



POWER SUPPLY AND ENERGY MANAGEMENT POLICY

Effective Date: October 15, 2021

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

Power Supply and Energy Program Objectives

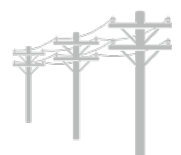
Power Supply and Energy Program Elements

Power Supply Plan

Responsibilities

Monitoring and Controls

Delegation of Authority and Approved Transaction Types



1. PURPOSE

The purpose of the Power Supply and Energy Management Policy (“Policy”) is to establish a Power Supply and Energy Management Program (“Program”) to manage the Pedernales Electric Cooperative (“PEC” or “Cooperative”) Electric Energy Requirements with acknowledgment of the significant cost expenditures and cost fluctuations inherent with power suppliers or directly with fuel and power markets.

2. SCOPE

- 2.1. This Policy governs the activities used to manage PEC’s Electric Energy Requirements.
- 2.2. This Policy governs the planning, management, reporting, and oversight of PEC’s Program.
- 2.3. This Policy governs the management of PEC power supply resources and existing, and future, power supply contracts.
- 2.4. This Policy governs the actions required by PEC as a Load Serving Entity (“LSE”) in Electric Reliability Council of Texas (“ERCOT”) including, but not limited to, establishing and maintaining registered Qualified Scheduling Entity (“QSE”) services and assuring compliance with ERCOT protocols and operating guides.
- 2.5. This Policy governs the actions required by PEC as a Resource Entity (“RE”) in ERCOT including, but not limited to, establishing and maintaining registered QSE services and assuring compliance with ERCOT protocols and operating guides.

3. POLICY AND IMPLEMENTATION

3.1. Objectives

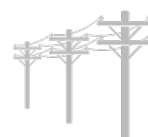
The implementation and maintenance of the Program enables PEC to create, protect, and enhance value for PEC Members by undertaking activities to meet the following objectives:

- 3.1.1. Low Cost – The Program will implement a Power Supply Plan (“Plan”) that will strive to meet the Electric Energy Requirements at a low cost.
- 3.1.2. Balance Risk – The Program will implement a Plan that will strive to meet the Electric Energy Requirements while balancing inherent risks associated with managing a Power Supply Portfolio.
- 3.1.3. Portfolio Diversity – The Program will implement a Plan that will strive to meet the Electric Energy Requirements while assigning value to a diversified portfolio consisting of electrical energy from multiple suppliers, multiple fuel types, multiple sources, and with various contract lengths.

3.2. Power Supply and Energy Management Program

The Program organizes and defines the design, oversight, and control of any transactions needed to implement the Plan. The Program will consist of the following elements:

- 3.2.1. Policy – Establishes the Program and provides for management and ongoing adjustments to the Program, and directs the execution of the annual PEC Board of Directors (“Board”) approved Plan within the approved authority and thresholds.



- 3.2.2.** People – Designated roles and individuals responsible for performing the processes and executing the strategy.
- 3.2.3.** Processes – Processes collectively refers to the defined plans and procedures that describe how the Cooperative will execute implementation of the Program. Processes and procedures will operate under an approach to formally address lessons learned, reduce errors, and strive for operational efficiency while reducing risk.
- 3.2.4.** Tools – The Program will utilize various tools, such as software, hardware, third party contracts, vendors, and consultants, as required.
- 3.2.5.** Regulatory – The Program will require registrations and other compliance items associated with ERCOT for the Cooperative as a Market Participant. These items will be actively managed and updated as required to implement the Plan and meet the Policy’s defined objectives. This may include, without limitation, registrations as an LSE and a RE.
- 3.2.6.** Standard of Care – All People involved in the Program will act responsibly as stewards of PEC resources. Power Supply and Energy Management (“PSEM”) Transactions will be made using the exercise of judgment and care under the circumstances then prevailing, that persons of prudence, discretion, and the intelligent exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital.

3.3. Power Supply Plan

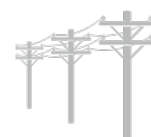
The Plan will define how the Cooperative anticipates fulfilling the members’ Electric Energy Requirements for the upcoming year. The Plan will be presented to the Board annually and will be consistent, and in alignment with, the annual budgeting cycle. The Plan will have the following major components:

- 3.3.1.** Forecast of the Cost of Power for at least a 12-month period.
- 3.3.2.** Dates that the Power Supply Portfolio will have an open position within a 12-month period.
- 3.3.3.** Strategy to fill any open positions in the Cooperative’s Power Supply Portfolio within a 12-month period.
- 3.3.4.** Any expected delegation of authority needed to complete any PSEM Transactions approved by the Board in the Plan within a 12-month period.
- 3.3.5.** Recommendations of least-cost, risk adjusted Plan considering the trade-offs of the defined objectives herein.

3.4. Responsibilities

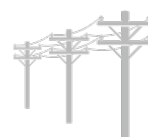
3.4.1. General Roles and Responsibilities

- 3.4.1.1.** The Board shall review, at least annually, the Program activities of PEC to ensure they are in accordance with this Policy, approve the Plan annually, review the effectiveness of the Program, and make changes to this Policy as necessary to meet the Cooperative’s defined objectives.
- 3.4.1.2.** The Board will determine the Risk Tolerance of the Cooperative as to the Program.



3.4.2. PSEM Committee

- 3.4.2.1.** The Board establishes a PSEM Committee in connection with the Program comprised of the following roles:
 - 3.4.2.1.1.** Chief Executive Officer (“CEO”)
 - 3.4.2.1.2.** Chief Financial Officer (“CFO”)
 - 3.4.2.1.3.** In-house legal designee to serve as a legal advisor to the PSEM Committee
 - 3.4.2.1.4.** Controller or designee
 - 3.4.2.1.5.** Vice President of Markets
 - 3.4.2.1.6.** Director of Power Supply and Energy Risk Management
 - 3.4.2.1.7.** Vice President of Compliance and Regulatory or designee
- 3.4.2.2.** The PSEM Committee is charged with administration of this Policy and is granted authority and responsibilities to:
 - 3.4.2.2.1.** Ensure all Program activities of PEC are in accordance with this Policy, including implementation of a Plan within any approved limits of authority;
 - 3.4.2.2.2.** Approve procedures for the administration of the Program;
 - 3.4.2.2.3.** Oversee responsibilities and activities assigned to the Program;
 - 3.4.2.2.4.** Recommend controls and periodically review the effectiveness of all aspects of the Program, in addition to the Board;
 - 3.4.2.2.5.** Retain outside advisors and organizations, if needed, to assist PEC in entering into PSEM Transactions.
- 3.4.2.3.** The Vice President of Markets shall be responsible for management of the Program including the continual evaluation of the ongoing ability of the Program to meet the objectives established in this Policy and effectively deliver the Plan.
- 3.4.2.4.** The Director of Power Supply and Energy Risk Management shall be responsible for the day-to-day operations and execution of the Plan.
- 3.4.2.5.** The Vice President of Markets and/or the Director of Power Supply and Energy Risk Management will report at least semiannually, and as needed based upon changes to the Plan, to the other members of the PSEM Committee as to the following:
 - 3.4.2.5.1.** Status of the Cooperative’s Power Supply Portfolio as well as any proposed PSEM Transactions necessary to implement the Plan.
 - 3.4.2.5.2.** Status of the approved Plan.
 - 3.4.2.5.3.** Status of the Program.
- 3.4.2.6.** The Vice President of Markets or Director of Power Supply and Energy Risk Management will also report as needed, based upon changes to the Plan, to any committee that oversees Enterprise Risk Management of the Cooperative.

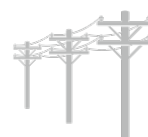


3.5. Monitoring and Control

- 3.5.1.** A member of the PSEM Committee will report at least monthly to the Board on the implementation of the approved Plan. The report to the Board will consist of the following:
 - 3.5.1.1.** Program performance metrics;
 - 3.5.1.2.** Updates on current and open Power Supply Portfolio positions;
 - 3.5.1.3.** Market and pricing updates;
 - 3.5.1.4.** Status updates on Plan activities;
 - 3.5.1.5.** Updates on potential risks and uncertainties associated with the Plan; and
 - 3.5.1.6.** Report on the implementation of the Plan within the authorization established in this Policy, the Plan itself and the established Risk Tolerance.
- 3.5.2.** A member of the PSEM Committee will also report at least monthly to the Board on the Cost of Power.
 - 3.5.2.1.** The Program will endeavor to continually quantify the forecasted impacts of changes in market conditions, and any other factors that may affect the Cost of Power, against the objectives established in this Policy and the approved Plan.
 - 3.5.2.2.** While the delegation of authority covers a single year, the Program will maintain a longer term three-year rolling forecast of the Cost of Power, to assist with budgeting needs.
 - 3.5.2.3.** If an event or condition arises that may adversely affect the Cost of Power, a member of the PSEM Committee must report to the Board on the issue or risk along with any recommended action.

3.6. Delegation of Authority and Approved Transaction Types

- 3.6.1.** The Board approves the delegation of authority to execute PSEM Transactions within the Plan on an annual basis.
- 3.6.2.** Any PSEM Transaction that is not initially included within the Plan will require Board approval.
- 3.6.3.** The PSEM Transaction types and detail that will be included in the Board approved delegation of authority that is part of each annual Plan are as follows:
 - 3.6.3.1.** Negotiating and execution of Master Power Purchase and Sale Agreements (“EEIs”).
 - 3.6.3.2.** Negotiating and executing confirmations as to EEIs within the Board approved parameters on term length, credit requirements, volume and pricing.
 - 3.6.3.3.** Negotiating and execution of Power Purchase Agreements (“PPAs”) within the Board approved parameters on term length, credit requirements, volume and pricing.
 - 3.6.3.4.** Purchase and/or sale of Ancillary Services.
 - 3.6.3.5.** Purchase and/or sale of Renewable Energy Credits.
 - 3.6.3.6.** Purchase of Congestion Revenue Rights.



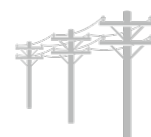
- 3.6.4.** Approval authority levels for invoices pertaining to Power Supply transactions is as follows. All invoices pertaining to Power Supply transactions must have written or electronic approval by a minimum of two of the positions listed.

| Position | Limit |
|---|------------------------|
| CFO | \$10,000,000 and above |
| Vice President of Markets | \$10,000,000 |
| Director of Power Supply and Energy Risk Management | \$1,000,000 |

4. DEFINITIONS

The below definitions are commonly utilized by power industry professionals in describing the ERCOT energy market and energy transactions. The definitions are to clarify this Policy and may not align with other uses of the terms.

- 4.1. Ancillary Service (“A/S”) –** A service necessary to support the transmission of energy to Load Serving Entities while maintaining reliable operation of the transmission system.
- 4.2. 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.
- 4.3. Cost of Power –** The cost to PEC to meet the Electric Energy Requirements.
- 4.4. Electric Energy Requirements –** All electric energy consumed by the Cooperative and Ancillary Services that are required to meet PEC Members’ energy requirements.
- 4.5. Electric Reliability Council of Texas (“ERCOT”) –** A membership-based 501(c)(4) nonprofit corporation, governed by a board of directors and subject to oversight by the Public Utility Commission of Texas and the Texas Legislature. Its members include consumers, cooperatives, generators, power marketers, retail electric providers, investor-owned electric utilities, transmission and distribution providers and municipally owned electric utilities. The Electric Reliability Council of Texas performs the financial settlements for the competitive wholesale bulk-power market.
- 4.6. 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 the Electric Reliability Council of Texas.
- 4.7. Market Participant (“MP”) –** An entity that engages in any activity that is subject to the Electric Reliability Council of Texas protocols. Examples of such entities include, but are not limited to, Qualified Scheduling Entity, Load Serving Entity, Resource Entity, transmission/distribution service provider, and Renewable Energy Credit account holder.
- 4.8. Power Supply –** A collective term used to refer to wholesale power purchases and sales.
- 4.9. Power Supply and Energy Management Program –** Represents the execution strategy to manage PEC’s Electric Energy Requirements and implement the Power Supply Plan.
- 4.10. Power Supply Plan –** A Board approved plan that is updated annually and describes how PEC plans to meet its Electric Energy Requirements for the upcoming year.



- 4.11. **Power Supply Portfolio** – A grouping of contracts, resources and any other assets included in a Power Supply Plan to meet the Electric Energy Requirements.
- 4.12. **Power Supply and Energy Management Transactions** – Represent those Power Supply and Energy Management Transactions, including purchases and sales to meet the Cooperative's Electric Energy Requirements and within the Power Supply Plan.
- 4.13. **Qualified Scheduling Entity (“QSE”)** – A Market Participant that is qualified by the Electric Reliability Council of Texas for communication with the Electric Reliability Council of Texas on behalf of Resource Entities and Load Serving Entities for settling payments and charges.
- 4.14. **Renewable Energy Credit (“REC”)** – A tradeable instrument that represents all of the renewable attributes associated with one MWh of production from a certified renewable generator.
- 4.15. **Resource Entity (“RE”)** – A Market Participant that owns or controls a resource that sells energy or Ancillary Services into the Electric Reliability Council of Texas market and is registered as a Resource Entity.
- 4.16. **Risk Tolerance** – The degree of variability in the Power Supply Portfolio value that the Cooperative is willing to withstand.
- 4.17. **Transmission Cost of Service (“TCOS”)** – The cost incurred to utilize the transmission system to deliver power to PEC members within the Electric Reliability Council of Texas region.

5. POLICY ENFORCEMENT

Violation of this Policy may result in disciplinary action, up to and including, termination.

6. REFERENCES AND RELATED DOCUMENTS

[Authority and Responsibilities Policy](#)

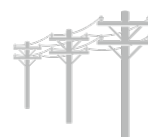
[Designation of Competitive Matters Policy](#)

[Rate Policy](#)

[Budget Policy](#)

[Investment Policy](#)

Power Supply Plan



| | |
|---------------------|--|
| Date adopted: | August 16, 2019 |
| Last reviewed: | August 31, 2021 |
| Review frequency: | Every five years |
| Amendment dates: | August 16, 2019, August 31, 2021 |
| Effective date: | October 15, 2021 |
| Approver: | Board of Directors |
| Applies to: | Board of Directors CEO, CFO, and Controller In-house legal designee Vice President of Compliance and Regulatory Vice President of Markets Director of Power Supply and Energy Risk Management All Employees Identified in Program Documents |
| Administrator: | Vice President of Markets |
| Superseding effect: | This Policy supersedes all previous policies and memoranda concerning the subject matter, including, without limitation, the Resource Planning Policy, the Environmental Policy, and other resolutions concerning the subject matter herein, including, without limitation, resolutions requiring certain Power Supply Portfolio diversity targets. Only the Approver may authorize exceptions to this Policy. |

