

Risk Policy Guide

Statement

This PJM Risk Policy Guide is intended to be used as an aid to meeting PJM risk policy requirements. PJM may request additional items based on market participant specific business structure or practices. Consequently, this guide is not intended to be an exhaustive list of risk policy content.

1. Description of Market Participant

- Brief summary of the company, including its main business, ownership, and organizational structure
- List of affiliates covered under the risk policy
- List of other exchanges or markets in which the Market Participant operates.
- Identify any parties authorized to transact or receive information on behalf of company.
- Provide the names of the companies who provide Energy Service, Asset Management, and Maintenance Service, if applicable.

2. Oversight, Governance and Compliance

- Please state who authorizes risk policy? Please state who provides the risk policy review, oversight and approval
- Describe the process for editing, updating, changing, reviewing and approving risk policy.
- Provide risk policy review frequency and last review date.
- Disciplinary process and actions that would be taken when market rules or risk policy is violated
- Describe process for trader acknowledgement of risk policy
- Describe compliance practices and requirements for all employees relative to any market rules, regulations, governing authority inquiry and record retention practice.
- Identify and provide the contact information for the person primarily responsible for risk management issues.

3. Strategy

- Description of the business's general strategic objectives within the PJM market
- Identify the PJM Markets PJM Participates or plans to participate in.
- Describe Market Participant's objectives related to their strategy (load serving or generation, proprietary trading, financial trading only, wholesale physical marketer, Demand Response, Energy Efficiency aggregator etc.)
- Approved products list; must include those traded in PJM markets

4. Risk Management (All Market Participants)

a. Trade Authority and Oversight

- List of Market Participant's authorized traders who transact in PJM Markets
- Each trader's authorized limit, such as position, VaR, max drawdown.
- Describe Market Participant's controls for ensuring trader positions are within acceptable limits

b. Market Risk, Limits and Reports

- Identify the key market risk the business faces and how it is managed
- What analysis is performed and what systems are used for careful assessment and approval before positions are established and transacted?
- Risk controls and limits relative to PJM markets
- Describe position limits including volumetric, tenor, term, concentration, hedging or other means in place to mitigate potential losses.
- Dollar value limits; for example, working capital, maximum loss limit, exposure limits means in place to mitigate potential losses.
- Describe methodologies, analysis, metrics and limits used for risk exposure assessment, valuation and monitoring; for example, VaR, (Conditional) CVaR, stress test, max drawdown.
- Describe and list the risk management reports that are reviewed, including but not limited to, exposure, positions, limits monitoring, P&L and risk policy violation report, frequency and responsibility.
- Describe the policies and processes in place to identify and address a violation or limit breach?
- Mark-to-market valuation: Is it done? How often?
- Is stress testing done? How often? Provide applicable metrics and thresholds.
- Describe trade execution processes and systems including trade confirmation

c. Liquidity Risk

- Identify the key liquidity risk the business faces and how it is managed
- Provide minimum amount or range of funds that is required to be maintained in reserves or is readily accessible to mitigate unexpected losses.
- Describe any additional layers of risk mitigation; for example, percentage of working capital, cash, LC, parental guaranty to protect Market Participant against losses.
- Identify the source of collateral or liquidity facility.
- Please provide the term of the liquidity facility.

d. Credit Risk

- Identify the key credit risk the business faces and how it is managed

- Does the entity transact bilaterally?
- Description of how credit risk is managed
- Quality of credit counterparties currently held and the desired balance of quality (e.g., by credit rating)

5. Generation Assets

- Nameplate capacity and fuel type of each generator
- Location (PJM zone)
- Whether it's eligible to participate and intends to participate in PJM RPM auctions and when its first participation is expected
- Expected in-service date for generators in development
- Describe Hedging strategy for generation output.
- Has the company signed PPAs? Describe how they are generally structured (e.g., unit contingent, fixed price)
- Describe Market Participant's fuel procurement and fuel price hedging strategy. If natural gas, describe fuel transportation risk management. Does the company have primary firm transportation contract to the gen facility?
- Is there a firm commodity contract for the fuel purchase? How is it priced? (e.g., as a function of PJM DA Index)

6. Load Servers

- Provide expected monthly load in each PJM zone for 12 month period
- Describe hedging plan and applicable thresholds (e.g., max open position, fixed vs. float volumes, tenors)

7. Due Diligence and KYC

- Describe your KYC (Know Your Customer/Counterparties)) processes, **OR** please provide a copy of these processes/policies if held in a different policy.
- Describe Know-Your-Customer / Counterparty (KYC), Customer / Counterparty Due Diligence (CDD) programs or Customer/Counterparty Identification Program (CIP)
- Provide relevant information required from all your customers/counterparties during the onboarding process, due diligence performed (both at the outset of relationship and as part of periodic reviews), approval process, and documentation and record keeping

8. Anti-Money-Laundering Policy

- Provide any controls and processes applicable to your principals and/or investors and employees and representatives in compliance with anti-money laundering, sanctions, compliance with Foreign Corrupt Practices Act, PEP (politically exposed persons) issues and the Corporate Transparency Act.

- Provide any contractual representations that you require of each of your customers/counterparties on the subjects of anti-money laundering, anti-corruption laws, anti-bribery laws, sanctions, compliance with Foreign Corrupt Practices Act, PEP (politically exposed persons) issues and the Corporate Transparency Act
- Has the company designated an AML Compliance Person? Please provide their contact information
- Description of company's method of verifying identity of customers/counterparties
- Description of procedures for customers/counterparties who fail/refuse to provide identity verification information.
- Describe procedures for when customer/counterparties identification information cannot be verified.
- Describe procedures to check the against sanctioned list, such as US Office of Foreign Assets Control (OFAC), and / or Financial Action Task Force (FATF)
- Describe processes to identify and monitor suspicious activity (when and how).
- Describe process to detect funds being sent to foreign shell companies (if applicable)
- Describe due diligence procedures for non US customers/counterparties (if applicable)
- Describe AML training.
- Confirm whether your company does business with any foreign government officials or whether your company conducts foreign transactions and any processes associated with compliance with Foreign Corrupt Practices Act

9. Anti-Bribery and Anti-Corruption Policy

- Does the entity have a policy to maintain high ethical standards that requires all persons representing the company to:
- Comply with all applicable Anti-Bribery and Anti-Corruption (ABC/ABAC) laws and regulations, foreign and domestic
 - ABC/ABAC laws that prohibit bribery, solicitation of bribery, and the payment of kickbacks.
- These ABC/ABAC Laws include, but are not limited to, the United States Foreign Corrupt Practices Act (FCPA), and local ABC/ABAC laws and regulations in all countries where the entity conducts business
 - A *bribe* is an offer to pay, a payment, a promise to pay, or the authorization of payment of something of value, whether directly or indirectly, for an improper purpose
 - Apart from money, bribes can occur in a variety of contexts, including meals, entertainment, gifts, and political and charitable contributions.
 - The definition of bribery specifically includes any conduct that is illegal under the FCPA and other ABC/ABAC laws.
- Include any company standards related to all persons (principals, investors, employees, representatives, or anyone affiliated with the company) on matters related to bribery or corruption of any form.

- Include any company standards related to direct or indirect forms of political contribution, whether cash or otherwise, on behalf of the entity
- Include any company standards related to any donations to a non-U.S. charity or entity, whether by cash or otherwise, by or on behalf of the entity

On Separate Cover

10. Provide Compliance Attestation

- A statement by the officer responsible for risk on whether there has been a violation, breach, compliance or disciplinary action related to the risk management policy or any regulatory body in the last 12 months

(Rationale/Source: OATT Attachment Q, IV A.(8): a high level summary by the chief risk officer or other Principal regarding any material violations, breaches, or compliance or disciplinary actions related to the risk management policies, by the Participant under the policies, procedures or controls within the prior 12 months)

Updated: July 2024