**KYMEA Trading Authority Administrative and Operating Procedures**

**4/24/2019**

**PURPOSE:**

The purpose of the Trading Authority Procedures is to define the authority granted by the Kentucky Municipal Energy Agency (“KYMEA”) Board of Directors (“Board”) to the Chief Executive Officer (“CEO”) to execute and delegate authority to execute energy related transactions.

OBJECTIVE:

# The objective of KYMEA’s Trading Authority Procedures 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,
* KYMEA’s intentions regarding hedging and speculating, and
* Other relevant factors associated with due diligence in authorizing transactions to be executed.

# PROCEDURAL REQUIREMENTS:

The procedures documented in these Trading Authority Procedures are compiled in conjunction with goals and strategies set forth in the KYMEA Enterprise Risk Management Policy (the “Risk Management Policy”) as approved by the KYMEA Board on March 28, 2019. The primary purpose of these authorizations and procedures is to both provide the ability to optimize KYMEA resources that are in excess of their load serving obligations at any point in time, and to mitigate the risks of commodity price fluctuations that have a direct impact on the KYMEA operating costs and cash flows.

It is not the policy of KYMEA to engage in financial or commodity transactions unrelated to underlying physical exposures.

These procedures are designed to promote efficient and accurate processing of energy hedging activities, effective preparation and distribution of information relating to hedging activities, and effective independent monitoring of the portfolio of risks.

These procedures are to be maintained, reviewed and approved at least annually by the Board Risk Management Oversight Committee (BROC) consistent with the Risk Management Policy. Amendments to these procedures will be submitted to the BROC for consideration and approval.

###### **Execution Authority**

The CEO will maintain an ongoing position report that includes a compilation of KYMEA’s rights to each of the portfolio’s resources. This report will include:

Forecasted available resources on an hour, day, week, month and year ahead basis

Forecasted load serving obligations for the same corresponding time periods

Calculation of excess resources available for sale or shortfall of resources necessary to meet KYMEA load serving obligations

The President and CEO shall be authorized to approve transactions that optimize the use of existing assets and rights approved and under contract that include the following;

Existing Portfolio Resources

Existing portfolio resources include;

 All rights to electric capacity and energy in the form of PPA’s, self-owned generation assets, and pre-approved hedge instruments and options

Electric transmission owned assets and subscription rights

Firm gas transportation asset and subscription rights

Included Transactions

Market Transactions

Day ahead hourly market transactions

Inter-day hourly market transactions

Transactions with durations of multiple days, weeks, months or years that have been identified as rights of KYMEA in excess of the load serving obligations of KYMEA during the corresponding time period of the transaction being considered

Bilateral agreements

Hedges and Options

**Sales Transactions**

The CEO shall have the authority to execute sales trades that meet the following criteria;

For transactions equal to or with less than a month duration:

A contractual relationship exists to allow the transaction to occur

The characteristics and quantity sold represents excess resources as determined by the position report

For transactions with greater than one month and less than a year duration:

A contractual relationship exists to allow the transaction to occur

The characteristics and quantity sold represents excess resources as determined by the position report

The transaction is submitted to and approved by the IRC and by BROC

For transactions equal to or greater than a year duration:

A contractual relationship exists to allow the transaction to occur

Excess resources as determined by the position report

The transaction is submitted to and approved by the IRC and BROC

The transaction is submitted to and approved by the Board

**Purchase Transactions**

The CEO shall have the authority to execute trades to procure capacity and energy as necessary to replace existing resources that have become unavailable or shortfalls in the portfolio that meet the following criteria:

For transactions equal to or with less than a month duration:

A contractual relationship exists to allow the transaction to occur

The characteristics and quantity sold represents excess resources as determined by the position report

For transactions with greater than one month and less than a year duration:

A contractual relationship exists to allow the transaction to occur

The characteristics and quantity sold represents excess resources as determined by the position report

The transaction is submitted to and approved by the IRC and BROC

For transactions equal to or greater than a year duration:

A contractual relationship exists to allow the transaction to occur

Excess resources as determined by the position report

The transaction is submitted to and approved by the IRC and BROC

The transaction is submitted to and approved by the Board

**Delegation of Responsibilities**

The CEO shall have the authority to delegate authority levels to KYMEA staff and KYMEA’s Energy Service Provider. The CEO has the authority to modify authority levels at his sole discretion so 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.

###### **Transactions Requiring Board Approval**

Transactions, which meet any of the following criteria, must be approved by the Board prior to execution:

* The transaction is a new commodity not previously traded by KYMEA;
* The transaction is in a new market area;
* The transaction is for something other than: a physical spot or forward electricity, ancillary services, capacity, or power transmission transaction, financial transmission rights transaction, exchange traded transaction, over-the-counter financial transaction, or over-the-counter (OTC) option.

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.

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 KYMEA Board and appropriate trading controls are in place. The KYMEA Board must approve the use of such transactions prior to execution using the process defined in the Risk Management Policy. The procedure for approval will be as follows:

* 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.
* Internal Risk Committee Review - The IRC will perform a review of the benefits and risks of the proposed transaction and submit their recommendation to the KYMEA Board.
* The KYMEA Board will assess the proposed transaction and make a determination whether to add the proposed transaction to the approved list.

###### **Sleeving**

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.

No sleeving transactions for credit or contract purposes shall be executed

**Contractual Requirements**

Transactions with counterparties shall only be permitted if KYMEA has:

An active executed agreement enabling such trading activity with that counterparty.

Long-form confirmations may be used as a valid agreement in lieu of a permanent agreement, when necessary if approved by the Vice President of Finance and Accounting/Chief Financial Officer (“CFO”).

A long-form confirmation is a confirmation that is used to confirm a transaction when no underlying enabling agreement exists between the parties. In addition to confirming the transaction details, the long-form confirmation may incorporate by reference the terms and conditions of the underlying enabling agreement to be executed. For example, a long-form confirmation for a physical power transaction may incorporate by reference the terms and conditions of the EEI agreement.

**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 CFO.

###### **Delivery Locations**

Trading at delivery locations that are normal to the daily course of business for KYMEA, to the extent transmission is available, is authorized as follows:

Unrestricted Delivery Locations

* LGE/KU System
* PJM
* MISO
* SERC Region

 Trading at any other delivery locations shall be restricted as follows:

### Restricted Delivery Locations

All other interconnection locations: only with approval by the Vice President of Market Analytics or President and CEO.