
LCRA BOARD POLICY

603 – ENERGY TRANSACTIONS

Oct. 21, 2020

603.10 PURPOSE

This policy will govern the management of LCRA's wholesale power portfolio to ensure the use of those assets, along with appropriate market products, provides a cost-effective, risk-managed supply portfolio for LCRA's wholesale electric customers.

603.20 OVERVIEW

The purchase and sale of fuels, power and other power-related products are necessary to satisfy LCRA's contractual obligations to its wholesale electric customers. These activities expose LCRA to the price fluctuations inherent in the fuel and power markets. LCRA strives to reduce its financial uncertainty driven by market volatility, within established risk tolerances. This policy articulates the objectives, framework and delegation of authorities necessary to govern LCRA's activities related to its Energy Commodity Risk Control Program (program).

LCRA will conduct energy risk management activities in a manner that supports the objectives stated herein. All program objectives, activities, controls and procedures will be conducted in accordance with this policy.

603.30 RISK MANAGEMENT OBJECTIVES

Activities conducted pursuant to the program are intended to decrease financial risks inherent in providing wholesale electrical power and related services in the Electric Reliability Council of Texas (ERCOT) market compared to the financial uncertainty present without a program. The program's objectives are: identifying exposures to movements in energy prices and related market prices; quantifying the impacts of these exposures on LCRA's financial objectives; and mitigating these exposures in line with LCRA's identified level of risk tolerance. LCRA will conduct its program activities solely for appropriate risk mitigation objectives herein and never for purposes of financial speculation.

Risk mitigating activities, including hedging activities permitted by Texas Water Code Section 152.251, include:

Market Risk Mitigation Activities: Given volatile energy markets, manage costs from energy and fuel purchases and revenues from LCRA's generation and purchased

power assets, mitigating potentially unfavorable financial results and promoting financial results that fall within acceptable boundaries.

Transaction Risk Mitigation Activities: Mitigate transactional risk by monitoring execution of the program for compliance with risk program documentation approved by the GM/CEO and measuring the potential impact of commodity price movements with respect to the approved financial objectives of LCRA.

Subject to the program's objectives and risk mitigation activities, activities conducted pursuant to the program also may seek to improve upon LCRA's financial expectations.

603.40 DELEGATION OF AUTHORITY

603.401 General Manager/Chief Executive Officer. The GM/CEO is charged with administration of this policy and is granted authority and responsibilities:

1. To ensure all program activities of LCRA are in accordance with this policy.
2. To approve documentation for the administration of the program.
3. To approve initially, and from time to time modify, LCRA's tolerance for exposure to energy price volatility.
4. To delineate responsibilities and activities assigned to front, middle and back office functions to ensure a clear separation of duties.
5. To approve controls and periodically review the effectiveness of all aspects of the program.
6. To approve contracts and other transactions necessary to implement the program.

603.402 Risk Management Committee. The GM/CEO will create a Risk Management Committee (RMC) comprised of employees of LCRA to monitor program performance and compliance with the program documentation. The RMC will establish and from time to time modify program risk limits consistent with risk tolerances approved by the GM/CEO. Additionally, the RMC will advise the GM/CEO regarding:

1. Creation, amendment, approval and administration of program documentation.
2. Setting risk tolerances.
3. Ensuring all program activities are performed in accordance with the policy and approved program documentation.
4. Material violations or potential material violations of the policy or program requirements.

603.403 Chief Financial Officer. The chief financial officer (CFO) is charged with the daily administration and management of the program and will serve as the chair of the RMC. The CFO, in addition to other duties, will report periodically to the GM/CEO and the LCRA Board of Directors. The CFO will maintain appropriate financial controls, maintain a separation of duties between individuals authorized to execute commodity transactions and those who monitor and report on such transactions, and ensure documents and procedures developed to execute this policy are reviewed periodically.

603.50 ENERGY TRANSACTING AND RISK MANAGEMENT ACTIVITIES

603.501 Energy Transacting and Risk Management Activities. LCRA's energy transacting and risk management activities will comply with this policy, other related Board directives, and all applicable laws, rules and requirements, including those of ERCOT, the Public Utility Commission of Texas (PUC), and the Commodity Futures Trading Commission (CFTC). Energy transacting and risk management activities will include:

1. **Commodity-related transactions** – LCRA may enter into transactions as needed to effectively manage its fuel and power portfolio position. Commodity-related transactions include financial and physical transactions related to the purchase and sale of power and related services, natural gas and associated transportation, coal and associated transportation, instruments necessary to manage transmission and transportation risks, instruments to manage full load requirement risk including load following and weather products, and transactions related to emissions and renewable energy.
2. **Physical resources** – Consistent with Board Policy 401 – Land Resources, LCRA may construct, purchase, dispose, retire, exchange and/or lease wholesale power resources, including generation resources, energy and fuel storage facilities, transportation systems, pipelines and related equipment, railcars and related equipment, and other facilities.
3. **Credit risk management** – LCRA will integrate credit provisions into contracts as appropriate, evaluate counterparty risk, require collateral as needed, and monitor credit-related financial exposure with the goal of preserving LCRA's financial integrity.

603.502 Power and Energy Not Immediately Needed. From time to time, LCRA produces power and energy that is not immediately needed. The Board delegates to the GM/CEO or his or her designee the authority to determine the available amount and to negotiate terms and conditions for the sale of such power and energy.

603.503 Posting of Collateral. The Board finds it is necessary and convenient to the exercise of LCRA's authority to enter into energy transacting and risk management activities for LCRA to be able to post collateral to counterparties to such transactions. The Board authorizes the use of designated reserves, debt or available revenues for such purposes as deemed appropriate by the GM/CEO.

603.504 Transactions Related to Affiliated Corporations. LCRA may enter into energy and risk management transactions on behalf of affiliated corporations, provided that LCRA does so pursuant to an agreement between LCRA and such affiliated corporation, and provided that the GM/CEO or his or her designee determines that such transactions do not materially increase risks to LCRA or otherwise conflict with the objectives of this policy.

603.60 DELEGATION AND PROCUREMENT LIMITS

All transactions under the program will be conducted subject to the following delegation and procurement limits specified in Appendix A (confidential):

1. Approved transacting activities and products.
2. Term/tenor limits.
3. Approved product locations and sources.
4. Approved counterparties.

LCRA will not execute hedges that exceed 100 percent of forecast requirements and “unwinding” (closing a position by executing an offsetting transaction) will be permitted for the purpose of managing collateral risk and mark-to-market losses. Under no circumstances may transactions be executed that are not related to LCRA’s core business objectives.

603.70 STANDARDS

603.701 Standards of Conduct. All LCRA Wholesale Power personnel and others in the procurement, trading, risk management, information technology, and finance and accounting functions who are involved in any program activities will conduct themselves in a manner consistent with sound business practices and LCRA’s Code of Ethics, under standards established in the program documentation to avoid impropriety or the appearance of impropriety. All such employees will be required to annually read and attest in writing to compliance with this policy and the program documentation.

603.702 Standard of Care. The program will be managed in a way that a person of ordinary prudence, discretion and intelligence, exercising the judgment and care under the circumstances then prevailing, would follow in the management of the person’s own affairs, not in regard to speculation but in regard to the permanent disposition of the person’s money considering: (1) the probable income; and (2) the probable safety of the person’s capital.

603.80 REPORTING AND INTERNAL CONTROLS

The GM/CEO will update the Energy Operations Committee at least quarterly on the actions taken pursuant to the policy covering, at a minimum, risk tolerances, program impacts and material changes in program requirements. The Board will review this policy at least annually.

603.90 AUTHORITY

LCRA enabling legislation, Chapter 8503, Texas Special District Local Laws Code
Texas Water Code, Chapter 152
Texas Government Code, Chapter 1371
Texas Utilities Code, Title 2 (Public Utility Regulatory Act)

Clean Air Act, Acid Deposition Control, § 401 et seq.; 42 U.S.C.A. § 7651 et seq.
Code of Federal Regulations, Title 17
Code of Federal Regulations, Title 40, Parts 72, 73 and 75

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