



KyMEA

Discussion of Risk Management Plan

March 23, 2017



ECONOMICS

STRATEGY

STAKEHOLDERS

SUSTAINABILITY

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Purpose

- To protect the financial integrity of KyMEA and its Members by specifying
 - management responsibilities
 - organizational structure, and
 - operating controls
- To help KyMEA achieve its financial, rate, and energy-related goals
- Establish the criteria and manage these functions consistent with the organizations appetite and tolerance for risk

KyMEA Risk Management Policy

- KyMEA plans to develop and adopt an appropriate Risk Management Policy to address
 - Basic credit, financial, and business transaction risk
 - Transmission service transactions
 - Generation resource transactions
 - Energy services transactions
 - Other, as needed
- Initially, KyMEA's Risk Management Policy will address items needed to conduct basic business transactions and meet minimum MISO requirements.
- Future changes to KyMEA's Risk Management Policy are anticipated to meet power supply portfolio and energy-related hedging programs for commodity fuel price and rate stabilization

Policy Development

- Establish a Risk Management Committee (RMC)
 - RMC Makeup
 - Two or three AR Project members
 - Board attorney
 - Financial Advisor
 - Others, as needed
 - Define RMC authority, responsibility, and governance
- Develop risk management responsibilities for accounting, audit, treasury, tax, information technology, and legal areas
- Address transaction agents and other third-party arrangements as required to support the program
- Identify risk areas and develop risk tolerance elements for financial risk, market risk, operational risk, etc.
- Develop risk measurement, accounting, and reporting policies and practices

MISO Risk Management Requirement

MISO Tariff, Attachment L, Credit Policy, D. Risk Management

- Applicant, Tariff Customer or their applicable agents must maintain current written risk management policies, procedures or controls to address those risks that could materially affect the ability to pay MISO invoices when due.

MISO Risk Management Standards

- 1) The risk management framework is documented in a risk policy addressing market, credit, and liquidity risks that has been approved by Tariff Customer's risk management function which includes a third party or appropriate corporate persons or bodies that are independent of Tariff Customer's trading functions, such as a risk management committee, a designated risk officer, Tariff Customer's board or board committee, or, if applicable, a board or committee of Tariff Customer's parent company;
- 2) Tariff Customer or Applicant maintains an organizational structure with clearly defined roles and responsibilities that clearly segregates trading and risk management functions;

MISO Risk Management Standards (cont.)

- 3) Delegations of authority specify the transactions into which traders are allowed to enter;
- 4) Tariff Customer or Applicant has requirements that traders have adequate training relative to their authority in the systems and MISO Markets in which they transact;
- 5) As appropriate, risk limits are in place to control risk exposures;
- 6) Reporting is in place to ensure risks are adequately communicated throughout the organization;
- 7) Processes are in place for qualified independent review of trading activities; and
- 8) As appropriate, there is periodic valuation or mark-to-market of risk positions.

Next Steps

- Establish Risk Management Committee
 - Identify members
- Draft Initial Risk Management Policy
 - Basic business transactions
 - Minimum MISO requirements
 - Complete draft by April 10 for RMC review
- Goal – to consider for approval at next KyMEA board meeting

Discussion / Questions