Emerald People’s Utility District
Power Risk Management Policy

Updated May 1, 2013
Overview of Power Risk Management Policy

Risks associated with EPUD operations will be proactively managed in a cost-effective and efficient manner consistent with prudent utility practice.

Risk is an inherent attribute of all utility activities. Risk is operationally defined as the probability that actions taken or not taken by utility employees will result in financial gain or loss. Within an organizational context, the broadest operational meaning of risk is that changes in utility activity intended to achieve a programmatic result, such as a particular product reliability standard or a financial goal, could have an unintended result. The practical application of this policy dictates that utility employees consciously consider the potential consequences of their actions and act affirmatively to decrease the probability of financial loss accruing to EPUD.

The objective of risk management involves the continual identification of EPUD’s exposure to accidental, contractual, legal or regulatory losses. Affirmative control and immunization of risk to the greatest extent possible is accomplished by transferring risk through managed contract administration, retaining risk within established guidelines, and protecting against unpredictable loss through reasonable use of commercial insurance. EPUD will transfer much of its liability contractually, and retain those risks that can be self-assumed without seriously affecting the financial condition of the organization when this is the most economical and practical means of meeting such obligations. EPUD will purchase sufficient insurance coverage when the risk is of a catastrophic nature or beyond the capacity of the organization to absorb, or when it is required by law or contract. However, insurance shall, of necessity, be limited to availability of coverage at reasonable cost, consistent with the probable frequency, severity and impact of losses on the financial stability of the organization.
Power Risk Management Policy

Purchases and sales of electric power and/or its derivative to meet load and/or environmental policy requirements along with related financial instruments will be managed to maximize the benefits to customers from wholesale transactions while minimizing the risk that wholesale activities will adversely affect retail prices.

For many years the staff at EPUD has worked to reduce power purchase costs while managing or avoiding risks that might result in price shocks or supply interruptions. Rapid changes in the electric power industry since 2000 have challenged traditional methods and prompted EPUD to migrate to power management systems and controls similar to those used in commodity trading organizations.

The Board has established the following Power Risk Management Policy statements to provide direction and oversight:

Policy Statement #1 – Formation of Financial Risk Management Team

A Financial Risk Management Team (FRMT) will be established to provide oversight control and guidance to the power resource function in executing necessary power supply and environmental policy requirement transactions.

The Financial Risk Management Team shall be appointed by the General Manager and the team will consist of key personnel. The FRMT will develop a process that will govern the detailed operations, authority, and reporting procedures that will be used to comply with this policy. The Board will receive quarterly reports regarding Risk Management Activities.

The FRMT shall also be responsible for reviewing in a timely manner any power transactions arranged on EPUD’s behalf by any third-party consultant or agent. The FRMT shall ensure that such transactions are consistent with applicable law, this risk management policy, and the Power Risk Management Procedures Guide. In the event that the FRMT finds that any such transactions violate applicable law, this risk management policy, or the Power Risk Management Procedures Guide, the FRMT shall recommend appropriate remedial action to the Board.

Policy Statement #2 – Compliance with Anti-speculation Statutes

EPUD will manage its power resource portfolio to follow our anticipated load variations, market supply conditions, and environmental policy requirements.

EPUD must comply with ORS statutes stipulating the appropriate scope of investments for “surplus funds.” Accordingly, EPUD’s activities in the power markets shall only be associated with the provision of electricity to meet anticipated sales and supply forecasts and environmental policy requirements. EPUD will engage in power supply transactions only to the extent necessary to manage its power resource portfolio to follow anticipated load variations along with anticipated market and environmental policy requirement variations.
EPUD must also comply with any provision of law relating to the lawful or unlawful use of public funds. Accordingly, EPUD’s activities in the power markets shall only include or involve the lawful use of expenditure of public funds.

**Policy Statement #3 – Trading Exposure Limitation**

Consistent with Policy Statement #2, EPUD’s market trading exposure will be limited as follows:

- A forecast of EPUD’s projected Net Position will be maintained and reviewed on a regular basis by the FRMT. Net Position is defined as EPUD’s total power supply during a given time period less EPUD’s total power obligation during the same time period.

- EPUD’s expected case (average) Net Position will be subject to the following upper and lower limits:

<table>
<thead>
<tr>
<th>Months Forward</th>
<th>Lower Limit</th>
<th>Upper Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-12</td>
<td>-20% of expected load</td>
<td>+40% of expected load</td>
</tr>
<tr>
<td>13-24</td>
<td>-25% of expected load</td>
<td>+50% of expected load</td>
</tr>
<tr>
<td>25-36</td>
<td>-30% of expected load</td>
<td>+60% of expected load</td>
</tr>
</tbody>
</table>

- Limits will be set at a monthly level, based on each month’s all-hours load forecast.

- Compliance with these limits will be monitored on an ongoing basis by the FRMT.

- In the event of a limit violation, the FRMT shall take action to bring EPUD back into compliance with this policy. This action must be taken, and compliance achieved, within the following time periods:
  - 1 month (if violation is within the next 0-12 months forward)
  - 3 months (if violation is within the next 13-24 months forward)
  - 6 months (if violation is within the next 25-36 months forward)

- Under no circumstances will a limit violation exceed 5 aMW for longer than 60 days in duration, regardless of the forward time frame in which the violation occurs (0-36 months).

- Board approval is required for any transaction with a duration of one year or longer and any transaction that extends beyond three years into the future from the date of execution.

**Policy Statement #4 – Financial Exposure Limitation**

In addition to the trading limits outlined in Policy Statement #3, EPUD will maintain financial exposure limitations by assessing the credit worthiness of each counterparty. EPUD will also implement additional controls to further limit financial risk associated with its market positions. The function of these additional controls would be to ensure that EPUD’s projected contribution margin, when combined with available reserves and borrowing authority, will provide funding capabilities to cover other budgeted/projected expenditures at the Electric Utility.

When entering into a qualifying transaction, the Financial Risk Management Team will review mitigation of risk and review financial impact imposed on it by financial brokers.
**Policy Statement #5 – Development of Detailed Control Procedures**

Consistent with generally accepted risk principles, detailed control procedures will be developed and approved by the FRMT. These procedures will incorporate strong dual controls between the power resource function and the risk management/accounting functions.

The Power Risk Management Procedures Guide as developed and approved by the FRMT will specify a process for determining the appropriate use of physical and financial hedge instruments. The Guide will also stipulate the types of swaps and options approved for use by the power resource operation.

Financial derivatives such as Swaps should refer to the Board Resolution No. 2004-05 titled Limited Interest Rate Swap Policy. This policy refers to interest rate swaps only on outstanding fixed rate bonds.

The list of approved products and appropriate uses will likely change as the market changes and EPUD’s power resource operation gains experience with their use.

The Power Risk Management Procedures Guide will further establish the roles and responsibilities of the power resource and accounting personnel. The procedures will incorporate a credit approval and monitoring process to manage and measure credit exposure. The Guide and its inherent controls will be reviewed by the FRMT on an ongoing basis.

**Policy Statement #6 – Authorized Activities**

The Board authorizes the General Manager to engage in, either through EPUD staff or through qualified outside contractors, transactions associated with power purchase contracts, in order to minimize forecasted volatility of wholesale power costs, or to manage forecasted costs associated with the operation of any future power generation facilities. The following types of price risk management instruments/transactions are authorized for the following trading activities:

- Physical delivery contracts and/or environmental policy requirement contracts with a term up to one year with possible annual extensions for up to three years. Board approval is required for any transaction with a duration of one year or longer and any transaction that extends beyond three years into the future from the date of execution.

- Unless otherwise approved by the General Manager, the financial derivative, financial hedging, environmental policy requirement and power supply transactions that EPUD engages in shall only be associated with power supply management and/or its derivative contracts; in order to minimize volatility of wholesale power costs or to manage costs associated with the operation of any future power generation facilities.

- Specific financial transactions approved for use are listed in the Power Risk Management Procedures Guide.

**Policy Statement #7 – Management of Third Party Activities**
EPUD will not enter into any contract with a third party for power and/or risk management services or for any wholesale power or related financial transaction(s) that is not consistent with this policy and with the Power Risk Management Procedures Guide.

Additional requirements will also be established to ensure compliance with this policy among third party contractors acting on EPUD’s behalf. As such, any third party contractor that provides power and/or risk management services to EPUD must:

- Provide regular reports on its activities. A list of specific reports to be provided, along with publication frequency requirements, is found in Appendix D of the Power Risk Management Procedures Guide. Members of the FRMT will review these reports at least once per week, and will summarize them for the EPUD Board at least once per month.

- Allow EPUD, or an agent selected by EPUD, to audit its activities and records at least once per year.

In compliance with the Dodd-Frank Financial Reform Act, EPUD will select a qualified representative (“Representative”) to provide advice and guidance when entering into swap transactions with Swap Dealers or Major Swap Participants. EPUD, a Special Entity under the Dodd-Frank Financial Reform Act, shall endeavor to seek and employ an individual or entity that will voluntarily act as a Representative for all energy commodity swap transactions between EPUD and any Swap Dealer or Major Swap Participant. The Representative must meet all qualifications identified in 17 C.F.R. 23.450(b) and listed in Exhibit E of the Power Risk Management Procedures Guide. The Representative and EPUD shall enter into a legal agreement that binds the Representative to meet all such qualifications. At no longer than any 12 month interval, EPUD shall review the performance of the Representative to ensure compliance with this policy.

For purposes of this policy, the following definitions will apply:

Special Entity: As defined in 7 U.S.C. 6s(h)(2)(C) and further interpreted in 17 C.F.R. 23.401(c). EPUD is a Special Entity as defined by 17 C.F.R. 23.401(c)(2).

Swap Dealer: As defined in 7 U.S.C. 1a(49) and further interpreted in 17 C.F.R. 1.3(ggg)

Major Swap Participant: As defined in 7 U.S.C. 1a(33) and further interpreted in 17 C.F.R. 1.3(hhh)

Representative: As defined in this policy and 17 C.F.R. 23.450

Policy Statement #8 – Financial Reporting

- With this policy, the Board will follow Statement of Financial Accounting Standard (SFAS) No. 133 Accounting for Derivative Instruments and Hedging Activities, effective January 1, 2001 or its successor.

- Financial derivative transactions shall be accounted for according to applicable FASB rules and any other rules that may be determined applicable by EPUD’s General Manager or EPUD’s approved auditor.