

VALLEY ELECTRIC ASSOCIATION, INC.

Corporate Policy #112

TRADING AUTHORITY POLICY

Dated: **August 6, 2019**
Supersedes Date: **June 29, 2017**
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:

- 1) An active, valid, and executed agreement enabling such trading activity with that counterparty.
- 2) 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. Sleeving

No sleeving transactions for credit or contract purposes shall be executed. Credit sleeving 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 sleeving 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:

- 1) The transaction is a new commodity or product not previously traded by VEA;

- 2) The transaction is at a location in which no trading is permitted;
- 3) 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
- 4) 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.

J. Board Approval Process

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:

- 1) 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.
- 2) 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.
- 3) 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.

Bilateral Electric Power and Transmission Trading Authority Matrix

This upper portion of the Authority Matrix is subject to VEA Board of Directors approval and requires VEA Board of Directors approval change.

Title	Product (1)	Lead Time (5)	Per Transaction Limits (2)			Per Flow Day Limits (3)		Aggregate Limits (4)	
			Term	MW Amount (2a)	\$/MWh (2b)	Total MWhs	Total \$	Total MWhs	Total \$
Board of Directors	Electric Power & Transmission & Capacity	No limit	No limit	No Max	No Max	No Max	No Max	No Max	No Max
CEO	Electric Power	≤ 3 Years	> 6 Months ≤ 1 Year	75	\$100	6,000	\$2 Million	1,000,000	\$50 Million
			> 3 Months ≤ 6 Months	75	\$125				
			> 1 Month ≤ 3 Months	100	\$150				
			> 1 Week ≤ 1 Month	150	\$200				
			≤ 1 Week	No Max	No Max				
	Transmission & Capacity	≤ 5 Years	> 1 Year ≤ 5 Years	35	\$15				
			> 6 Months ≤ 1 Year	75	\$15				
			≤ 6 Months	No Max	No Max				

The lower portion of the Authority Matrix requires CEO or his/her designee action and approval to change. All designated individuals and all delegated authority must not exceed the limits established for the CEO by the VEA Board of Directors.

Title	Product (1)	Lead Time (5)	Per Transaction Limits (2)			Per Flow Day Limits (3)		Aggregate Limits (4)					
			Term	MW Amount (2a)	\$/MWh (2b)	Total MWhs	Total \$	Total MWhs	Total \$				
COO or Mgr. of Power Resources	Electric Power	≤ 1 Year	> 1 Week ≤ 1 Month	150	\$100	4,800	\$1.5 Million	150,000	\$7.5 Million				
			> 1 Day ≤ 1 Week	150	\$250								
			≤ 1 Day	No Max	No Max								
COO or Mgr. of Power Resources	Transmission & Capacity	≤ 6 Months	> 1 Day ≤ 1 Week	100	\$15								
			≤ 1 Day	150	\$15								
AEPCO	Electric Power	≤ 3 Months	> 1 Day ≤ 1 Week	100	\$250					3,600	\$1 Million	100,000	\$5 Million
			≤ 1 Day	150	\$275								
AEPCO	Transmission & Capacity	≤ 1 Month	> 1 Day ≤ 1 Week	50	\$15								
			≤ 1 Day	100	\$15								

A. Bilateral Electric Power and Transmission Trading Authority Matrix Explanations

- 1) Authorized products include electric power and transmission as well as bilateral capacity and doesn't include purchases of spinning and non-spinning reserves.
- 2) Per Transaction Limits represent the MW volume per hour and dollar per MWh price for each transaction executed.
 - 2a) This limitation applies separately to purchase transactions and to sale transactions.
 - 2b) This limitation applies only to purchase transaction price per MWh; sale transaction price per MWh is based on market rate or FERC cap, whichever is less.
- 3) Per Flow Day Limits represent the total MWh volume and dollars for all transactions scheduled to flow on any given day and applies separately to each product. The Limit apply to gross amounts transacted, not buys and sells netted together.
- 4) Aggregate Limits represent the sum of total MWh volume and dollars (remaining cost) for all applicable forward transactions and applies separately to each product. The Limit apply to gross amounts transacted, not buys and sells netted together.
- 5) Lead Time represents the time period from the date a trade is executed to the start of the trade.
- 6) Resource Adequacy will be monitored under the Transmission & Capacity Section.

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

CAISO Trading Authority Matrix

This upper portion of the Authority Matrix is subject to VEA Board of Directors approval and requires VEA Board of Directors approval to change.

Title	Product	Per Transaction Limits (1)		VBOB	
		Lead Time (2)	Term	MW Amount	\$/MWh
Board of Directors	All CAISO Products	No Limit	No Limit	No Max	No Max
CEO	Generation Awards (6), Demand Awards (3), Inter SC Transactions (4), & Imports (5)	As Required by CAISO	7 Operating Days	No Max	CAISO Price Cap
	Exports, Ancillary Service Awards and Virtual Transactions	None			
	Congestion Revenue Rights (7)	As Required by CAISO	> 1 Year ≤ 10 Years	150	\$15
	≤ 1 Year		No Max	No Max	

The lower portion of the Authority Matrix requires CEO or his/her designee action and approval to change. All designated individuals and all delegated authority must not exceed the limits established for the CEO by the AEPCO Board of Directors.

		Per Transaction Limits (1)		VBOB	
Title	Product	Lead Time (2)	Term	MW Amount	\$/MWh
COO or Manager of Power Resources	Demand Awards (3)	As Required by CAISO	7 Operating Days	150	CAISO Price Cap
	Inter SC Transactions (4)			100	
	Imports (5)			150	
	Generation Offers (6)	As Required by CAISO	7 Operating Days	20	CAISO Price Cap
	Congestion Revenue Rights (7)	≤ 1 Year	≤ 1 Year	100	\$15
	Exports, Ancillary Service Awards and Virtual Transactions	None	None	None	None
AEPCO	Demand Awards (3)	As Required by CAISO	7 Operating Days	150	CAISO Price Cap
	Inter SC Transactions (4)			75	
	Imports (5)			150	
	Generation Offers (6)	As Required by CAISO	7 Operating Days	20	CAISO Price Cap
	Congestion Revenue Rights (7)	None	None	None	None
	Exports, Ancillary Service Awards and Virtual Transactions	None	None	None	None

A. CAISO Trading Authority Matrix Explanations

- (1) Per Transaction Limits represent the MW volume per hour and dollar per MWh price for each transaction executed.
- (2) Lead Time represents the time period from the date a trade is executed to the start of the trade.
- (3) Demand Award Limits are per each load location. Demand Award is defined as the energy awarded to a market participant according to the amount submitted in the Day-Ahead market via an energy Demand Bid that indicates the MWh of Energy the Scheduling Coordinator is willing to purchase, the price at which it is willing to purchase the specified Energy, and the applicable Trading Hours for which the energy will be purchased.
- (4) Inter SC Transactions (ISTs) are each monitored separately. ISTs are defined as transactions occurring between two bilateral counterparties to provide for contractual delivery of energy under bilateral contracts and to trade payment obligations of certain CAISO charges. ISTs scheduled with the CAISO in accordance with the terms of the bilateral transaction and can be settled in the real time or Day-Ahead/Integrated Forward Market.
- (5) Imports are by location and are each monitored separately. Imports are defined as energy sold or scheduled by a resource located outside the ISO Controlled Grid and imported in to the CAISO Controlled Grid via an electronic tag. The import may include the scheduling of an associated Existing Transmission Contract (ETC) for physical delivery to a CAISO load point. AEPCO satisfies its Resource Adequacy (RA) requirements via imports into the CAISO (AEPCO makes RA capacity available to the CAISO as well as submits energy bids to the CAISO for all unscheduled energy from RA resources via imports).
- (6) Exports are by location and are each monitored separately. Exports are defined as energy purchased by a resource outside of the ISO Controlled Grid and exported out of the CAISO Controlled Grid via an electronic tag. ACES' Export Authority on behalf of AEPCO is limited to only Day-Ahead Exports. ACES has no authority to export in the Real Time Market (RTM)/Hour Ahead Scheduling Process (HASP) unless the RTMIHASP Exports are equal to the Day-Ahead Exports.
- (7) Congestion Revenue Rights (CRRs) are defined as financial instruments that enable the holders of CRRs to manage variability in congestion costs based on the congestion component of the Day-Ahead locational marginal pricing. ACES' authority with respect to CRR's is limited to monthly submittals of AEPCO's monthly and annual allocations of CRR's.

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.