cap
	Inter SC Transactions			75	
	Imports/Exports			150	
	Ancillary Services	None			
	Virtual Transaction Awards	None			
	Congestion Revenue Rights	≤ 1 Month	≤ 1 Month	60	\$6

#### A. CAISO Trading Authority Matrix Explanations

- **Generation Award Limits are per generating unit (currently N/A).**
- **Demand Award Limits are per each load location.**
- **Imports and Exports are by location and are each monitored separately.**
- **Inter-SC Transactions are each monitored separately.**
- **Limits for Ancillary Service Awards apply to the Regulation and Operating (Spinning and Non-Spinning) Reserve Market (currently N/A). Limits for ancillary services transacted bilaterally are addressed in the power authority matrix.**
- **Virtual Transaction (Convergence Bidding) Award Limits are per each bid/offer nodal point (currently N/A)**
- **Only Congestion Revenue Rights that are bought and sold via the long-term, annual and monthly auctions or in the secondary market are monitored per the limits above. This excludes congestion revenue rights allocated in the Annual Allocation.**
- \* **Term applies to either the calendar year or planning year.**

## **6. ACKNOWLEDGEMENTS**

### **A. Clear Authority**

Any situation where authority is in question from a “clearly authorized” standpoint, should be reviewed and authorized by written signature prior to execution by the next authority level up.

**B. Violations and Sanctions- N/A**

**C. Policy Effective**

This Authority Policy is in effect upon the Board' approval and shall remain in effect until a replacement policy has been approved by the Board superseding this Trading Authority Policy.

**7. RESPONSIBILITY**

It shall be the responsibility of the Board of Directors, through the Chief Executive Officer and the IRMC, to ensure compliance with this policy.