



POWER SUPPLY AND COMMODITY RISK MANAGEMENT POLICY

Effective Date: TBD, 2024

POLICY AT A GLANCE

It is PEC's mission to provide **low-cost**, **reliable**, and **safe** energy solutions for the benefit of its Members. The purchase of electricity is required to satisfy PEC's obligations to its Members, and to manage PEC's Electric Energy Requirements.

SUBJECTS INCLUDED IN THIS POLICY



1. PURPOSE

The purpose of this Power Supply and Commodity Risk Management Policy (“Policy”) is to establish overall direction regarding the identification, measurement, controls, and monitoring of physical and financial Commodity Risk exposures of the Pedernales Electric Cooperative, Inc. (“PEC” or “Cooperative”). The overall goal of this Policy is to effectively manage PEC’s Electric Energy Requirements while ensuring that the Commodity Risk exposure assumed by PEC is consistent with the Risk Appetite, expected cash flow, and Member rates of PEC. This Policy shall identify, report, and control the risk exposure of PEC in order for it to meet its business objectives. To the extent this Policy conflicts with any PEC policy approved prior to the effective date of this Policy, this Policy controls.

2. SCOPE

- 2.1. This Policy governs the management, reporting, and oversight of PEC’s Commodity Risk exposure.
- 2.2. This Policy governs the activities used to manage PEC’s Electric Energy Requirements, including the management of PEC’s Power Supply Portfolio and existing, and future, Power Supply contracts.

3. POLICY AND IMPLEMENTATION

3.1. Summary

PEC is a utility with operations/services in the Electric Reliability Council of Texas (“ERCOT”) market. PEC conducts Commodity Hedging strategies related to its electricity delivery operations to minimize Commodity Risk and provide rate stability to its Members.

Commodity Risk management is overseen by the Power Supply Committee (“PSC”). The PSC is delegated this authority from the PEC Board of Directors (“Board”), on the condition that the PSC enforce strict adherence to the Cooperative’s Risk Appetite, as established by the Board and supported by the Policy Appendix, related internal procedural documentation, and risk measurement of the Board-approved Risk Tolerance. The Policy Appendix, and related internal procedural documentation, are considered to be Competitive Matters as defined by the [Designation of Competitive Matters Policy](#), which provides an exception to disclosure under the [Open Records Policy](#) or attendance under the [Board Meetings Policy](#). The Policy Appendix is treated as Confidential.

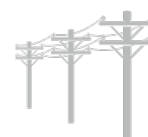
The Board approves a Risk Appetite against market Risk Tolerance, which is monitored and maintained by the PSC. In addition, the PSC shall appoint an Independent Risk Monitor to evaluate risk measurement and policy compliance for all Commodity Risk exposure. PEC’s Commodity Risks include native electricity load exposure, hedged commodity exposure, operational supply/consumption mismatch, and weather risks.

PEC will conduct Commodity Risk management activities by adhering to all objectives, activities, controls, and procedures in accordance with this Policy.

3.2. Power Supply Objectives

This Policy enables PEC to create, protect, and enhance value for PEC Members by authorizing PEC to undertake activities to meet the following Power Supply objectives:

- 3.2.1. PEC will strive to meet its Electric Energy Requirements at a reasonable cost.



- 3.2.2. PEC will strive to meet its Electric Energy Requirements while managing Commodity Risk as set forth in this Policy.
- 3.2.3. PEC will strive to meet its Electric Energy Requirements by developing a Power Supply Portfolio that consists of a diversified portfolio of multiple suppliers, multiple sources, and various contract lengths.

3.3. Risk Management Objectives

This Policy enables PEC to create, protect, and enhance value for PEC Members by authorizing PEC to undertake activities to meet the following risk management objectives:

- 3.3.1. PEC will strive to conduct Commodity Risk management activities to decrease variability to projected budgeted financial risks associated with providing retail electrical power and related services to PEC's Members.
- 3.3.2. PEC will manage Market Risk as set forth in the Policy Appendix and utilize internal procedures and controls necessary to effectively manage the Commodity Risk inherent in PEC's operations. It is designed to ensure that PEC actively considers and manages internal and external risks across its operations and that business decisions are made based upon a sound understanding of the threats and opportunities associated with the business activities.
- 3.3.3. PEC will strive to manage Credit Risk as set forth in the Policy Appendix and utilize internal procedures and controls to establish parameters and mitigation policies regarding the extension of commercial credit by PEC to its external counterparties.
- 3.3.4. PEC will strive to conduct activities under this Policy to achieve the appropriate risk mitigation objectives of the overall Power Supply Portfolio.
- 3.3.5. Financial speculation of any kind is not authorized or tolerated by PEC.
- 3.3.6. PEC will strive to mitigate risk associated with transactions entered into pursuant to this Policy by monitoring compliance with this Policy and by establishing appropriate risk measurements of the potential exposure of the approved financial objectives of PEC.

3.4. Power Supply Committee ("PSC")

- 3.4.1. The PSC is comprised of the following voting members: Chief Executive Officer ("CEO"); Chief Financial Officer ("CFO"); General Counsel ("GC"); Chief Compliance Officer ("CCO"); and Vice President of Finance (Controller). The PSC also includes the following non-voting members: Director of Power Supply and Delivery and Director of Risk and Strategic Analysis.
- 3.4.2. The CFO will serve as Chair of the PSC and monitor program performance and compliance with the Policy documentation.
- 3.4.3. The PSC will appoint an Independent Risk Monitor to provide a periodic, independent review of PEC's risk monitoring and reporting practices in accordance with industry standards.
- 3.4.4. The PSC will recommend and modify risk limits consistent with Risk Tolerance approved by the Board and manage and mitigate risks from market volatility against potentially unfavorable financial results while maintaining financial results within acceptable guidelines as set forth by the Board.
- 3.4.5. The PSC will advise the CEO regarding:



- 3.4.5.1. The creation, amendment, approval, and administration of internal documentation related to or supportive of this Policy.
- 3.4.5.2. Setting limits in conformance with the Risk Appetite and Risk Tolerance.
- 3.4.5.3. Ensuring all Commodity Hedging and transactional activities are performed in accordance with this Policy, Policy Appendix, and related internal documentation.
- 3.4.5.4. PEC's ongoing compliance with Policy requirements.

3.5. Delegation of Authority and Responsibilities

3.5.1. Chief Executive Officer ("CEO")

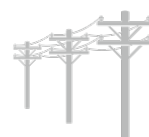
The CEO, on behalf of the Board and in accordance with the Board's [Authority and Responsibilities Policy](#), is granted the following authority and responsibilities as it relates to this Policy:

- 3.5.1.1. Execute energy hedge or physical transactions as granted under the authority imposed by the Board.
- 3.5.1.2. Ensure all transactional and risk activities of PEC are in accordance with this Policy.
- 3.5.1.3. Approve documentation for the administration of this Policy.
- 3.5.1.4. Ensure adequate measurement of PEC's Risk Tolerance for exposure.
- 3.5.1.5. Delegate and assign responsibilities to support functions to ensure a clear separation of duties.
- 3.5.1.6. Establish and implement a succession plan with respect to the duties of the CFO under this Policy.
- 3.5.1.7. Approve controls and periodically review the effectiveness of the program.
- 3.5.1.8. Approve contracts and other transactions necessary to implement this Policy.
- 3.5.1.9. Conduct PSC meetings regularly as required.

3.5.2. Chief Financial Officer ("CFO")

The CFO is charged with the following responsibilities as it relates to this Policy:

- 3.5.2.1. Chair the PSC and monitor program performance and compliance with the Policy documentation.
- 3.5.2.2. Maintain appropriate financial controls for all hedge and operational transactions.
- 3.5.2.3. Maintain a separation of duties between individuals authorized to execute commodity transactions and those who monitor and report on such transactions.
- 3.5.2.4. Maintain an organization to monitor and report on all hedge transactions, and ensure documents and procedures developed to execute this Policy are reviewed periodically.
- 3.5.2.5. Manage risk reporting on a periodic basis to ensure adequate analysis of the Risk Tolerance is maintained.



- 3.5.2.6.** Establish measures for appropriate knowledge transfer and cross-training amongst PEC employees to ensure continuity of operations of the PSC under this Policy.

3.5.3. Chief Compliance Officer (“CCO”)

The CCO is charged with the following responsibilities as it relates to this Policy:

- 3.5.3.1.** Serve as a member of the PSC and is charged with ensuring that the hedge program complies as required with all internal PEC policies as applicable.
- 3.5.3.2.** Monitor compliance with the Cooperative’s Standards of Conduct Relating to Market-Sensitive Information.
- 3.5.3.3.** Ensure that any violations of this Policy or trade execution are escalated as set forth in the Policy Appendix or internal procedures.
- 3.5.3.4.** Monitor implementation of this Policy to ensure PEC maintains compliance with its obligations as a Load Serving Entity and Resource Entity registered with ERCOT.
- 3.5.3.5.** Report quarterly to the Board any material issues of Commodity Trade Compliance as set forth in the Policy Appendix or internal procedures.

3.5.4. General Counsel (“GC”)

The GC is charged with the following responsibilities as it relates to this Policy:

- 3.5.4.1.** Advise the PSC on federal and state regulatory requirements, and other legal requirements, associated with activities conducted under this Policy.
- 3.5.4.2.** Establish and monitor record retention procedures in accordance with PEC’s Records Management Policy and Procedures to properly effectuate this Policy.

3.5.5. Vice President of Finance (Controller)

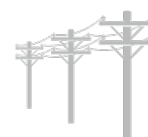
The Vice President of Finance (Controller) is charged with the following responsibilities as it relates to this Policy:

- 3.5.5.1.** Provide updates on potential risks and uncertainties associated with the Power Supply five-year rolling forecast of the Cost of Power.
- 3.5.5.2.** Ensure adequate quantification of the forecasted impacts of changes in market conditions, and market-based factors that may affect the Cost of Power.
- 3.5.5.3.** Establish Front Office, Middle Office, and Back Office financial controls to measure and control risk associated with the Power Supply and the Cost of Power in accordance with this Policy.
- 3.5.5.4.** Oversee and effectuate Credit Risk practices.

3.5.6. Director of Power Supply and Delivery (non-voting)

The Director of Power Supply and Delivery is charged with the following responsibilities as it relates to this Policy:

- 3.5.6.1.** Manage the Power Supply and delivery of the PEC commercial and retail electricity load.
- 3.5.6.2.** Provide the PSC updates on current and open Power Supply Portfolio positions and strategies to maintain risk exposures within tolerances set by this Policy.



3.5.6.3. Keep the PSC informed of market fundamentals and pricing updates affecting the Power Supply.

3.5.6.4. Provide the PSC status updates on Power Supply and strategies.

3.5.7. Director of Risk and Strategic Analysis (non-voting)

The Director of Risk and Strategic Analysis is charged with the following responsibilities as it relates to this Policy:

3.5.7.1. Develop the models used by PEC to perform risk reporting and analysis.

3.5.7.2. Provide the PSC periodic updates on load forecast.

3.5.7.3. Regularly report to the PSC regarding PEC's Power Supply position.

3.6. Energy Transaction and Risk Management Activities

PEC's energy transactions and risk management activities will comply with this Policy, other applicable PEC policies, and all applicable laws, rules, and regulations.

Energy transactions and risk management activities may include:

3.6.1. Commodity-Related Transactions

3.6.1.1. PEC may enter into transactions as needed to effectively manage the Power Supply Portfolio position.

3.6.1.2. PEC's commodity-related transactions may include the purchase and sale of power as well as related products and services, which may include financially settled transactions.

3.6.2. Credit Risk Management

3.6.2.1. PEC will ensure the integration of appropriate credit analysis to evaluate counterparty risk.

3.6.2.2. PEC will ensure from its analysis that appropriate credit provisions are adequate on a counterparty-by-counterparty basis.

3.6.2.3. PEC will regularly evaluate counterparty credit worthiness and require collateral as needed in accordance with the Policy Appendix and internal procedures.

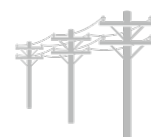
3.6.2.4. PEC will monitor credit-related financial exposure daily.

3.6.3. Credit and Collateral Management

3.6.3.1. PEC is granted authority to post collateral to counterparties for permitted transactions as may be required from time to time as a part of the hedge program, in the forms approved in the Policy Appendix.

3.6.3.2. PEC may extend unsecured credit to a counterparty only to the extent it is in conformance with this Policy and requirements set forth in the Policy Appendix.

3.6.3.3. All requirements for collateral will be a part of a process to be managed at the PSC level following the review of appropriate diligence of the contemplated transactions.



3.7. Delegation of Authority Limits

PEC employs a limit structure on its Power Supply Portfolio management activities as documented in the Policy Appendix that is intended to manage risk within the overall Risk Tolerance established by the Board.

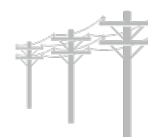
- 3.7.1. Approval limits for transactions relating to the sale and purchase of energy commodities (physical or financial) under this Policy may be delegated by the CEO or PSC as specified below:
 - 3.7.1.1. Approved transaction activities and products.
 - 3.7.1.2. Term/tenor limits associated with approved transactions.
 - 3.7.1.3. Approved product locations and pricing.
 - 3.7.1.4. Approved counterparties.
- 3.7.2. Commodity Hedging and optimization is permitted for the purpose of managing volumetric operational or price volatility risk.
- 3.7.3. Periodic review by the Independent Risk Monitor, which shall occur at least semi-annually, is required to ensure adequate risk quantification, valuation methodology, and deal approval requirements.

3.8. Reporting and Internal Controls

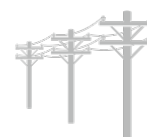
- 3.8.1. The CEO and/or members of the PSC will update the Board regularly on its activity under this Policy and will also provide the Board with updates on the Risk Tolerance, relevant risk reporting, any Policy violations or Risk Tolerance exceedances, business requirements, and notable industry matters as applicable.
- 3.8.2. The Policy Appendix sets forth Front Office, Middle Office, and Back Office requirements under this Policy. The CEO, in consultation with the PSC, will develop and adopt additional internal procedures and processes to ensure effective implementation of this Policy in conformance with the Board's approved Risk Appetite and Risk Tolerance. This documentation will be periodically updated and monitored as needed to ensure adherence to industry standards.
- 3.8.3. Internal documentation is maintained separately for structured transactions to ensure that all transactions are explicitly authorized and reviewed within this Policy.

4. DEFINITIONS

- 4.1. **Ancillary Services** – A service necessary to support the transmission of energy to Load Serving Entities while maintaining reliable operation of the transmission system.
- 4.2. **Back Office** – Primarily responsible for ensuring that financial records of PEC's Power Supply operations accurately reflect the current state of energy risk management and Power Supply Portfolio management activity.
- 4.3. **Commodity Hedging** – A risk management strategy that involves entering into transactions to reduce or offset the risk of adverse movements in commodity prices.
- 4.4. **Commodity Risk** – The possibility that the price of a commodity, such as electric energy, may be different than projected, resulting in unexpected financial outcomes.



- 4.5. **Commodity Trade Compliance** – The range of regulatory obligations that must be complied with by the Cooperative in undertaking commodity trading activities under this Policy.
- 4.6. **Congestion Revenue Rights (“CRRs”)** – A financial instrument that may result in a charge of a payment to the owner of the instrument when the transmission system is congested.
- 4.7. **Cost of Power** – The cost to PEC to meet the Electric Energy Requirements.
- 4.8. **Credit Risk** – Risk associated with the financial impact of a counterparty’s potential default on its obligations to PEC.
- 4.9. **Electric Energy Requirements** – All electric energy consumed by the Cooperative and Ancillary Services that are required to meet PEC Members’ energy requirements.
- 4.10. **Front Office** – Primarily responsible for managing the energy supply portfolio associated with PEC’s wholesale market activities and directing its daily physical and financial trading.
- 4.11. **Independent Risk Monitor** – Contracted resource tasked to provide an independent review of PEC’s risk monitoring and reporting practices in accordance with industry standards.
- 4.12. **Load Serving Entity (“LSE”)** – An entity that sells energy to customers, Members, or wholesale customers and that has registered as a Load Serving Entity with ERCOT.
- 4.13. **Load Zone** – A group of electrical buses assigned to the same geographic region as designated by ERCOT.
- 4.14. **Market Risk** – Risk associated with uncertainty in commodity pricing, commodity supply and demand, volatility, and market liquidity.
- 4.15. **Middle Office** – Primarily responsible for monitoring PEC’s energy management risk exposures and mitigation measures and ensuring compliance with relevant policies, guidelines, and procedures.
- 4.16. **Point-to-Point Obligation (“PTPs”)** – A forward contract that can result in either a payment or a charge to the Congestion Revenue Rights owner of record.
- 4.17. **Power Supply** – A collective term used to refer to wholesale power purchases and sales needed to serve PEC’s load obligation.
- 4.18. **Power Supply Portfolio** – A grouping of contracts, resources and any other assets used by PEC to meet the Electric Energy Requirements.
- 4.19. **Qualified Scheduling Entity (“QSE”)** – A market participant that is qualified by ERCOT for settling payments and charges.
- 4.20. **Renewable Energy Credits** – A tradeable instrument that represents all of the renewable attributes associated with one MWh of production from a certified renewable generator.
- 4.21. **Resource Entity** – A market participant that owns or controls a resource that sells energy or Ancillary Services into the ERCOT market and is registered as a Resource Entity.
- 4.22. **Risk Appetite** – A general level of risk that the Cooperative is willing to accept in order to meet the objectives of this Policy.
- 4.23. **Risk Management** – The process of managing uncertainty with the identification of procedures, to mitigate or minimize the risk.



4.24. Risk Tolerance – The acceptable level of Commodity Risk that quantifies the Risk Appetite.

5. POLICY ENFORCEMENT

The CEO, through the Administrator, will enforce this Policy. Violation of this Policy may result in disciplinary action, up to and including, termination.

6. REFERENCES AND RELATED DOCUMENTS

[Authority and Responsibilities Policy](#)

[Designation of Competitive Matters Policy](#)

[Open Records Policy](#)

Policy on Policies

Records Management Policy and Procedures

Record Retention Schedule

Standards of Conduct Relating to Market-Sensitive Information.

Date adopted:	TBD, 2024
Last reviewed:	TBD, 2024
Review frequency:	Annually
Amendment dates:	
Effective date:	TBD, 2024
Approver:	Board of Directors
Applies to:	Board of Directors All Employees Identified in Program Documents
Administrator:	Chief Financial Officer
Superseding effect:	This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this Policy.

