



Power Supply and Commodity Risk Policy

Randy Kruger, Jr. | CFO

Delegation of Authority Overview

- In the changing ERCOT power market, PEC needs the ability to nimbly execute power supply transactions, often within tight time constraints. PEC staff is requesting that the Board provide the authority to engage in transactions bound by the following guardrails:
 - Clear parameters for the types of transactions permitted, which are consistent with industry best practices, as set forth in the Power Supply and Commodity Risk Policy;
 - A monetary budget for the purchase of power supply through the yearly budgeting process with a requirement that power costs stay within a tolerance set by the PEC Board;
 - Review of and approval of transactions by the Power Supply Committee, which creates checks and balances; and
 - Regular reporting requirements to the Board regarding power supply transactions.

Power Supply and Commodity Risk Policy

- Policy provisions are contained in three documents
 - **Power Supply and Commodity Risk Management Policy** ("Policy"), the public facing board policy
 - **Power Supply and Commodity Risk Management Policy Appendix** ("Policy Appendix"), the confidential board policy
 - **Commodity Risk Management Procedures Manual** ("Manual"), the CEO level manual governing day-to-day operational details

Policy Drafting Team

- These policy documents have been drafted and reviewed by many subject matter experts to ensure best practices are being adopted.

Name	Role
<i>Internal</i>	
Randy Kruger	CFO
Andrea Stover	GC
Christian Powell	CCO
Kat Jones	VP Finance (Controller)
Erika Kane	Associate General Counsel
Lance Cunningham	Director of Market Risk and Strategic Analysis
Rob Strobel	Director of Power Supply and Delivery
<i>External</i>	
Glenn Labhart	CEO Labhart Risk Advisors
Elaine Walsh	Baker Botts firm wide power practice chair

Executive Summary of Policy Features

- The main purpose of the power supply policy is to ensure base power rate stability for PEC members, while giving PEC management the ability to nimbly execute within guardrails.
 1. Defines board risk tolerance
 2. Establishes minimum hedge levels
 3. Delegates day-to-day management to Power Supply Committee
 4. Defines authorized markets and transaction types
 5. Sets general and specific transaction limits
 6. Sets counterparty credit standards
 7. Establishes reporting and internal control standards
 8. Requires CEO and CFO to establish procedures for succession planning and continuity of operations

Power Supply Committee (PSC) Role

- The PSC will set sub-limits below those conducting daily transactions and hold primary responsibility for managing price risk volatility to tolerances set by the board.
- The PSC will advise the CEO regarding:
 - The creation, amendment, approval, and administration of internal documentation related to or supportive of the Policy.
 - Setting limits in conformance with the Risk Appetite and Risk Tolerance.
 - Ensuring all commodity hedging and transactional activities are performed in accordance with the Policy, Policy Appendix, and related internal documentation.
 - PEC's ongoing compliance with Policy, legal, and regulatory requirements.

3(b) PSC Staffed by Highly Qualified Personnel

Title	Name	Voting	Role	Years Experience	Background
CEO	Julie Parsley	Yes	General oversight and delegation authority for the Policy.	30	Regulatory, public policy and legal—Public Utility Commission Commissioner, Texas Solicitor General, private law practice
CFO	Randy Kruger	Yes	Chair of the PSC and responsible for monitoring program performance and compliance with the Policy	32	Energy trading, risk management and finance—Direct Energy Business, JP Morgan Commodities, Bear Stearns Commodities, Calpine, Arthur Andersen
GC	Andrea Stover	Yes	Advise the PSC on federal and state regulatory requirements, and other legal requirements associated with activities conducted under this Policy	20	Energy and utility law—Baker Botts co-chair Energy Regulatory Section, represented clients in matters before ERCOT, Texas PUC, ERCOT, FERC and state and local courts
CCO	Christian Powell	Yes	Ensure compliance with external laws and regulations as well as internal policies.	20	Utility regulatory, compliance and risk management—represents PEC on ERCOT Technical Advisory Committee, Wholesale Market Subcommittee, and Retail Market Subcommittee, 18 years with LCRA
VP Finance	Kat Jones	Yes	Responsible for risk reporting, settlements, credit and related controls	21	Energy trading, risk management and finance—NRG, Direct Energy Business, Centrica
Dir. Power Supply and Delivery	Rob Strobel	No	Execute transactions and maintain appropriate hedge levels as well as manage LCRA contract	28	Energy trading and origination—Energy Edge, AEP, Deutsche Bank Energy Trading, Citi Group Energy, Cinergy, Dynegey
Dir. Market Risk and Strategic Analysis	Lance Cunningham	No	Develop risk models and perform risk reporting and analysis.	37	Energy trading and risk management—Denton Municipal Electric, Luminant, Enron
Independent Risk Monitor	Glenn Labhart	No	Appointed by the PSC to perform periodic, independent review of PEC's risk monitoring and reporting practices in accordance with industry standards	45	Energy trading and risk management—CEO of Labhart Risk Advisors, provides commodity risk advisory services to clients engaged in all aspects of the energy value chain, former trader and Chief Risk Officer for Dynegey, GARP Global Risk Manager of the Year 2001.

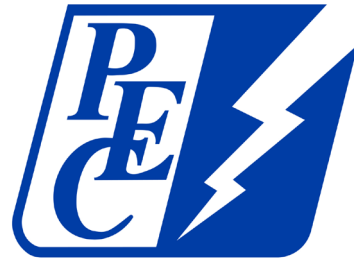
PEC's policy is consistent with industry standards

- Long term open positions are closed **over multiple years**, making risk management nimbler to manage shorter term volatility
- Transactions are executed to keep positions within **guardrails**
 - policies set out authorized products, volume limits, tenor, credit and delegations of authority
- Policies have **robust reporting and monitoring** framework
 - Policies **segregate duties** between people transacting, reporting and settling transactions



	Power Supply Committee, CEO, CFO, GC, CCO, VP Finance, Director of Power Supply and Delivery, Director of Strategic Analysis and Market Risk	CEO, Risk Management Committee and CFO	Audit Compliance & Governance Committee, Risk Oversight Committee, Chief Risk Officer, Front Office	Commodity Risk Management Committee, CFO, COO, Front Office	Risk Management Committee (City Manager, DME General Manager, Director of Finance, DME Regulatory & Risk Manager) also DOA down to trader level
Delegation of Authority					
Description of Risk Management Objectives	✓	✓	✓	✓	✓
Definition of Risk Management Activities	✓	✓	✓	✓	✓
Limits					
Authorized Products	✓	✓	✓	✓	✓
Term/Tenor Limits	✓	✓	✓	✓	✓
Volume Limits	✓	✓	✓	✓	✓
Approved locations and sources	✓	✓	✓	✓	✓
Approved counterparties/credit	✓	✓	✓	✓	✓
Limits on speculating	✓	✓	✓		✓
Standards of Conduct and Care	*	✓			✓
Reporting and Internal Controls	✓	✓	✓	✓	✓

* Covered by PEC Code of Conduct



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